August 10, 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 ended June 30, 2023.

Dear Sir / Madam,

In continuation to our earlier letter dated August 04, 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 ended June 30, 2023, scheduled for Friday, August 04, 2023 at 4:00 PM (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: 2023.08.10 21:52:10 +05'30'

Hitesh Kumar Jain
Company Secretary
Enc: a/a

"Orient Electric Limited
Q1 FY24 Earnings Conference Call"
August 04, 2023

MANAGEMENT: **MR DEEPAK KHETRAPAL – VICE CHAIRMAN AND MANAGING DIRECTOR – ORIENT ELECTRIC LIMITED**
MR SAIBAL SENGUPTA – CHIEF FINANCIAL OFFICER – ORIENT ELECTRIC LIMITED

MODERATOR: **MR. DHRUV JAIN – AMBIT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to Orient Electric Limited 1QFY24 Earnings Conference Call hosted by Ambit Capital. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Dhruv Jain from Ambit Capital. Thank you, and over to you, sir.

Dhruv Jain: Hello, everyone. Welcome to Orient Electric's 1QFY24 Earnings Call. From the management side today, we have with us Mr. Deepak Khetrapal, Vice Chairman and Managing Director; and Mr. Saibal Sengupta, the Chief Financial Officer of the company. Thank you, and over to you, sir, for your opening remarks.

Deepak Khetrapal: Thank you, Dhruv, and thank you, everyone, for joining in. Very good afternoon to you. Deepak Khetrapal is my name, and I'm addressing you from this position of Managing Director of Orient Electric for the first time. But just a quick introduction, I think it will be important for me to at least mention that I have been with Orient Electric for a period longer than where perhaps even Mr. Rakesh Khanna, who spent about 100 months in this Company was, because I was involved with this Company even from before the time Rakesh Khanna came in, and later on, Rajan Gupta, who was here just for a very short time.

Have been around Orient Electric, but not in an executive position. I've been a Board member, I've been the Vice Chairman, non-executive. And in my capacity there, obviously, I've been sitting through all the important sessions on strategy or quarterly reviews and things like that. And also, all the strategic initiatives, which have been under implementation, I'm familiar with that. I know the logic, I know why we adopted them.

And the best part is the people at Orient Electric are known to me, and they know me also. So it's, I would say, gave me a little bit of, let's say, comfort as I thought about the ask from me to come and take the position of Managing Director besides the Vice Chairman’s position.

But I do realize that an executive role is an executive role. And obviously, I am also working on fine-tuning my perspectives from what I may have adopted in the past despite being around Orient Electric. So that's a quick, I would say, background on me. In case it helps for you to know in a way that what do I do because I've been now in about 12th year as Managing Director of the cement business, which is a very different business in nature.

Why was I in the Board? And why was I the Vice Chairman, my simple logic was that before taking up the job of Orient Cement here, I've had some fairly large consumer companies I've led them from the top. And that's where I think my past background in understanding of not just the consumer company, but also of consumers, the consumer psyche, what do they like, what do they respond to has been part of my, let's say, my experience, my knowledge portfolio, if you call it, and that was considered useful, and that's why I think the Board at that time engaged me with Orient Electric for, like I said, for a very long time now.

My advantage, and I think what gives me confidence to accept this role, I know it's a challenge, you're running two listed companies and you have and which are very different in nature, again, not that they're aligned in any other way. But what gives me confidence was the fact that there is a very strong team of seasoned professionals, which constitute the leadership team at Orient Electric and they've been driving the business forward. Avani Birla has been carrying on the responsibility for strategy at Orient Electric for a fairly long time.

So her understanding and I would say, my working with her in the past has given me kind of confidence that the team, which is there with Avani providing the continuity over a longer period of time with me, having been around. We should be able to sort of keep creating value at Orient Electric for the time that I'm required to do it. And you know the reason behind that.

And the other fact of the matter is that whenever I've been sort of seeing from the Board level also, I'm aware that the very robust strategy, which has been under implementation there for a while. And I'm familiar with almost every strategic lever that is being deployed there. So in a way, many of the questions around why am I here and what are my credentials, I thought it would be important for me to just spell them out.

In terms of the strategic levers that we have deployed, and it's not recent, it's been there for a while. Obviously, we chose to redouble our effort on actually going premium within the core fans business that we have had a long time. And I think one of the big breakthrough moments for us to really come out of the mass market was when we actually launched Aero Series a few years ago. All of you are aware, that was a huge success and completely repositioned our fans business in a very different trajectory in the marketplace.

So that was not a one-off. Obviously, there are lots of other premium products. BLDC was followed through, we're the pioneers, the BLDC fans in that category. So the key, again, driver behind all this was that we had taken a very conscious call to actually go premium in the product segments that we cater to, rather than being stuck in the -- what we call the economy models and things like that, where obviously, revenue is lower. The margins also need to get tighter, plus it doesn't give the kind of positioning that we believe at Orient Electric that we want for ourselves. In the recent past, our go-to-market has been revamped in many states.

We replaced our master distributors with a go-to-market approach, which is proving to be a lot sharper, lot better. And in a way, it's also sent the right kind of messages to other master distributors in case they underperform.

And the Company is today willing to walk in there and take over the direct distribution business, which is good for us because if the master distributors who have been embedding those markets can get their acts together, that's a lot better rather than we spreading ourselves through all over the place. But that's an initiative, which I think is working out well. We have made a very sharp thrust into a more focused drive into e-commerce and modern retail than we were doing for a while. And in the past, we remained a little, I would say, marginal player on the e-commerce. But I think as our ambitions grew and as we got our act together, today, the progress there is a lot faster than what we had in the past.

We are also increasing our consumer engagement and our visibility at the retail counters because that's where we found there were some gaps which we are filling up very, very fast. Our internal project, which we call Sanchay internally is our cost optimization effort across every single function, every single location of the Company, again, a good value creator. And we are currently, if you ask me, are there other areas which perhaps need a more closer look. Yes, we've identified, for example, there's room -- tremendous room for us to improve our service response to our customers, after sale service.

Our R&D, I would believe that after really the Aero Series and the BLDC being the pioneers, we still have to come up with another product, which matches the significance of that effort. And so we need to sort of strengthen our R&D function a lot more to actually bring out products, which really are differentiated.

And perhaps logistics would be another area that we are looking at closely to improve further to become more agile and to also become more cost efficient. So those are the areas that are still to be in a way, brought into the momentum with the rest of the initiatives that I named earlier have been. And it's a result of all these strategies that you get to see the numbers in Q1 that we've already published. And these numbers, mind you, have been in the wake of weather system, which has not been the typical very harsh weather, especially in the northern parts of India. And we had a summer which has been actually shorter and cooler than normal, which obviously creates a problem for our products, which are seasonally driven or at least season impacted.

And I think the numbers which are available from the fan's industry more or less confirm that almost every company who has been in cooling businesses which give relief in summer has been underperforming. I mean given all the, let's say, rather pleasant summer in Delhi that I have experienced as I live here now, and also what we are seeing happening in Europe and at least North America, I was wondering whether this is an excellent time to actually be in America and Europe to be selling our products that we tried to sell in India, and the season didn't go too well for the industry.

But, the good news is that despite what we expect the usual tailwinds in this season despite they've been missing, our growths in Q1 has been fairly robust, 13.5% growth in the total revenue of the company, with the ECD division for us, which includes fans and appliances. They have achieved a growth of over 16%. And within that, fan higher than appliances. So fans is closer to 17%. And this is despite the bad weather. So, it's definitely a performance which we can take a lot of, not just pride from, but also a lot of satisfaction from the initiatives that we've been taking have stood us in very good stead. And if that is an indication, we'll keep strengthening these things further as we go.

The overall growth, say, like I mentioned, ECD 16%, the overall being 13.5% is a result of the fact that in the lighting business, we've had erosion in the market price of the B2C products largely. And there, we've been -- if you look at pure lighting, the growth is far smaller. It's less than 3%. But when we include our switches and switchgear they have actually given us a lot more growth. That segment had a growth of over 8%. But the total weighted growth is 13.5% as you have seen the numbers.

And lighting the reason behind the erosion in price, and that's why the physical growth not translating into monetary growth is very simply the fact that there is a new technology that has come into LED lamps, which is now called driver on board rather than separate driver or a separate PCB used to be there. And when you integrate that, the price of the product, the cost of the product has come down and which has been passed on by the industry to find further penetration of LED lamps in the country.

The other heartening feature besides the revenue growth, obviously, is the gross margins that we have achieved in this particular quarter. And this growth has been more heartening because it's not that it's come from any one segment or one division or one product line. We've had a gain -- overall gain of in terms of company as a whole, we had a growth of nearly 290 basis points over the margin that we had in Q1 last year. And this has a range of about 2.6%, 2.7%, right going to up to 4%, depending on which product category we are looking at. So that's because it's a very broad-based gain in margins, contribution margins, we're sort of happy with the situation.

And the encouraging performance overall, I would say, on revenues as well as gross margins is an evidence that all the strategic initiative that we took, the items that we took on priority, they have all been kicking in and helping us grow and also grow our gross margins even when we have pushed for higher value growth and the higher revenue growth. And again, I don't need to repeat the push on premium spending go-to-market, all those things I've already detailed out, so I guess all of them boil down to what the numbers represent today. We've achieved, like I said, revenue growth, we have reached INR706 crores in Q1. And within that, we already mentioned the number that ECD is higher than what the electric and switchgear growth is.

The value growth, obviously, the premium products and the BLDC range, which now is what we call the rated fans, which have now become mandatory for every fan manufacturer. Obviously, they are kicking in now with the old fans, which are unrated. I think whatever was there in the channels at the end of last financial year, more or less getting sold in the market and the next products that the manufacturers can supply is only rated fans. So, in a way, the transition in that particular market to more energy efficient, but somewhat more expensive fans, I think, is now unavoidable.

And I think that will lead to a certain revival of demand as a replacement demand for the unrated fans because sooner than later, even getting the old fans service might become a challenge for the customers. And more importantly, maintaining service is one aspect of the challenge.

But more important is if you have more energy-efficient fans and as the entire world looks for greener products, we would expect the push to these what we call the greener fans or for that matter, any greener electric products. So that's a good I would say, tailwind to have with us.

And besides, let's say, BLDC drive that we are on and the market is going to be supportive. Direct-to-market execution that we went into has been very effective because in those 6 states, the growth in Q1 over last year's same quarter is more than 100% which is encouraging, not just that the growth is encouraging, when we are actually in the market ourselves, our understanding of the market dynamics at the ground level actually improves.

And that enables us even further to sharpen our focus and sharpen our strategy. So it's a double game, not just growth, but also a much better understanding of the ground level dynamics, which through master distributors, obviously, there are some filters which come in. But even if 6 states are direct with us, those states give us enough insights to apply to even other states where the master distributors exist, and they're doing a good job.

Our very sharp initiatives again into markets in South India, where we've had a much lower market share compared to our other markets of North and East, so that also is working out and South growth also is very, very encouraging. In the lighting and switchgear section, the growth looks a little, have been modest compared to what we have initially, just over 8% and the sales are INR191 crores.

Within lighting, the fact of the matter is the B2C has been rather flat and it's the B2B sales, which has given out the growth. And in the B2B, we've had nearly 40% growth over the same quarter last year. And we are making conscious effort to diversify from our large proportion of B2C sales to not losing B2C market shares at all, but also with a very strong portfolio of B2B business.

And towards that, we've created lots of projects like developing new SKUs, which are actually used exclusively by B2B. Many of them are focused on the B2G business where the government departments and municipalities and smart cities are our buyers. You can create the products, but we also have been working and the work has been there for more than 2 years to create a capability within the Company first, how to get into that business because obviously, the rhythm of B2B business is quite different from the B2C business, which is largely distributor-driven. And not just book the orders but also execute those orders because many of those products come with the responsibility to actually not just install these systems, but also to run them for a few years.

So these are new learnings for us, and we are gaining with every experience that we are getting there. On the appliances side, the cooler than expected weather obviously has impacted the demand for coolers. I think if you've seen the numbers in the industry, they look really disappointing. But the corollary to the weather being not too hot was the fact that we saw a stronger than normal demand in the water heater segment.

So all told, we've still managed to book fairly robust growth in the appliances division despite the fact that the coolers didn't do well for the industry as much as the industry was expecting them to be in a normal summer. In terms of going forward, while the fans are very largely B2C business, appliances are largely B2C, lighting growth prospects will come largely from the B2B business, as I mentioned, 40% growth in the last quarter. But going forward, also, I think that will keep becoming a larger proportion of our lighting business. And I'm saying that by observing how large the inquiry base is visible in the market already. Obviously, all of us players will be participating in those inquiries.

And a fairly modest share out of the inquiry base itself will give us a large growth in the B2B segment in our lighting business. And even our go-to-market for this B2B business or B2G business, we, as I mentioned, the teams are there now and we are sharpening our tactics or our strategies to go and tap into that business. The wires was a business that we started fairly recently, and we obviously have decided to learn and grow rather than suddenly drive into every market. So we have picked up very few markets to get our feet, so to speak.

But the initial foray into wires in the select states that we have picked up, they've been very, very encouraging and people are not just appreciating our product quality, but now that we have a full basket of household who buys not just lights from us, but also buy switches from us, switchgear from us and we have also wires. So that completes the business. So the whole business, a house can be done using the basket of products being offered by Orient Electric now. So that was the whole strategy behind adding wires to it, and it seems to be panning out well in the few states that we've launched that product. As I mentioned, I draw a huge amount of pride from fact that our business from e-commerce and modern retail has actually grown by 58% year-over-year, not just year-over-year, which may have been a small base, but even Q-on-Q, there is a 28% growth in our e-commerce and modern retail business.

So again and these are just indicative numbers because we believe our growth in this segment, e-commerce and modern retail, has a very, very large potential to grow very quickly, and all our efforts are being deployed there to gain more penetration and more share of that market, which I think in the past somewhere we didn't do with as much focus, number one, and as much of being prepared to address them, which our current team is driving.

On the product lines in our other areas, we have obviously launched 5 more BLDC models only online, but we also have added more colour variations online going by the consumer insights in our higher selling models. And as we know, the best advantage of e-commerce is that you actually get a lot of data, which gives us a much better idea of what the consumers are preferring.

Unlike the general trade where the filters for information from the retailers right down to master distributors get applied. And what we get to hear is their version of the truth. But in e-commerce, the version of the truth is the same for everyone to see. And that's leading us to sort of design our even BLDC fans in a way where we are able to appeal to what I call the need of the customer. We also, on the general trade also we address the booking of our BLDC range through adding new models. Within lighting, 8 new SKUs have been launched, and in water heaters, 6 new SKUs have been launched, which are proving to be very popular.

We also had a good growth this year in Q1 over last year Q1 in exports, growth over 38% despite the fact that some of our key markets where we've been a fairly strong player for many years, which is includes Sudan in Africa, which includes Ghana, and that includes Sri Lanka. Some of these markets actually haven't been positive in the recent past. But despite that, in this quarter, we were 38% exports growth, again, coming out of better products and better SKU that we're able to offer even to our international customers.

The margin improvement, as I said, the gross margin or contribution margin improvement has been 290 basis points, which gives us, I think, the cash flows and gives us the, I would say, wherewithal to keep investing in the initiatives that we have taken up and those initiatives as of now are still consuming cash, and that's why you see our overheads of our fixed costs being higher sharply over the previous quarters.

And that's a conscious decision as we move forward with the strategic initiatives in the period of investment that we are going through. The first level of success that needs to come out of that is obviously higher volume and higher contribution margins, which we are beginning to see, and we have the line of sight available tells us that these positives will continue.

Some of the investments that we are still in the process of making and strengthening whether it's on branding, whether it's into market penetration, whether it's into plants, whether it's into building the overall organization competence by bringing in more seasoned professionals, more I would say, people who are in line with the new strategy in our Company, that system that also is still going on. So that has taken up a lot of additional contribution margin that we generated. And that's why what you don't get to see is a proportionate increase at the EBITDA level or the bottom line level.

But please understand that those investments are necessary if we have to keep chasing a growth, which is not just double digits, but very high double digits. And we believe that given the one, our position in the marketplace and secondly, the growth in the overall market, we believe it's a very large growth potential.

And if we invest in them for a little while, the growth potential that we have in front of us keeps us charged in terms of our aspiration of getting to $1 billion revenue sooner than otherwise would happen. So that's in a way the long and short of where we are. If you are interested in knowing where some of these costs will get caught, obviously, the first and foremost need is the people in the organization.

Our consumer insight function has become a guiding light, our direct-to-market contract is giving us return and ground level data, as I mentioned, and consumer feel. Our brilliant team of young and bright product and category managers, which are in different quality altogether. They're preparing us all the time to meet the growing consumer aspirations and that's winning what I call the hearts and minds of customers.

We are relooking at our logistics, as I mentioned earlier, in supply chain to make them more responsive and cost-effective. Our marcom team is preparing engaging communication initiatives to communicate our value proposition more sharply and differentiate us further in the marketplace in a fairly short period of time. We do have a very energized and highly capable team to realize the ambitious goals of the Company.

With a commitment towards building sustainable, profitable and growing business, we have continued our investments and we seek your support and your understanding to be able to continue some of these investments, meaning that we get more revenue, more contribution margins, but for a while, invest them back into the business rather than taking the net bottom line and thereby delaying the achievement of our aspirations. The areas which have become much stronger in the recent past, include procurement, include organized model, retail as I mentioned, our e-commerce capabilities, our sales excellence function.

And obviously, we are creating the salesforce for wires, which always takes a little time before they become productive, but obviously, the cost is coming upfront. So that should grow. So all these functions, obviously, when we strengthen, it soaks up some costs. But we are, like I said, with these higher expenses on the people cost in our Company, we are trying to build an organization, which sustains our growth ambitions even faster than what we have had in Q1. The other critical update from my side would be our greenfield state-of-the-art plant in Hyderabad is ready for commissioning. We are awaiting the arrival of a few technicians from our foreign vendors of the automated lines.

We are putting up completely automated lines and those automated lines not just need to be assembled there, they also need to be programmed by the technicians of the vendors who supply those lines. And we are working on getting their visas to come in, they have delayed a little bit.

But we are hopeful of getting the visas in the next few weeks after which the technician will come and help us commission the entire plant. And best news is that although the investment is fairly large and already, I think we spent about INR130 crores, INR140 crores. All of that investment has been funded by our internal accruals. We haven't had to raise any debt to fund our greenfield plant. And that obviously has happened not just from the cash accrual, which otherwise come in, but also from the working capital which, as you might notice that the working capital days have been reduced to just 25 days now at the end of June last year -- sorry, at June last year, there were 25 days, and this year, we brought them down to 13 days.

So working capital being reduced to half also helps us not just finance the Hyderabad investment and other investments, but with all that also, our net cash position end of June was INR156 crores which obviously speaks for how we managed the entire generation of cash.

And I would say, conserving on working capital and every other opportunity to have a healthy cash position even after funding the Hyderabad project, which by the end of 30th June was INR128 crores, obviously, every month that we spend, we keep spending more money. So with those words, I would say, I have tried to give you a fair picture of where the business is and where it's headed and what the process of that is. Let me pause for a minute and wait for the questions to come, please. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and 1 on the touchtone telephone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use handsets for asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Bhargav Buddhadev from Kotak Mutual Fund.

Bhargav Buddhadev: Good afternoon team and congratulations on a good set of numbers and congrats Mr. Khetrapal for being appointed as the MD and CEO. So, my first question is, sir, what is the road map going ahead? Are we sort of looking at some professional to join in or you would be sort of continuing this for a medium time period?

Deepak Khetrapal: Okay. First of all, I'm going to say some professional. Are you calling me unprofessional. I'm a little surprised with that. I'm a professional myself, right?

Bhargav Buddhadev: No, sir, you are already a professional.

Deepak Khetrapal: No, no, what I mean you said that, are we looking for some professional? No. The search for the new MD and CEO, definitely has to be there. All of us do know that this is not a permanent, not even a medium-term arrangement. That's why the appointment has been made for 1 year if you know, I'm sure you've seen that the appointment is there, in an announced manner. So, the 1 year basically means that even if you start looking because the exit that happened at the MD's level was rather sudden and none of us was neither expecting it not prepared for it. And with the new SEBI guidelines and within 3 months you have to fill out the position. Now how practically would that have been possible if something that was not known to us.

And the practical fact of the matter is that at the induction at the level of the MD the search itself takes many months. After that, sometime goes into finalizing offers and negotiating the deals. And then people always at these levels will have rather long notice period, right?

Bhargav Buddhadev: Right.

Deepak Khetrapal: So that's why the appointment of 1 year basically is a very practical way of saying it might take up to a year to get the new professional, but there is no way anybody thinks that this is a permanent agreement or it can last. I mean forget about for the company, even for a human being to manage those 2 businesses, you know, is practically, it's, what should I say, it's very demanding. So, all of us are aware of that. And that's why, otherwise, when have you seen an announcement from a company saying managing director is being appointed for 1 year? Has that ever happened earlier?

Bhargav Buddhadev: Right. Fair enough. So, this makes it very clear. So, I think within a year's time, we should get some update on this, right?

Deepak Khetrapal: You will have some new MD reporting.

Bhargav Buddhadev: Right.

Deepak Khetrapal: Hopefully for my own good also.

Bhargav Buddhadev: Secondly, sir, if I look at your employee cost on a Y-o-Y on a sequential basis, there has been a significant increase of almost 50%. So, in your opening remarks, you did allude to the fact that you've recruited people on the wire business, but I just wanted to have more clarifications on this front because it's almost of INR20plus crores increase in the employee cost. So, what has been the reason for this?

Deepak Khetrapal: No, basically what you see as the sudden rise Q-o-Q, I mean Y-o-Y, there are obviously other reasons, but Q-o-Q, there is a slight impact of what I call-when you have exit at this level and induction at this level, they're fairly expensive processes, as you know. Including just the fee that you end up paying to find. And somebody like one of the perhaps the topmost firm in the search business works for us to do these searches. So, they are expensive. But those kinds of costs do come in. And they've been booked in this particular quarter.

There's also been some adjustments on account of -- let me put it this way. So last year, the same quarter number was partly impacted by the fact that there were over provisions for variable pay that was done, which got adjusted in the Q1 of last year, thereby reducing the people cost of Q1 last year, which was artificially low compared to what the actual cost was and this year, we had a sudden realization at the end of the year, we ran short of some provisions. So that also got booked in Q1 this year. So if you equalize for that, a large part of the impact is taken away. And obviously, that's not a running thing that we will have. So it is going to be a lot more, I would say, sensible even when I'm saying that we will incur more costs, perhaps they would more be in the region of, including the inductions that we planned out and things like that, they have been more in the region of, I think, INR60 crores a quarter for a while, and they look like a little bit of a burden until they bring us the operating leverage, it will soak up these additional costs, right? So that's the explanation thing. Some cost of exits and induction, some costs, which were a provisioning, I would say, impact and Q1 typically becomes the balancing for any provision on variable pay as you know.

Bhargav Buddhadev: Okay. So, what you are referring to that the annualized run rate would be closer to INR250-odd crores.

Deepak Khetrapal: Yes. I mean somewhere in the -- I mean INR250 is a round number, if you're taking sure. I'm confirming that. I mean it might be somewhat short of INR250, but yes, we can consider that number that you mentioned. Even last year, full year, it was nearly INR200 crores, right?

Bhargav Buddhadev: Yes, sir, you were saying something.

Deepak Khetrapal: Actually, even last year, if you look at full year FY '23, it was around INR200 crores.

Bhargav Buddhadev: Right.

Deepak Khetrapal: Against that, I'm saying INR240 crores.

Bhargav Buddhadev: Okay, okay. Understood. And sir, given that we've seen a very strong gross margin improvement on a Y-o-Y on a sequential basis, is it fair to say that the pricing environment in star-rated fans have now stabilized? And one need not worry about sort of price rationality going forward?

Deepak Khetrapal: Look, partly, it is the market prices of any product range. I think our strategy is actually to sell differentiated products, which are bringing us more premium. So that's one part of the, I would say, a reason. As it is the rated fans are more expensive than the old induction and the old fans which were unrated. That gives a kicker to devalue again. right? And the third bit is the softening of the material prices, the metals and things like that, right.

So there are multiple factors which have gone into gaining the higher margins given the SKUs that we pushed, including perhaps gross margin also go up if you consider whatever we sell in the direct-to- market states, their logistics costs and all appear as other costs. But at the gross margin level, you see a little spike there, right, because those costs are going because otherwise, we would have booked those costs as costs of when we're giving discounts to our master distributors, right, or the other channels.

In this, that is coming more to our books and against that some of the costs go down below the line. So it's a mix of many things, but they are here to stay is what I basically want to say because none of these things including, I think, as of now, if you look at it after the huge spike that we had last year, everybody as of now believe, metal prices should not see anything like that. And if anything, they should keep softening for a while, especially till the time the Chinese economy looks as soft as it does today.

Bhargav Buddhadev: Right, fair enough. Right sir, thank you for your thoughts and all the very best.

Deepak Khetrapal: **Thank you.**

Moderator: The next question is from the line of Natasha Jain from Nirmal Bang.

Natasha Jain: Hello, sir, and thank you for the detailed comment. It was quite helpful. Most of our questions were answered there. Sir, I believe, I have a question on the Fan segment. Sir, this quarter was ideally the first actual quarter for the BEE-rated fans. Sir, can you just throw more colour as to what kind of rated fans are more in demand by the consumers? And in terms of your premium decorators and BLDC fans, what really took off you could tell that.

Deepak Khetrapal: Look, the 2 initiatives that I spoke of; one direct-to-market where we do not have the filter of the channel resisting some of the more expensive products, which channels are more scared about carrying the product because they are afraid expensive product may not sell. So one is that, when you are directly in the market, we are willing to take that, I mean for us, it's not a risk as with the channels.

And invariably, you will find for premium products more than the consumer, the channels are the blocking point in every product line, right? Channels will keep telling me, customer will not buy so expensive. But when you put the product in front of the customer, the consumers today are far more willing to look at a higher price, provided it is value for money, provided it meets their tastes. So that helps us in realizing a better price.

Secondly, the push that we have made on modern retail and e-commerce, again, we're choosing the SKUs that we want to promote there. And be in the segment where we want to be more successful or more known for. And by very design, as I mentioned even earlier, the rated fans have a higher cost of production, so they will get us a higher price, for sure.

Natasha Jain: Okay. All right. So sir, then you mentioned in your presentation that the contribution from premium segment was approximately 32%. Can you just get a number vis-a-vis last year what it was?

Deepak Khetrapal: I'll have to perhaps come back to you because I am not carrying that information with me right now.

Natasha Jain: All right. And sir, my second question is on the DTM strategy now definitely has shown phenomenal growth there. I want to know if we've done with all the 6 states and if you are going to continue the strategy for any other state.

Deepak Khetrapal: There are a few other states which seem to be underperforming right now. Our first intent would be to get these master distributors to actually follow this strategy that we have followed and not come in the way. And most of them having seen how we have taken charge in 6 states, obviously want to retain their business.

So, the first, like I said, the moment we see a state underperforming, and there are a few underperforming states even today. First attempt would be to work with those master distributors and make them more effective in the marketplace. And wherever it doesn't work out, we today are not shy of walking in directly and willing to do it. But we are taking a decision on state-by-state, case-to-case basis.

There's no policy decision at all that we prefer direct distribution over master distributors because when we do, what we have to also remember is that there is a certain transition cost, which costs us very dear. So it's not the intended policy that we must just replace all master distributors. That can't be the policy. It will actually hurt us. We are trying to use the best of both the worlds by having enough experience of doing direct to market and thereby coming to our distributors rate this is how we want them to work.

Natasha Jain: Got it. And sir, my final question is, you've mentioned that our e-commerce channel and modern retail, everything did very well. So now if I look back against your working capital days, your working capital days have sharply improved and that's not even a case of seasonality for any first quarter over the previous years. How do I relate that -- at one point, your e-commerce business is growing, the other point, your working capital days is actually decreasing.

Deepak Khetrapal: Let me -- because as you know, in every company, the working capital management is a portfolio, which is actually driven and owned by the CFO. My CFO is online, can I ask him to answer this question for you. Saibal?

Saibal Sengupta: Yes. Natasha, basically, the working capital reduction that we have done on an overall base basis, from last year June level to this year June level. Let me just get your question right. Are you talking about the e-commerce channel in particular? I could not get your exact...

Natasha Jain: So, sir, my question is, first of all, on a very broader basis that what has led to the sharp improvement in your working capital base? And secondly, I was just trying to relate if the e-commerce business increases, ideally you have to give more days to your debtors to pay off. So how does this happen?

Saibal Sengupta: Okay, okay, so let me come back. Continuing to my previous answer. So, this reduction is an overall reduction from 25 to 13 days, and this is a function mainly of the better inventory management that we have done, that our inventories have reduced. That is the biggest trigger and of course, the cash management with receivables in terms of collections as well as in terms of the payables, these are the 3 outcomes but mainly triggered by inventory.

The second big thing which you are talking about is on e-commerce. E-commerce is, as of today, still a very low share of the business. While in principle, your observation is absolutely right, but the thing is that while we are growing at a very, very fast pace, and that is our intent to grow the share of business at a much decent levels, at more than double digit But today, we are still at a mid-single-digit level. So therefore, the share of business is not such that it moves the needle on an overall company basis to disturb the working capital. And one more thing, I would like to add with our new e-commerce processes that we are putting it in, we are increasingly getting into cash collection in advance or cash on delivery or other modes of faster cash collection from our e-commerce partners which is also resulting in terms of controlling the working capital in the e-commerce side.

Natasha Jain: Okay. Sir, then on an annualized basis, what can we expect as a sustainable number here?

Saibal Sengupta: Honestly, Natasha, there are skews in between quarters. As of today, it will be difficult to give you a number per se, but our efforts are continuously on, as you would have seen from our previous quarter results also, we have been continuously pushing in terms of extracting more order to working capital and generating cash thereon. But honestly, it depends on the quarterly skews because business to business, they will differ. But yes, our effort will be on a Y-o-Y basis to restrain and keep the working capital days under control.

Natasha Jain: Understood sir.

Deepak Khetrapal: Part of it if Saibal you can correct me if my impression is wrong, partly, could it be that last year, our Q1 proved to be softer and we were left with a lot more inventories. This year, we had a much larger growth and the market speed. So that has also helped in perhaps offloading some of the working capital, which we were huddled with last year at the end of the summer period. Would that be a fair inference somewhere?

Saibal Sengupta: On a Y-o-Y basis yes Deepak I agree with you.

Deepak Khetrapal: Yes, yes, that's what I was thinking. Last year, I know we had a much softer Q1. And that obviously leaves you because you're ready for a much, much bigger Q1 and suddenly you're saddled with inventories there.

Saibal Sengupta: Yes, that is also a factor. But we are...

Deepak Khetrapal: Including that of coolers and other things, right?

Saibal Sengupta: Yes.

Deepak Khetrapal: That hopefully in the trend that's healthy, because I'm also thinking through the entire process, how working capital goes. But I know and answer is now things fortunately for us this year despite all that we had good growth, and we could sell the inventory.

Moderator: The next question is from the line of Aditya Bhartia from Investec.

Aditya Bhartia: Hi Good evening, sir. Sir, we have seen some quick changes at the top post Mr. Rakesh Khanna and then Mr. Rajan Gupta. Typically, whenever a new CEO comes, we see some changes in strategies and goal post. So in that context, I just want to understand how has the management strategy changed in the last 1 year. Anything that was being done earlier, which you think wasn't correct or a corrective action is required?

Deepak Khetrapal: And let me just sort of in a way, put a perspective, when you say quick changes, I don't think Rakesh Khanna's change as quick. He spent 100 months in this company, right? So it was not a quick change. It was a planned superannuation for him that he went through, and the induction of a new MD was very much of a planned or part of the succession plan, right? Now the succession somehow didn't work out as well as it was expected. And nobody, like I said, these are things that happen for which you are not even prepared.

So, I would say 1 exit was quick. I wouldn't say they were 2 quick exits at the same time, right. The other part of the thing that we perhaps need to remember is that the businesses are always run by a large team of people. The CEO, the MD can come in and impact what's ongoing, but irrespective of how great the CEO is, it's impossible for anybody within 3 months to understand the business, devise new strategies, start implementing them, that never happens.

I think it's a very simplistic reading that in a few months' time, any CEO can either do magic or create havoc, it doesn't happen because the organization are far more robust as organizations grow. And as a result, the strategy of this Company was not the sole creation of Rakesh Khanna or the short time that Mr. Rajan Gupta spent here, it was a collective process which is deployed all the time. And the Head of Strategy is Avani Birla, herself, she has been continuing for a long time.

So, strategies don't go off track just because somebody has come in and left. That's one clarification I do want to make. And second is the fact that the initiative that I spelled out at the beginning of my narration today, all of them have been planned over a period of time, they were under the implementation by now they're beginning to show results.

There is, let me assure you, there is no knee-jerk reaction, which is even allowed or possible because within a very short time, you suddenly changed the strategy and goal post. If it happens, it will be a part of a well-studied, robust process. It's not just one person at any position at all. So, I hope that gives you a comfort. It's an organization you are talking to. You're not talking about an individual at all.

Aditya Bhartia: Sure. That's helpful sir. And sir, my second question is on ESOP plan that the Company is running. Just wanted to understand how many personnel would have been allocated as stock options until now. When does it become exercisable and at what point?

Deepak Khetrapal: Those things are already made available in I think the shareholder's reports that we send out to them. If you don't have them, I'll get them sent to you. I'm not setting the ESOP number of individuals because I didn't think it will come up with a question. It's already there in the annual report, we are bound to give all that.

Aditya Bhartia: Sure sir, thank you

Moderator: The next question is from the line of Rahul Agarwal from Incred Capital.

Rahul Agarwal: Good evening and thank you for the opportunity. Just 2 questions and there are more follow-ups to earlier questions. On the working capital side, the question essentially is to Mr. Saibal ji. Mr.

Saibal, basically, you explained that all the line items, inventory, debtor are down, creditors have increased to what my sense is. And hence, the overall working capital is down quite a bit. Could you elaborate a bit like how did we manage to do this? Like on inventory side? Are we trying to streamline raw material or finish good inventory? Is the inventory better at the warehousing or at the factory as far as the debtors are concerned, purely because our share of the direct to market has increased and hence this is getting reflected there. And on creditor, is there any renegotiation happened with vendors? That's my first question.

Saibal Sengupta: Okay. Rahul, just to stress on that. Inventory was the major driver of the working capital reduction. And that has 2 parts to it, one of which Deepak had already pointed out and emphasized. Last year, there is a base effect because of the sluggishness of the season and the lack of demand, which piled up the inventory, if you would recall, last year's quarter one. And compared to that, we had a good growth this year, and therefore, there was steady movement in the stocks to whatever extent we have been able to do. And second factor is that within that, we have been able to plan better with more focused products and therefore, able to move up the stocks, reduced our over aged inventory.

This is on a year-on-year effect. As far as receivables is concerned, clearly, it's a collection management that has improved, partly by channel finance and partly by our own internal collection processes, collection of older debt even in the B2B space. So that has really worked and payables is also, it's the management of the vendors. Compared to last year, the production levels also improved. The credit periods also either was negotiated or new vendors came in. So it's a function of all of that. It will be not possible to exactly give details of each and every element like that, but it is a function of all of these 3 there as well.

Rahul Agarwal: If you continue like this, going forward, we should assume that 15 days of net working capital for the company is sustainable like on a yearly basis, not on a quarterly basis?

Saibal Sengupta: See Rahul, I already mentioned that there are quarterly skews as you are aware of in our business, and those quarterly skews will remain, but we will always attempt to have year-on-year improvements on working capital and wherever possible quarter-on-quarter, but the quarterly skews will obviously impact the levels of the working capital.

Rahul Agarwal: Got it. And the second question was essentially on what Deepak ji explained on the staff cost and the other expenses. So if I got it right, the staff cost essentially, again, there was the base effect was there as well as there is some hiring that has happened.

Secondly, he explained about some consultant costs, which got booked into the quarter as other expenses which are topmost consulting of India and hence, the cost has increased. So on a full year basis, this should come back to like 20%, 25% increase Y-o-Y. Is my understanding correct?

Deepak Khetrapal: What I said was 20% on the manpower costs, people costs, consulting costs is not being booked at people costs. Consultant costs go into other expenses. I was just saying why the other fixed costs also look higher. There is a consultant working and that consultant costs have been booked and they will still be there for the coming, I think, 3 to 4 quarters when their entire project ends.

And the improvement that we're seeing in our strategy, including in our working capital, is an outcome of all those processes which are actually being driven along with our team by the on-site team of the consultants. Those are not included in the people cost.

Please don't confuse that. So I make 2 statements. One on people cost, where, as I mentioned, we have last year, it's close to INR200 crores. This year, we are saying it should be around INR240 crores. That's one statement. Consultant costs are heavy cost, will get booked during the period of engagement. But once that period of engagement is over, the benefits that we derive from there are expected to continue for many years because the processes have been streamlined. So, I just thought I'll clarify that the manpower cost not to be confused with consulting costs.

Rahul Agarwal: Yes, I get it. So basically, the upfronting of the cost, I understand because the benefits are coming much ahead of time. But just the last thing sir could you quantify the consulting cost for the quarter, please?

Deepak Khetrapal: In this quarter, frankly, they normally are contractually confidential. To disclose that in an investor call may not be fair. I'm little worried about that. But they're still steep costs.

Rahul Agarwal: Okay, I get it. Thank you so much, all the best.

Moderator: The next question is from the line of Raj Shah from Ambit.

Raj Shah: I just wanted to know for the new capacity that we have about to that we have commissioned, what would be the additional depreciation hit that would take to the P&L. And consequently, just wanted to know medium-term margin guidance for the next 2 to 3 years? That would be my question.

Deepak Khetrapal: On depreciation Saibal, do we have an idea that you can provide as of now? Or do we come back because it's still to be commissioned. So maybe we can even come back like next quarter if you don't have the number right now.

Saibal Sengupta: Actually, Raj, we will come back to you on that because as and when we firm up our commissioning plans, we will be able to give a better picture about the depreciation impact next year.

Deepak Khetrapal: But the overall investment there, for you to have an idea, the overall investment there is, I think in between INR170 crores, INR180 crores, right, Saibal.

Saibal Sengupta: Yes, INR180 crores.

Deepak Khetrapal: So depending on which asset we speak about, obviously, to the depreciation policy, which is different for different category of assets, right? So maybe those numbers will still get frozen. But if you know the overall capex, if you want to build your own model, you can try and build some this is a total capex coming here.

As far as margins are concerned, the intent is that the Hyderabad new plant will actually give us with completely automated lines a lot better contribution which should actually help us not just to sustain the contribution that we have spoken of but also make them increase by another, I'm talking only for 1 plant, now don't equalize it all over the Company because this will apply to only the products which get made in Hyderabad. On that, we would expect at least 200 basis points more gain from the competitive products being produced by us elsewhere.

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

Rahul Gajare: Good evening gentleman. I have 2 questions. The first one is with respect to the Hyderabad facility. You've indicated that you have spent about INR180-odd crores...

Deepak Khetrapal: We have, currently, it's about INR128 crores.

Rahul Gajare: Okay.

Deepak Khetrapal: The total spending will be rated by the time the whole thing gets done.

Rahul Gajare: Sure. And I also understand that you sold a land parcel over there for about INR35 crores. So then I mean, was this land parcel bought together for this factory and a part of it is sold, what is it?

Deepak Khetrapal: I understand your confusion. Initially, we bought a land parcel there. But later on, we actually came across a very good opportunity where the state government was giving us much better quality of land in a better vicinity, which was also more amenable to our needs. So we took up that land from the government, which is already sort of in the books, which is including the cost of this project that we are talking about. And the earlier bought land piece, which we had, which became redundant. And that we have sold in the month of July. It's not included in last quarter's results, but it definitely will kick in this quarter because that land got sold in July. So there were 2 different pieces of land. And that investment has proved to be rather good for us because we have a return of more than 100% on the land that we bought and sold within a period of 4 years or so.

Rahul Gajare: Okay. That clarifies a lot. So that's the first thing. And the second question I've got is more on the long-term road map both for revenue and profitability and sometime during your opening remarks, you did talk about your intention to get to $1 billion revenue. So, I want to understand how is it that you intend to see the company with that kind of revenue, the kind of timeline that you have, which are the areas where you think significant growth will come from. So, more clarity on a road map for this revenue aspiration that you have.

Deepak Khetrapal: Well, frankly, I hate to spell out all my strategies on an investor's call because as much as you guys hear it and then competition guys figure about it. So, the various levers that you've spoken about, there would be improved products with features which are innovative, which are differentiated from others.

Getting a lot sharper value proposition, and getting our people, including our distribution channels to sell them better to the consumer to convince them of the value for money in our product rather than just saying they're expensive, bringing in more technology, more product lines. I mean quite frankly, we believe that in the space that we operate, sky is the limit actually in terms of the number of new products we can add and the higher price we can get from the sum of the same products.

I remember when we launched Aero series, what maybe 6 years ago. When we launched that product price, hardly anybody gave us a chance and said we would buy your product. But we created a product and market got convinced, and it's been a huge success. So there will be obviously new product lines and new products which will be brought in. And the levers that typically if your product is good and you're able to convince the customer about your value proposition, the customer just loves you as a company. Beyond that, I wouldn't like to specify specific details.

Rahul Gajare: Too much about your strategy. But I think what will be helpful is, we've seen the revenue pretty much stagnant for the last couple of years around between INR2,000 to INR2,500-odd crores. So even if you can give us a sense on the kind of timeline that you have in your mind when you're talking about that kind of revenue that will be very helpful.

Deepak Khetrapal: See, when we say $1 billion- we are talking about INR7,500 crores today, right? So we are talking about 3x. If I told you that within 3 years, it can be achieved, will be incredible, unbelievable, right? But my own sense is, given the number of levers that we can play with, could target to get that level in about 5 to 6 years would be a fair target. And that's what we would like to chase.

Rahul Gajare: Thank you very much and best wishes.

Moderator: Ladies and gentlemen, that would be our last question for today. I now hand the conference back to the management for their closing remarks. Thank you, and over to you.

Deepak Khetrapal: Thank you very much. In terms of concluding remarks, I frankly, besides thanking all of you for finding time for us, being patient to hear what we are trying to do and asking some really penetrating and very relevant questions. Thank you all for that.

Some of your questions obviously give us even more room for us to fine-tune our thinking because obviously, that's an indication from the investor side as what the investors will be concerned with while we are trying to cater to the consumer. What would the investor's perspective on that becomes more clear from the question that you people ask. And so that's a help to us, and I'm thankful. Some of the questions, if I'm saying I do not want to answer, please understand. There is a confidentiality angle to the strategies that we deploy. So just be a little understanding of that aspect and don't take offense if I say that we don't want to answer that question in public, right? So just be a little understanding. At the end of the day, in a competitive market, you have to keep some of your, I would say, aces up your sleeve, and you don't want to declare them upfront till you deploy them. Please understand that a little bit. Once again, thank you all very much. You've been very patient and your questions are very good. Really delighted to be here. Thank you.

Saibal Sengupta: Thank you, everybody.

Moderator: Thank you, very much.

Deepak Khetrapal: Thank you. Thanks, Saibal.

Saibal Sengupta: Thanks, Deepak.

Deepak Khetrapal: Thank you. Thanks. Bye-bye.

Moderator: Ladies and gentlemen, on behalf of Ambit Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

(This document has been edited for readability purpose)

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