

May 19, 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

Department of Corporate Services -Listing

BSE Limited

Phiroze JeeJeebhoy Towers,
Dalal Street,
Fort, Mumbai – 400 001

Trading Symbol: ORIENTELEC

Scrip Code: 541301

Sub.: Transcript of Earnings Call for the quarter and year ended March 31, 2023.

Dear Sir / Madam,

In continuation to our earlier letter dated May 9, 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 Audited Financial results of the Company for the quarter and year ended March 31, 2023, scheduled for Monday, May 15, 2023 at 10:00 AM (IST).

In this regard, a transcript of the aforesaid Earnings Call is attached herewith. Further, the said transcript shall also be 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

Company Secretary

Enc: a/a

 CK BIRLA GROUP



“Orient Electric Limited Q4 FY'23 Earnings Conference Call”

May 15, 2023

 CK BIRLA GROUP



MANAGEMENT: **MR. RAJAN GUPTA – MANAGING DIRECTOR & CEO,
ORIENT ELECTRIC LIMITED.
MR. SAIBAL SENGUPTA – CHIEF FINANCIAL OFFICER,
ORIENT ELECTRIC LIMITED.**

MODERATOR: **MR. DEEPAK AGARWAL – PHILLIPCAPITAL (INDIA)
PRIVATE LIMITED.**

Moderator: Ladies and gentlemen good day and welcome to the Q4 FY'23 Earnings Conference Call of Orient Electric Limited hosted by PhillipCapital (India) Private Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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) Private Limited. Thank you, and over to you, sir.

Deepak Agarwal: Good morning everyone. On behalf of PhillipCapital (India) Private Limited, I welcome you all to Orient Electric Limited Q4 FY'23 Earning Conference Call.

Today we have with us management represented by Mr. Rajan Gupta – Managing Director and CEO; Mr. Saibal Sengupta – Chief Financial Officer.

Without taking much of time, I would like to hand over the floor to the management for the opening remarks, post which we will open the floor for Q&A. Thanks and over to you, sir. Thank you.

Rajan Gupta: Good morning, ladies and gentlemen, my name is Rajan Gupta. I joined as MD & CEO for Orient Electric on 4th April 2023. I am sure you would have gone through our Q4'FY23 Result Presentation.

Before we answer your queries on that, I would like to share some perspective on the growth strategy for our company for FY'24. Over the last 40 days or so I have travelled across most of our locations, meeting trade partners, consumers, our internal teams, visiting all our factory locations and there is one common theme emerging from all these interactions. There is a lot of acceptability and trust for brand Orient and enthusiasm for all new product and other growth initiatives launched in FY'23. I am really excited to work on converting those initiatives into tangible business results.

I will now be sharing some specific growth initiatives for FY'24:

- First of all, we identified hero products across all our business units. These are products which we have concluded through consumer insights that they have the potential of significantly scaling up our growth numbers., Supply chain alignment for same has been done and most of the sales and marketing and GTM initiatives for FY'24 will be sharply focused on these hero products.

- Secondly, premiumization initiatives across all BUs to drive incremental revenue for FY'24. Groundwork on identifying new SKUs has been done and at the Q1-end most of this plan will get rolled out.
- In the lighting BU, we aim to continue the last three of years of trend of industry leading growth through additional focus on value-added categories along with ramping up distribution and continued brand investments. We now have a full range of professional luminaries products to make aggressive inroads in the B2B segment. This along with strengthening our design capabilities for façade lighting and other lighting solutions will help us deliver disproportionate growth in the B2B segment.
- We have developed products and infrastructure to make sure 5% of the overall company revenue growth in FY'24 comes from switchgear and the wire segment. We have identified some states to go deeper and we will use power of our new product range and initiatives around electricians and contractors to make scalable, profitable model which can be taken to other states in 2025.
- We are rolling out Centre of Excellence on NPD, the objective is to increase our focus on getting consumer insights driven profitable products ready for FY'25. Going forward this will be a major growth driver for both bottom-line and top line. We are targeting approximately 15% revenue from NPD in FY'25.
- We are institutionalizing cost-reduction initiatives through a new cost excellence center to deliver on our goal of cost leadership. In FY'24, we have plan of increasing EBITDA by approximately Rs. 50 crore based on accruals of work done in FY'23 on cost reduction through 'Sanchay Initiatives' done along with McKinsey. Over and above our new initiatives will further add to EBITDA in FY'24.
- We have established a new CoE on sales capability development which will work with all our BUs to help them cover all white spaces in our distribution network. All gaps have been identified and our work on plugging these gaps have started. We are expanding our e-Commerce capability and aim to double the share of e-Commerce business in the overall mix in the current financial year. In addition, we will launch our own D2C platform this year.

I also would like to update all the participants that our Company is privileged to be certified as Great Place to Work for the fourth time in a row.

Before we move to the Q&A, I would like my colleague Saibal Sengupta - CFO, Orient Electric to give some brief comments on Q4 performance.

Saibal Sengupta:

Thank you Rajan and good morning to all distinguished participants.

In Q4 we had an impressive growth of around 12% in our lighting and switchgear segment. Fan's performance was akin to market trends that was impacted by erratic weather conditions leading

to muted consumer demand and high channel stocking. Air coolers and water heaters witnessed strong growth.

During the quarter, we launched our innovative product in the premium space, the Cloud 3 fan with advanced Cloud chill technology and digital platform. We now have a wide range of BLDC fans across the price segments and supported by a new campaign in six languages for pan-India appeal.

Considerable effort has been put in reducing inventory and receivables and improving working capital, which has now reduced from 28 days March last year to 24 days this year-end. As a result, we moderately strengthened our year-end net cash position.

Consequently, revenue was around Rs. 658 crore in Q4 FY'23 with around (-13%) growth year-on-year with lighting and switchgear up by 12% to Rs. 200 crore, while ECB at Rs. 458 crore was a negative (-20%) growth year-on-year. Our gross profit was Rs. 186 crore with a (-11%) growth year-on-year with EBITDA at Rs. 46 crore degrowing by 42% year-on-year, due to operating de-leverage, higher investments in brand and capability building initiatives. , PAT was at Rs. 25 crore with a (-48%) growth year-on-year.

You would have all seen our Investor Presentation that we has been uploaded along with the results. With this I would like to open the floor for Q&A and hand over to the Moderator. Can we have the opening of the Q&A session, please.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.

Rahul Agarwal: Hi, very good morning and thank you so much for the opportunity and welcome Rajan to Orient and best wishes. So, since Rajan is on the call, I am taking this liberty to ask three questions one to him and two on business to Saibalji. Firstly, Rajan obviously you are taking over at a situation when Orient is not having a very good time. And I know you said you travelled and met lot of partners during your initial interactions what do you think there is things that take your top of your mindshare and need immediate attention, if you could, share a bit more on this a bit? Thank you.

Rajan Gupta: As I already mentioned in the last 40 days wherever I have travelled I think few things are emerging. I spoke about lighting BU, . There a lot of work has happened on B2C segment in terms of developing the value-added products, and now we have full range ready there. So, I think there is lot of growth potential. There is very high trade and consumer acceptability. I am more referring to our decorative range, to value-added products in the lighting segment.

Continuing with lighting in the B2B we have been growing at an exponential rate for last some years now. And the way growth plan seems in future and the kind of immediate pipeline in order

is existing we should have very meaningful increase in further contribution of B2B. So, I think there is a nice story going on with continuous market share gains. And we will further strengthen that. That's the initial kind of signals I am getting from all stakeholders, so that's about lighting.

Switchgear and the whole wires part we have launched in couple of states., The wires, and switchgear obviously has been there. Looks like we can go deeper now in six to eight states. So, that's the current plan, because our idea is to grow profitably. So, these are the states where we see lot of traction coming in and once we scale up obviously we can go pan-India.

Coming to the ECB part, which probably you mentioned about the subdued demand and all that, look lot of things are going right there as well. If you see the whole BLDC for example in fans we were the early pioneers of that many years back. We are one of the few companies where the full range in BLDC is ready. I see a lot of innovation pipeline. Last 40 days itself the kind of workshops we had done on NPD and the way the whole NPD pipeline is ready, that gives me lot of confidence.

On fans, if you remember, we have been sharing in the last few calls the kind of gains we have made in DTM markets, the six states we had launched DTM. And more importantly we have taken learning with the kind of work which has happened at retailers and consumer end in terms of the DMS, in terms of Salesforce automation etc. and I remain very excited about taking this work to our markets managed by our master distributors, because finally same markets are there, same learnings can be applied.

On appliances, I have seen acceptability for our water heater and cooler segment; while coolers and fan are little affected by unseasonal rains in April and the delayed summer season in some of the markets, but now we see heat picking up. But essentially these two products there is a very high traction.

In all, Rahul, while we see some tapering in the quarters., but I think there is a very strong foundation which are ready for delivering the growth objectives for FY'24.

Rahul Agarwal:

Just getting into my second question and bit more specific. So, outlook on fans right, I mean we just want to know the way ahead, the Fiscal '23, I don't know if the fan sales have exactly grown or degrown for the company and should we expect like if the pace is like really favorable and given what you are saying, should we expect like 20% revenue growth next year on fans, is that how we should think about it?

Rajan Gupta:

Rahul look, as you know it's always difficult to predict a number. But with the kind of foundation which has built up, like for example this DTM states, already we grew by very high double-digit last year itself. I mean the foundation, which is ready, these are the states which are ready to explode. We are doing extremely well in our e-Commerce in fan, April itself has been a great month. Parallely you know the focus is on improving profitably as well. The idea is to gain

market share profitably. So, it's a lot of work on margin corrections based on product mix change, based on our cost saving through our R&D and Sanchay Initiatives that's happening. So, the idea is to grow and gain market share profitably. And I think April itself has been very meaningful in that sense. So, let's see where we land, but we understand last year hasn't been that great and we have a responsibility to deliver healthy CAGRs.

Rahul Agarwal: And lastly on lighting, so I understand the 4th Quarter numbers obviously include wires and switchgear sales, so I don't think the entirely reflecting top-line growth for lighting and just the margins also been a quite high could you help me breakdown that Saibalji, both on revenue and EBIT level, what is lighting and everything else, separately, please.

Saibal Sengupta: Rahul, the switchgear share of business is a very small one, as I had mentioned earlier as well that range is only between 2% to 3% annually and that is continuing to remain. The wires as we have mentioned we had launched just about five months back and that too as an extension of the portfolio for completion we are getting an initial positive response. And that is why we are feeling confident to further extend this. So, as of today it continues to remain to that roundabout 3% range of the total share of revenue to the business.

Rahul Agarwal: So, all the margins benefit is all because of product mix into lighting, is that what you are saying?

Saibal Sengupta: Predominantly, yes you are right.

Rahul Agarwal: Ok perfect, I will come back in the que if I do have any other questions. Thank you.

Moderator: Thank you. We have the next question from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: So, Mr. Gupta, just one question from my side. So, as an outsider when you see, when you look at a fan company Atomberg just coming primarily on the back of e-Commerce, do you believe that one of the critical modes of the electrical company like yours which is the distribution reach, is getting disrupted and how is it that you are looking to mitigate it, you did speak about e-Commerce but more thoughts on that will be helpful.

Rajan Gupta: So, essentially if you see we see opportunity in all consumer segments, we see opportunity in all channels. You spoke about BLDC as I mentioned earlier, we are one of the pioneer in launching BLDC. Today we have the maximum range of BLDC products. And potential of course is there in all segments of fan markets at a consumer level. There are people at the bottom of pyramid, who will still need a 1-Star fan, even their aspirations are to get a little better product, they are looking for more color options, they are looking for a little bit more of a decoration even in the economy and the base segment of the fan.

So, I think as a large fan company which is consistently among the Top-3 players in all segments, we have to cater to all consumer segments. Having said that BLDC will remain engine of growth, I feel next couple of years BLDC even kind of crossing high-teens that's the kind of growth we are looking at.

In terms of channels, look again we had to be omni-channel so we are not going to get restricted to one channel. Distribution has been our strength and through all the initiatives in DTM market and replicating the learning in MD market, we see distribution further increasing big time, but parallelly e-Commerce, Modern Trade, LFR; LFR are the Large Format Retail stores, I think we have an excellent product range, ready for these channels. And there is an excellent traction already coming in the last couple of months. And there are separate teams altogether, we developed the whole digital team and the Modern Trade team and lot of recruitment was done in last two quarters. There are separate teams handling these channels. So, I personally see all the channels growing pretty well with the kind of range we have.

Bhavin Vithlani:

Would it be possible to share what's the underline distribution share between the conventional e-Com, modern retail and what was it maybe four, five years ago and how do you see it going forward?

Rajan Gupta:

Unfortunately, I don't think I can share exact numbers. But I can only tell you, we see the way e-Commerce and the Modern Trade and Large Format Retail stores, their contribution doubling in next couple of years' time.

Moderator:

Thank you. The next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.

Bhargav Buddhadev:

My first question is that the resignation of Mr. Khanna obviously came as a surprise. So, just to be sure, is it fair to say that few of the steps that Mr. Khanna had initiated would still continue as far as the strategy is concerned, for instance the direct-to-market transitions which happened in six states as you mentioned, is it fair to say that we will continue with that or we will again resort back to our old practices of appointing master distributors?

Rajan Gupta:

As far as Mr. Khanna's resignation is concerned the Company has already done a press release and frankly there is nothing more to add on that, . And as you all understand we have been sharing the kind of team capability which has been developed over the years. We are very strong team of CXOs supported by a very strong Board and guided by them. So, I think that all is in place.

Now specifically reacting to your point on continuing of some strategic pillars, if you see my initial speech itself that clearly carry continuing most of them actually, because strategy is obviously not one person.

Specifically coming to DTM, so six states where we launched I mentioned, already we are seeing high teens growth, lot of learnings have come in terms of consumer segmentation, because we are much more closer to consumer and retailer there. Those are the learning which we will going to take to MD markets as well. So, growing business in DTM remains critical to our overall fan growth, so no discontinuity there.

Bhargav Buddhadev: And is there any sort of long-term incentives which have been planned maybe in the last 40 days to ensure there is no further attrition as far as the senior management is concerned?

Rajan Gupta: Frankly, first, I don't even know if there is a concern there. The senior management if you see has been quite consistent. We have made some plan changes, we have a kind of Fan BU Head, who came on board in the month of January. We wanted to develop our digital and organize trade, Modern Trade space, we recruited a leader for that somewhere in the month of February. The CMO and CHRO had come last year. CFO has been very stable. So, essentially there is a team which is all in place and I know all of them have been doing meaningful contribution, whatever we need to engage them, that's happening on a continuous basis.

Saibal Sengupta: Bhargav just to add on top of what Rajan already said, as you are aware we have our ESOPs scheme in place which is running for the last several years. And some of the leadership team members are already covered in that for which we had taken approvals as well. So, that part of the incentive is still on. So, this is just to double up what Rajan just spoke about.

Bhargav Buddhadev: And my last question is you alluded to new product development, so post the Aero Series in fans Orient hasn't come up with sort of new launches which can be considered as very differentiated. So, if you can highlight that and also you have mentioned about few hero products that you identified, if you can share some examples that would be very helpful, and this is my last question

Rajan Gupta: On NPD I think lot of focus has been there already for last few years. Since you want to name with just one product for example we launch EcoTech Supreme last year, I was in market in east, I was in market in south, we have seen in fact a lot of shortage of that, we have seen lot of consumer traction around that. Some of the new colors which we introduced, they are picking up huge amount of traction. So, I think NPD pipeline always has been there. But going forward, we understand our responsibility to use NPD as a lever much more which is where we have taken ambitious target of 15% of revenue for FY'25 to come from that. So, lot of work on that is already happening.

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

Achal Lohade: Two questions, one is in terms of the direct-to-market, if you could talk a bit about how much ground have we covered, how much do we plan to cover in FY'24? And in the same context,

what has been the fans decline or change in fans revenue in FY'23? And what market share would we have achieved in FY'23?

Rajan Gupta:

So, in DTM markets I already mentioned last year, the full year we have grown in double digit high teens which of course have lead to market share gain, because as you all know fan market hasn't grown that much. And as I mentioned earlier lot of learning which has come in terms of consumer segmentation that help us in identifying the right products, that help us in doing the right kind of merchandizing at a lot of these retail locations which is gradually resulting in our mix change in these markets. We are becoming much more profitable, thus giving us learning for getting more NPD to address the different consumer segments.

Now that will continue, but these markets are more or less stable now. There were some work which needed to be done on AP and Telangana which also has been completed to the large extent. And this is a year when we should see explosive growth from these markets and more important learning from these markets are going to other markets being managed by master distributors. And over a period, it will help them also with steady gains.

Achal Lohade:

Just to clarify six to eight states, if you were to quantify how much would they be as a percentage of total revenue for fans? And I presume this is largely for fans products or is this for all the product categories?

Rajan Gupta:

No, first of all DTM is only for fans, other categories already we have a direct distribution structured. And in the past we have indicated 25% of the revenue when the fan is coming from DTM sales so the current trend is more or less similar. Obviously these markets are growing higher, so you will see it gradually increase in the contribution of these markets.

Achal Lohade:

And just a related question, did you comment about what the next steps are, are we going to go for more states or now this is about it and now it's more to do with the organic growth?

Rajan Gupta:

No, I think, I mentioned that earlier, maybe I can clarify once again. So, idea is to take learning from these markets to all other markets being managed by master distributors as well. And we are hopeful our partners will help us improve execution in all markets and they help us increase numeric distributions, help us improve merchandizing standard at all the outlets, push lot of NPD which we have in pipeline. And frankly we are going to review it every quarter, wherever we see, there is scope for any change we are not going to hesitate to make the decision. But as of now, we remain very optimistic that even in all the MD markets, we should see a meaningful shift towards the kind of product range we want to do, towards the kind of execution we want to do.

Achal Lohade:

In terms of the fans revenue change whether a growth or a decline, and the market share, whatever number you could share, FY'23.

- Saibal Sengupta:** Yes, as you have seen ECD is already at a negative (-20%) for the quarter which is indicative, because the lion share of that comes from fans and appliances have actually grown has had a healthy growth. So, it's quite obvious that the fans has declined in Quarter 4 and Quarter 4 been a bigger quarter for obvious reasons that you are aware from the market side in terms of transition, weaker demand, channel inventory going up as a result. So, that's the position as on fan, so essentially out of entire basket it is fans which has led to this decline.
- Achal Lohade:** If you could clarify on for the full year FY'23?
- Saibal Sengupta:** For the full year FY'23 also if you would recall H1 was not a very steady period for fans in that period of time. So, if you take an aggregated it was a very flattish kind of a growth for fans for the full year as well.
- Achal Lohade:** So, it's a flat YoY for fans, and appliances have grown?
- Saibal Sengupta:** Yes, flattish
- Achal Lohade:** Would that be double digit appliances growth?
- Saibal Sengupta:** Appliances will be yes,
- Achal Lohade:** And just one more question if I may with respect to lighting business. If you could clarify what is the mix of B2B and B2C as we speak for FY'23? And the margin seem to be extremely robust, do you think the 4Q margins are sustainable for these lighting and switchgears segment?
- Rajan Gupta:** So, B2B is currently around 15%, obviously it varies quarter to quarter based on seasonality. But it is broadly in that range. And as I mentioned, the B2B is going to be one lever of growth, based on the kind of demands we are getting from the façade lighting, various national highway projects etc., . And so that contribution will gradually increase.
- Achal Lohade:** And the margins, are 4Q margins sustainable or is there any right backs or anything which has driven this margin improvement to --?
- Saibal Sengupta:** No, nothing, there is no exceptional as far as lighting is concerned these are steady margins that we are giving as far as lighting is concerned.
- Moderator:** Thank you. The next question is from the line of Nikunj Gala from Sundaram AMC. Please go ahead.
- Nikunj Gala:** Just one question from my side on fans, it's been four and a half months of new rating application, can you help us with where the consumer demand is settling in, in terms of star rated

fans like whether consumers are preferring 1-Star, 2-Star like where is the large amount of demand is settling in?

Rajan Gupta: So, Nikunj essentially speaking most of the non-Star rated inventory in the trade is more or less not there. While some counters I still see carrying the old inventory, because obviously there was a push which has happened in December, at industry level, no company is selling non-Star rated fans from January, but the trade has been carrying lot of inventory. And of course the whole premium segment or the BLDC segment which is either 4-Star or 5-Star rated, that has seen little higher growth. But we are yet to see you know lot of consumer interaction around the whole star rating thing like the way it is there in many other categories, but these are very early days and we should have more clear trend by next quarter end.

Nikunj Gala: If I can ask from your production perspective how big maybe 1-Star, and 2-Star at this point of time?

Rajan Gupta: So, while I may not be able to give you exact numbers, I mentioned earlier the hero products which are going to drive our growth, a lot of those hero products are obviously 4-Star and 5-Star rated. These are the products which are gaining traction in consumers, these are premium products, which are taking care of consumer aspirations in different pricing segment, so you will see some of these products driving growth and gradually contribution will increase.

Moderator: Thank you. The next question is from the line of Kuvam Chugh from Birla Mutual Fund. Please go ahead.

Kuvam Chugh: So, my first question is on the margin profile. If we look historically Orient's margin profile has been significantly lower than competitors by 300 to 400 basis points. So, coming in, in the last 40 - 45 days, what have you noticed as the source of our margin?

Rajan Gupta: So, if you see the last few quarters or the last full year itself we have been sharing the kind of investment which is happening, in terms of A&M cost, in terms of people cost, the idea is to take business to a very different level. And the management felt that all this investment is needed to take it to the next level. So, that is one of the reason why the margin have been a little lower. Even going forward, essentially, there is a clear plan to grow gross margins, which will come out of the mix change, pricing wherever possible. I mentioned premiumization etc. and we will continue to invest on A&M and people, because we believe these are the two levers which will help us take it to the next orbit.

Kuvam Chugh: When we speak about margin improvement in the current years is it mostly return to pre-COVID level of margins or should we expect our margins to converge to the market leader level or rather our competitors -- 14%, 15%?

Rajan Gupta: Look as I mentioned there will be a steady increase so nothing can be increased only one quarter. But it will be led by an increase in gross margins and the fixed cost, which will be people, and A&M and some of the consultancy cost that will continue. But the first improvements you will see is in margin percentage.

Saibal Sengupta: Kuvam I would also like to add to what Rajan mentioned, if you recall in the previous quarters also we had mentioned that this margin improvement would be gradual in the next few quarters which we have told earlier also. If you recall in the previous year, we had implications both in terms of inflation as well as in terms of realizations coming down because of intense competitive pressures prior to the transition. Those things are getting addressed now, they are all behind us. And as Rajan already mentioned almost like a Ten-Point Program that he had mentioned we have all these things in place, to improve realization, to improve mix, so there will be two ways of improving the margins and that will go up gradually:

(1) is the gross margins and (2) is the operating deleverage, which we had suffered last year. Moment the operating leverage comes off with accelerated growth, that also would be taken care of and the EBITDA margins we will see that improvement, but it would be gradual, it will not be on a specific quarter, because we will have to cover up this stage as well. And this is something in line of our action plan which we already had. And with further actions that is being planned now, with Rajan coming in this will definitely help in further accelerating it.

Kuvam Chugh: One bookkeeping question, our unallocated corporate expenses in this segment in P&L has increased quite dramatically this year, I think it's close to 7% today in unallocated expenses we used to historically be around 4%. So, is there some policy change or what is actually in this increase of unallocated expenses?

Saibal Sengupta: You are talking about an increase in unallocated expenses in the segment that's what you are talking about, right?

Kuvam Chugh: Yes.

Saibal Sengupta: , Increase in unallocated expenses mainly happens in terms of the shared cost which is a central cost mainly the corporate cost etc. If you are seeing year-on-year this has obviously happened with over the last 12 to 13 months, lot of new CXOs have joined, leadership team has got strengthened so those kind of cost will definitely add to it. On top of that there are certain central costs also which we had been discussing from time to time which has gone up and some of the investments that we had made, most of these are on a central basis and that's why you see the unallocated cost going up.

Moderator: Thank you. The next question is from the line of Rahul Gajare from Haitong Securities India Private Limited. Please go ahead.

Rahul Gajare: My first question is coming back to the hero product that you dwelled up on earlier, now I want to understand if these hero products are restricted to fans or hero products across all categories? And if you could talk about the industry potential and why is that you think that there is a very strong growth potential in these particular hero products?

Rajan Gupta: So, essentially hero products are across all BUs. These products are I can divide them probably into two categories, one products which were already launched in last two years. And we felt that there is a scope to improve demand planning, there is scope to have additional focus on them. And that's what our consumer insights told us and that also got supplemented by various market visits which we had done and meeting with consumers etc. Finally, you know these are the products where we realigned our supply chain. So, that we can actually meet all the demand from the market, so that's one category.

Second thing, which we are already in the process of launching, it could be different colors, it could be some add-ons and it could be entire new product altogether. So, mix of these two things is what make hero products. And in fans we spoke about it, in lighting we spoke about decorative lighting for example, , switchgear we have a new range which is in place. So, hero products are essentially all across BUs.

Rahul Gajare: My second question is given that we have seen a fairly sharp drop in revenues. Can you comment if there is any pricing action that was taken in the 4th Quarter and I think Mr. Saibal also indicated that fans got flattish in FY'23 -- there is a pricing action. So, just want to understand break this flattish into volume number?

Rajan Gupta: So, there was a pricing action which happened in the month of January, to the tune of 4%, Saibal?

Saibal Sengupta: Yes.

Rajan Gupta: Approximately in that range, based on the SKUs and based on the different categories which was essentially because of increase in cost because of whole rating change. We have taken one more action in the month of April, around 2.5% weighted average price increase has already happened. Many of our competitors haven't done that. So, market MOPs the operating prices have still not gone up. We are hoping as summer is picking up the entire industry will follow. And MOPs for you know because fans obviously now have much better quality because of star rating, and they deserve to have better MOPs. So, we are hopeful that MOPs will increase in the next few weeks.

Rahul Gajare: My last question is on the profitability, we understand that there is a negative operating leverage which has played out in this particular quarter, but you have also indicated that there has been a significant increase in the A&P spending for brand building etc. Is it possible for you to highlight those numbers and comparable numbers for the last year, thank you?

Rajan Gupta: So, A&M numbers are in the range of 4% to 5%, and even going forward, as I mentioned we are not going to reduce some of this investment, specifically the people and A&M. So, this investment will continue, so there is a broad range we are talking about. Saibal you want to add?

Saibal Sengupta: Yes, Rahul this is the trend that we had followed earlier also. There you will see some base effect because of the carry forward of the COVID. But other than that we are maintaining that 4% to 4.5% of ratio to revenue and that will continue as and when the revenues grow up obviously the absolute amount will keep growing to that extent. But in terms of investments that level we will still maintain it.

Moderator: Thank you. We have the next question from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Two questions, one what is the difference in trade margin between the direct state that we are doing and the other states where we are having a relatively longer trade channel. So, what is the difference between the trade margins that is point number one?

And second is, what is the inventory in number of days or weeks right now of the non-Star rated fans in the trade as per your best estimates for Orient as well as for the industry. And I mean do you see any impact of that inventory again on Q1 results?

Rajan Gupta: First part the whole DTM and the trade margins, look we have clarified in earlier calls as well the DTM was not done to increase profitability, profitability for DTM and non-DTM state is approximately same. Our channels schemes, our channel margins, are same all across India. DTM was done primarily to come closer to retailer and consumer which I mentioned earlier the benefits coming from that. So, there is no major difference in either trade margins or our own profitability for DTM versus non-DTM markets.

On channel inventory, look it's very difficult to give a figure, because it varies from state to state based on how season has picked up, some states it has been quite hot, other states season is delayed of course, the last weekend was very good so we remain quite optimistic, but if I have to hazard a guess average inventory would be in the range of 30 to 45 days for all fans in many of the states.

Aniruddha Joshi: -- Q1 numbers?

Rajan Gupta: No, for Q1 all the growth initiatives have been already shared. So, I don't think channel inventory will be a bigger factor influencing that. Of course, we had a delayed start of April as all of us are aware about it. We have seen unseasonable rains in many parts of the country that had some impact on April, but I think that we made a very meaningful April, specifically it's coming on a high base from last year April and so we remain very optimistic.

- Moderator:** Thank you. The next question is from the line of Deepak Lalwani from Unifi Capital. Please go ahead.
- Deepak Lalwani:** I had two questions, so since you have answered the recent phenomena that April was better than last year. If you can mention on the profitability side since most of your margin improvement will be driven by gross margins. They are still at the lower end of the margin brand at 28%, so can you indicate if this is a short-term scenario and we should see improvement starting Q1 itself?
- Rajan Gupta:** So, I think I mentioned this earlier as well we understand there is scope for margins. And gross margin is one which will drive overall profitability increase. I mentioned the price increase which we had taken in the month of April itself, we didn't wait for any of the leaders in any market to do that we are one of the first one to do that. And if you notice our initiatives around premiumization or focused SKUs, I spoke about BLDC driving growth in fan, I spoke about premium range of water heaters and coolers, the whole decorative lighting all those initiatives are obviously centered around putting in place higher profitable products which will change the whole mix so essentially that's a plan.
- Deepak Lalwani:** We should assume that Orient comes back with a 30% to 32% which was there pre-COVID sooner by at least the start of Q2?
- Rajan Gupta:** So, we understand, I appreciate your expectations at this stage I can share that there will be a meaningful increase which will happen based on all the initiatives and work which is being done.
- Deepak Lalwani:** And lastly your presentation mentioned a great point on the diversification that you have done over the last two years. So, if you can indicate how this journey will go on starting FY'24 and if you can highlight which areas will the revenues stream go on from here on?
- Saibal Sengupta:** Which kind of diversification are you referring to, see, Deepak from the diversification perspective basically we have launched few products but if you are talking about last two years, honestly there has been not too many product launches. Because given the situation of transition and other factors, we have done something in lighting of course, we have done this Cloud fan which we have done very recently in the month of March which we have already talked about. But given that the action plan which Rajan just talked about a couple of times, we do have plans to roll out a lot of other products. Wires is this something which we got into house wires, it was initially because of the extension of the switchgear product line and to completion of that product portfolio, but now we are getting enthused and we feel that we should be able to scale that up and therefore we are, we will be moderately attempting in some specific states with dedicated sales teams etc. which also Rajan had also mentioned about.
- Rajan Gupta:** Deepak, just want to add more than diversification, I don't know if I say it's a diversification, but essentially the plan is across our portfolio there is a range which is higher gross margin,

wherein we see scope for market share increase, where we will see scope for volume increase, so that's a range we are going to focus, whether it's a switchgear or it's a fan or water heater or a cooler all other products. So, essentially that's a plan we have.

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

Nirav Vasa: I have a strategic question; now how do you intend to take this company whether Orient Electric would be an asset heavy company wherein you will be investing heavily in increasing your capacities as a resizing scale or you prefer to have an outsource model? And what can be the CAPEX for '24 and '25?.

Rajan Gupta: So, essentially coming to this whole buy versus make decision it's a very dynamic decision which depends on a lot of factors. But you are aware about our Hyderabad's factory rollout plan, it was shared earlier by end of September, by end of Q2 the factory should be fully in place. And that will obviously help us make a lot of high quality all our hero product in fans in-house. And we will continuously keep on evaluating this buy versus make decisions.

Saibal Sengupta: Well, Nirav as far as just to build a little bit more on this make versus buy as you know we have always maintained this that in fact it's a very close commercial call, and of course the product quality etc. that we keep on studying frequently to take the decision.

Our capacity plans and CAPEX plans are not really guided by those in-source versus outsource, obviously it is subject to availability of capacity it makes a strong commercial sense then we will not hesitate to make moderate investments. That brings me to the point that you mentioned whether we will be asset light or asset heavy, of course we will continue to remain asset light. This Hyderabad CAPEX that we are making, honestly it is a fresh Greenfield investment in this company after a span of 40 years that we are making. We had been continuously relying on the productivity to be increasing our capacities, but now from the pre-COVID levels where we decided to go ahead with Hyderabad the growth opportunities were very exciting to go ahead with these enhanced capacity in Hyderabad, and that's what we are doing.

Coming to numbers, we have already spent about close to Rs. 99 crore as far as Hyderabad is concerned, we still have to spend a good amount of money because Rs. 200 crore, close to Rs. 200 crore, not exactly Rs. 200 crore, about Rs. 185 crore to Rs. 190 crore is the estimate as of today. So, the balance we will be spending shortly, it is growing on in full swing. As far as normal CAPEX is concerned, which I had mentioned earlier it is in the range of Rs. 40 crore to Rs. 50 crore that will continue to happen year-on-year because these are the normal, either replacement CAPEXs or they are efficiency CAPEXs or products improvement CAPEXs.

So, this is the line of CAPEX which will continue to remain, as of today as we speak, we do not really have any plan of another Greenfield or a big project like Hyderabad as of today lined up. And in case it comes up we will get back to you, but no plans as of today.

Nirav Vasa: So, would it be possible for you to share a bit more on the Hyderabad factory with regards to what can be the capacity there, how do we intend to increase the capacity in phase wise manner. And what can be the maximum output that it can generate?

Saibal Sengupta: On a capacity basis, we are adding about an additional one-third capacity over there, let me put it, it's a combination of both ceiling and TPW that we are adding, which is the combined capacity of Faridabad and Calcutta combined. Another one-third we are adding, but having said that, I must say that it will not happen in one go. So, we will be adding lines almost on an every year basis, depending how the volumes on the capacity requirements go up. And we are having very flexible automated lines to be doing that ramp up, on an incremental basis and that to on a need basis. So, we are very conscious and mindful about CAPEX investments and not to make it a asset heavy company, but yes this is what is required for future sustainable growth.

Nirav Vasa: Final question, what was the payment that was done to BCG in FY'23 and what can be that number for next year?

Saibal Sengupta: Well Nirav, it was not BCG we had engaged McKinsey if you are referring to that. We will not share exactly numbers, so you have to excuse me on that. But yes, that's an engagement that we are having for two years so one year has already gone and the second year is in progress. They are adding good amount of value in the three tracks that we are doing that we had mentioned earlier, in terms of cost reduction, in terms of GTM support, the GTM scale-up including the DTM as well as the digital, building up and helping us in building up the capability for the digital which we have a very ambitious plan to grow that business. So, those results are already coming up. This is the second and the last year of engagement going on right now as we speak.

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

Aakash S. Javeri: Good Morning and thank you for giving me the opportunity. My question is with respect to fans so what is the current percentage of BLDC sales out of our overall fan sales and how do we expect this to move in the next two to three years?

Rajan Gupta: So, Aakash in a way I answer it already so BLDC range is now going to high single digit as a percentage to overall volume contribution. And as I mentioned earlier the entire BLDC range is part of our hero products and lot of new products are coming in that. So, we see over a period, now it could be two to three years, BLDC will become high teens kind of contribution to the overall fans portfolio.

Moderator: Thank you. The next question is from the line of Drashti from ThinQwise Wealth Managers. Please go ahead.

- Drashti:** You have very well put down the strengths of Orient and measures that you are doing to increase our distribution and further booting your distribution. But I wanted to know that in the last 40 days that you have joined the company what are the risks that you see in the company and how do you plan to overcome this, if you could highlight more on that?
- Rajan Gupta:** Risk for any company essentially more than any other environment or risk of other things, you know the risk is on growth, risk is on profitable growth. And if you see my initial ten pointers on growth strategy way forward, profitable growth strategy way forward attempt has been there to kind of minimize that risk that is where this whole entire portfolio change, entire hero products, entire premiumization and focus on that, same across the BUs. The whole plan on DTM which is coming closer to our retailers, our consumers, , the plan to grow channels wherein we haven't done well in historically, for example the whole e-Commerce and Modern Trade and Large Format Retail stores, that's entirely to derisk the whole thing.
- Moderator:** Thank you. The next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.
- Manoj Gori:** We have talked a lot on future plans along with robust outlook, however if you look at the Q3 performance in the ECD segment given that we were having a favorable base of 4Q FY'22, are we disappointed with our 4Q performance? Also, when we look at the 3Q, one of the listed brands obviously reported very strong numbers in the fans portfolio. So, has it hurt you or industry at large, so any color here would be very helpful?
- Rajan Gupta:** So, Manoj I am not very clear on your question, so if the idea is to ask how is our Q4 at industry level, from whatever numbers we have seen from the listed companies results which have come, Q4 has been a muted quarter for almost all the fan companies. There was a kind of delayed start of season and now the non-Star rating inventory which has pushed at industry level in the month of December that of course had an impact. And but if the question is, is there a scope for improvement that's where all the initiative we shared with you. So, we appreciate that we can do much better and that's the whole intent which is in place.
- Manoj Gori:** Can we assume that probably apart from the direct states that we would be looking to cater, during current year. Probably in the rest of the markets also, we can outperform the industry growth rates and probably we might see significant growth in fans with respect to the industry.
- Rajan Gupta:** I think I mentioned earlier, obviously we are taking learning from this direct markets to all our other markets being managed by master distributors. Many of those markets we have built a huge strength over the years and that's where the company has grown over last many years in these markets. And we remain quite constructive about much better results coming from these initiatives over a period of time. Having said that, some of those industry issues are for example the late start of season etc., you know is going to affect almost all markets.

Manoj Gori: Lastly on wires, can you throw some light on the mid-to-long term strategy with regards to investments, any plans of capacity additions. And probably if there is any drag on the EBITDA margin level, that would be helpful?

Rajan Gupta: I think wires, we already mentioned the idea was it started with completing portfolio, but we have seen very high acceptability in some markets in couple of the states with electrician, with contractors and the retail channel, which is where as we mentioned earlier, the idea is to go deeper into six markets, these are the markets where we feel we have a case for building a kind of scalable business. And these markets will give us a lot of learnings.

So, at this moment frankly difficult to comment upon that as we pass through next few quarters. And we believe by the end of the year, FY'24 we should have a more kind of informed plan which should be in place. But market potential is of course huge as all of you are aware about it.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Rajan Gupta: I would like to thank all participants for their continuous and active interest and engagement with Orient Electric. As mentioned in my initial remarks growth initiatives for FY'24 had been rolled out and we are committed for study, but consistent and meaningful improvement in both top-line and bottom-line in coming quarters. Thank you so much and have a good day.

Moderator: Thank you very much, sir. On behalf of PhillipCapital (India) Private Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.