Electricals

February 9, 2024

To,
BSE Limited : **Code No. 500031**
Department of Corporate Services
Phiroze Jeejeebhoy Towers
Dalal Street Mumbai 400 001

National Stock Exchange of India Limited : **BAJAJELEC - Series: EQ**
Listing Department
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai 400 051

Dear Sir/Madam,

Sub.: Submission of the 'Transcript of the Q3FY24 Earnings Call' of Bajaj Electricals Limited ("Company")

Further to our letter dated January 25, 2024, and pursuant to the provisions of Regulation 30 (read with clause 15 of Para A, Part A, Schedule III) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended (**"SEBI Listing Regulations"**), we are enclosing the Transcript of the Q3FY24 Earnings Call (i.e., Post Earnings/Quarterly Call), organized by ICICI Securities Limited on Monday, February 5, 2024, at 4:00 P.M. (IST), wherein, inter-alia, the Unaudited Financial Results of the Company for the third quarter and nine months ended December 31, 2023, were discussed.

We request you to take the above on record and treat the same as compliance under the applicable provisions of the SEBI Listing Regulations.

Thanking you,

Yours faithfully,
For Bajaj Electricals Limited

PRASHANT ANANT DALVI
Digitally signed by PRASHANT ANANT DALVI
Date: 2024.02.09 14:11:47 +05'30'

Prashant Dalvi
Chief Compliance Officer & Company Secretary

Encl.: As above.

Corporate Office: Mulla House 51, Mahatma Gandhi Road, Mumbai 400 001
Tel: +91 22 6149 7000 | www.bajajelectricals.com

Registered Office: 45/47, Veer Nariman Road, Fort, Mumbai 400 001
Tel: +91 22 6110 7800 | Email: legal@bajajelectricals.com | CIN: L31500MH1938PLC009887

"Bajaj Electricals Limited

Q3 FY '24 Results Conference Call"

February 05, 2024

MANAGEMENT: **MR. ANUJ PODDAR – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – BAJAJ ELECTRICALS LIMITED**

MR. E.C. PRASAD – CHIEF FINANCIAL OFFICER – BAJAJ ELECTRICALS LIMITED

MODERATOR: **MR. ANIRUDDHA JOSHI – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Bajaj Electricals Q3 FY '24 Results Conference Call hosted by ICICI Securities. 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. Aniruddha Joshi. Thank you, and over to you, sir.

Aniruddha Joshi: Yes. Thanks, Veeran. On behalf of ICICI Securities, we welcome you all to Q3 FY '24 Results Conference Call of Bajaj Electricals. We have with us senior management represented by Mr. Anuj Poddar, Managing Director and CEO; and Mr. E.C. Prasad, CFO.

Now I hand over the call to the management for initial comments on the quarterly performance, and then we will open the floor for question-and-answer session. Thanks, and over to you, sir.

Anuj Poddar: Thank you, and good evening, everyone. This is Anuj Poddar. Thank you for joining our call this afternoon. I will start with a few opening comments, and then we'll move on to the questions and answers.

As you've seen, it has been a relatively soft quarter, and I think that's in keeping with the overall trends of a soft consumption demand environment that we are seeing in the economy. That said, let me try and just delayer a bit of the data for you.

Consumer Products business has been a bit softer with a marginal de-growth at about 8%, while the Lighting Business has held relatively flat despite the soft environment. In the Consumer Products business also, it's important that we highlight a few takeaways into the numbers. This if you look at on a Y-o-Y basis, actually, it's coming off a higher base last year. Last year's base had 2 contributory factors that made it a high base.

One is the BEE transition in the Fans category because of which there was a high liquidation of non-star rated fans in Q3. We, as a company, in particular, had an exceptional Q3 last year in Fans with a 64% growth. So we have an exceptionally high base of Fans last year. The other contributory factor for us last year was the redemption of the RBP points that contributed upwards of INR 50 crores in revenue in Q3.

So if you take out the impact of these 2 factors, actually, we've had a soft to moderate growth in the Consumer Products business also on the top line Y-on-Y in Q3. Coming to the Lighting business, as I shared, it is a flat to plus 1% growth between the Consumer Lighting and the Professional Lighting businesses there.

Within the Consumer Products and Lighting, again, if I look at it from a channel mix perspective, actually, our alternate channels, which is our modern trade and online as well as CSD as well as exports, they've all grown well. The softness that we're witnessing is largely driven by softness in the general trade. Those channels that are underperforming, and that's where we've seen de-growth and that's resulting to cumulative de-growth that you've seen.

Coming to margins, I think our margins have been softer. The impact of that is 3 elements. One is we've had a one-time impact of warranty provisions correction. We shall talk about that later in the call. So that's a one-time impact. Besides that, there are 2 ongoing impacts. One is, because of the soft-demand environment, there's a high level of competitive intensity in discounting that is leading to softness in the net gross margins, as well as negative operating leverage because of overall scale effects.

The underlying metrics for us, which we continue to track, continue to be strong. We're happy to talk about that later in the call. And overall, strategically, we're confident in terms of what we're doing in the brand and products, some of which we showcased in the deck. And again, we'll be happy to share more on both of these ideas.

And the final point that I'll make is in the cash flow despite the P&L, we continue to remain very focused on cash flow. We continue to optimize the working capital in this quarter also, which generated positive cash from operations of about INR 115 crores.

So with that, I'll hand it back to the moderator. Thank you very much.

Moderator: Thank you very much. We have our first question from the line of Dhruv Jain from AMBIT Capital. As there is no response, I would like to take the next question. The next question is from the line of Mr. Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Sir, can you first, from a 9-month perspective, if you could just broadly talk about the category-level growth, how the growth has been, let's say, for finance or mixer or air coolers or in those categories, if you could?

Anuj Poddar: I can give Appliances, Fans and Morphy Richards level. So a 9-month perspective, appliance has been an extremely, extremely low single-digit de-growth, so it is almost flat. Fans has been a slightly higher single-digit de-growth. I think that's largely because of this particular Q3, because of the high base effect. Before Q3, Fans was also in growth in the first 6 months. And Morphy Richards in single-digit growth. So it's the first time we're starting to see growth in Morphy Richards since the last few months here.

Achal Lohade: And would you be able to also talk about 3Q for the similar 3 segments?

Anuj Poddar: Sure, yes. So in third quarter as well, it's a similar trend. Appliance is very low single-digit de-growth. Fans in the case is in the high teens de-growth because of the high base effect that I spoke about. And Morphy Richards is mid-single digits growth.

Achal Lohade: Understood. And the softness was across -- throughout the quarter or it was more pronounced in the beginning and then you were seeing some improvement since December? Anything -- any color on January as well?

Anuj Poddar: So it was largely through the quarter. But if I had to take a very strict tweak on that, then it did pick up in December over the start of the quarter. So if anything, that's not a very sharp uptick, but it is an upward movement that we've seen between October through to December.

January is a little early to say. Feb will give us a clear trend. January also came to same line. But we do expect Feb, March to pick up also because the winter has now kicked in. One other observation we've had in Q3 is that our secondary sales have trended well ahead of primary sales. So in fact, we built a favourable gap wherein when primary picks up, that should be able to close the gap, that should be in our favour again.

Achal Lohade: Understood. The other question I had with respect to the margins. Now even if we adjust for -- if you could first talk about the warranty thing as to how it is kind of getting accounted for? And the second, adjusted for this warranty, how the margins would have looked like on a Y-o-Y basis? And you also pointed out about the high competitive intensity impacting the gross margins as well. If you could give us a sense as to what extent has that had an impact at gross margin level for this quarter?

Anuj Poddar: Sure. So first, I'll let our CFO talk on the warranty provisions.

E. C. Prasad: Yes. So Achal, this warranty insurance, we bought in last year and this was probably the first in the industry. So there was no precedence of how this was accounted for. So we and the auditors had taken a call that the premium that we are paying has to be amortized over the period of the insurance.

However, after -- the initial phases, we had products getting insured at various levels throughout the months. Now having reached a point where all our products are now insured, we had assessed this accounting once again. And we are of the view that ideally, we should be charging off the entire provision instead of amortizing over the period of the insurance. So this -- hence, that is a onetime impact that you see of INR 21 crores because the insurance premium that we are paying, we're now charging off completely to P&L.

Anuj Poddar: Your question on the margin. So if you take out the effect of schemes because we internally tracked that separately, gross margins at the FLM level have gone up by about 1.5% blended across our product categories. Then some of that has gone back in the form of schemes to trade. But in a productive category level if you aggregate that, it's up by about 1.5%. I think this is a mix of 2 aspects. One is the portfolio optimization or premiumization, and second is improvement on COGS.

Achal Lohade: Understood. And sir, if you could update on the logistics, where are we? What I remember earlier, we had talked about close to 200 to 250 basis point impact of these duplicated costs. So where are we on that journey?

Anuj Poddar: So we are actually back to the levels, the cost levels that we had in about Q3 last year. So we are back to that level. So the related cost that was there in Q4 FY '23, which is JFM '23 and April, May, June '24 -- sorry, April -- I'm sorry, I'm mixing it in calendar year and financial year. So the elevated costs that were there in the first 2 quarters of this calendar year because of a transition, that has all gone negated and rolled back to normal cost of logistics that we had about a year ago.

Achal Lohade: Understood. And in terms of the demand situation, how do you read from a medium- to long-term perspective? I mean, the recovery has been fairly elusive for a while now. So how do we see this for the industries you could comment? What are the sort of lead indicators would you look at? Any comment on that, please?

Anuj Poddar: So Achal, to be honest, we've been calling it out since 4 quarters, I think others have called it out later. We are seeing weak consumer sentiment in the economy across the board, starting initially with rural. But that had built up into lower urban, lower middle class segments, okay? And I think that is manifesting itself across many consumption sectors, though there are some exceptions.

For us, given that historically, we've been slightly more skewed towards rural and second, third tier, etcetera, and the lower price segments, obviously, the impact to us has been sharper. That said, as our journey towards premiumization is moving and our brand scores are improving, our focus on retail also towards urban India has been increasing, and we will continue to drive that.

In the short term, while rural or the non-premium segments are facing the brunt more, obviously, we are facing a slight more brunt. But we are in the process of de-risking on that. We're starting to see some of that in Morphy Richards also from this quarter onwards. We should continue to see that on Morphy Richards, but also on the other main brands and other categories as we start to premiumize on that front.

That said, how long will this continue in the future? I don't know right now. To your question on lead indicators to meet employment or jobs, interest rates, these are a couple of lead indicators. I do think jobs are in much better position now than they were until about 6, 7 months ago. If that trajectory concludes or if it simply holds on that front, and the second lead indicator of interest rates stabilize to start coming down, I think that to my mind, will be the trigger for consumption to come back on a structural basis.

On a tactical basis, election is coming up any time soon in the next 3 to 4 months. I think that should put some cash in the economy at a consumption level. So I think tactically, there will be a short-term blip because of election. Structurally, I think when interest rates come down in job zone, we will see a structural upside.

Achal Lohade: Understood. This is very helpful. Just one question, if I could ask, in terms of the mix of premium products, if there is any way to quantify in various categories?

Anuj Poddar: So at an overall level, if I look at, let's say, in Fans, we don't publish the data, our overall over the last 2 years, premiumization has been about 6 percentage points saying in our contribution between subeconomy fans to the other economy and premium fan in favour of economy and premium. Similarly, if I look at water heaters, we had about 2 percentage point contribution shift in favour of the water heaters. If I look at Lighting and recessed, ceiling lighting, again, we've had almost about a 4 percentage point improvement there in portfolio premiumization. So we had 3 core segments where we were not premium at all.

Achal Lohade: Understood. I'll fall back in the queue for more follow-ups. Thank you so much.

Anuj Poddar: Thank you, Achal.

Moderator: Thank you. The next question is from the line of Anuj Sehgal from Manas Capital. Please go ahead.

Anuj Sehgal: I had a question on the distribution side. So Bajaj Electricals went through the whole RREP program and went into a distribution model where it was more of a poll-base model. Are you guys still continuing with that? And in the current scheme of things where things are generally slow, I just wanted to get a sense of how that is faring and the whole idea of improving return on capital, both for the business and also for the distributors, how has that sort of played out, let's say, in the last 12 to 18 months?

Anuj Poddar: So that's WIP. It's a good question. What we are now in the process of implementation what we call RREP 2.0, which means there certain features of the original RREP that we're retaining with some features that we are revisiting or changing going forward to suit the current business and the future business, okay?

What I mean is if you look at RREP, there's a whole theory of constraints on not dumping, having certain price discipline, territorial discipline, those aspects, we will continue to maintain. There are aspects where we had moved to a model where we will have a single distributor across the entire product portfolio, entire multi-category. That part we're revisiting. And we think we need different distributors who can cater to or specialize in the focus on different product categories, particularly as we expand our product range and offering. So that part is something revisiting.

Similarly, in the traditional RREP, we have fared well on penetration and reach expansion, particularly into Tier 2, Tier 3 rural. So that benefit we are continuing. But that was also the cost of weighted distribution, large urban counters, large value counters, which we had not been very strong in, we were under indexed in. That was not probably because of distribution defocus, but also because of brand and products are not premiums.

So as we are preimmunizing our brand new products, we are looking at different approaches for urban India in a large value counter. So that's an aspect we're opening up. So in summary, the core of theory of constraints, pricing discipline, not dumping we're retaining, but other aspects aligned to our business model and new product category premiumization, urban focus, those we are able to retain.

Anuj Sehgal: Okay. That's very helpful. And just to clarify, the reason you have to do that is because as you preimmunize you have to have a dedicated sales team for specific product segments so that they can be more effectively -- they can more effectively service as our large accounts. Is that the main reason?

Anuj Poddar: Yes. But I'll explain that a little more qualitatively. For example, consumer lighting, we do not have a separate business vertical -- we now have a separate business vertical and may require a separate distribution for consumer lighting otherwise it does not get focused. And the way trade of functional with lighting is different from how it functional appliances. So in Fans, we have wholesale, etcetera, that's a large channel, but we're missing out on that whole part of the trade that was not -- that old RREP was not conducive to that. So we actually opened up some of those things there.

Third, when we're launching Morphy Richards, Nex or even the NPG categories, etcetera, the bid plan is separate because actually in retail counters for those product categories are different from the traditional retail counters for our traditional Bajaj products. So to cater to that, we do need separate go-to-market efforts on that.

In some cases, the same distributor can do justice to it. In many cases, they can't. So to actually service -- the best examples, consumer lighting, fans, Nex, Morphy Ricahrds, NPG, etcetera, we could not have contributed to the existing model. So we therefore said we will revisit our distribution model and keeping with our current and future product focus areas.

Anuj Sehgal: Got it. Very clear. And my second question is on the margin trajectory for the consumer business. Obviously, you have laid out a road map of getting to double-digit margins, but we are nowhere close to that even if we exclude the one-offs. So how should we think about the margin trajectory for the business, let's say, over the next few years?

Anuj Poddar: So Anuj good question. There's 2 buckets I'll put it in, buckets for cost aspects that are unique to us and cost aspects that are indicated to the external market. On cost aspects that are unique to us, our current investments in R&D, tooling, digital IT, etcetera, what we're doing, those are unique to us and those are overloaded right now. I think those will continue to mature over the next 12 to 24 months. And then when that happens, those will start falling off faster and the ROIs on that will start kicking in. That's why there should be some margin release.

The second bucket which is really hurting us now more than anticipated was the external market factors, which is manifesting itself in two ways that I told you. One is discounting. I think lot of this discounting and schemes are tactical and therefore, masking the expansion in gross margin that we are otherwise enjoying. So I think as soon as markets picks up and some of these competitive tactical bottom fishing goes away, I think that will come back.

And the second is pure operating leverage. Right now, it's negative operating leverage. Our internal math is, we need about cost structure, etcetera, at INR 330 crores, our operating leverage starts kicking in. Right now, operating is below that, about INR300 crores, INR310 crores, where we are seeing a negative leverage.

We have two options, either to start contracting ourselves structurally, which I don't think is in our medium-term interest. So therefore, we will hold to our current model and structure till we start seeing some traction in the market, which we think we should in the medium-term.

Moderator: Thank you. The next question is from the line of Anirudh Agarwal from Value Quest Investment Advisors. Please go ahead.

Anirudh Agarwal: First question was on the kitchen appliances segment benefit. So notwithstanding the fact that macro has been slightly muted…

Anuj Poddar: Sorry, Anirudh, you are not very clear. I heard your kitchen appliances. I didn't hear after that.

Anirudh Agarwal: Hello? Is it better now?

Anuj Poddar: Yes.

Anirudh Agarwal: Yes. Thanks. So first question was basically on the kitchen appliances segment. So kitchen appliances, notwithstanding the fact that macro has been fairly muted, all the initiatives that we've been taking over the last couple of years or so on distribution, on product and so on so forth, don't seem to be adding up to any sort of growth for us, right?

So, if you can just help de-average that in terms of how new products would have contributed, distribution expansion would have contributed? And what is the impact of the core industry growth slowdown, that will help?

Anuj Poddar: So again, Anirudh, good question. And I'll just be candid with you on what we're seeing on the data and then we can conjecture on what's happening. Yes, there's clearly a slowdown in kitchen appliances in particular since the last few quarters. We're seeing that for us and also seeing for other competition where kitchen appliances is a large part of the portfolio.

What we have been focusing on a product level, there is a fair amount of innovation even on a proposition of durability, etcetera. Our primary research on brand scores and the recognition of our durability, we are seeing clear upticks on brand scores for us in the kitchen appliances as well as recognition of our products scoring higher on durability.

Is that translating to monetization? No. Is that because of a weaker market? Probably. What we also believe is that conversion of our brand and product innovation into actual brand salience will take some time. So I think today, we are coming in from a historical perspective where we've not enjoyed high brand salience. We've typically been price warriors.

Even in kitchen appliances, even if we've been players of scale, today we're moving into value proposition innovation. It takes two, three, four years where people start recognizing us for that and start allowing us to convert that into pricing power. So in a stronger market, hopefully, we should start seeing that traction. In a weaker market, today, we don't have the ability to price ourselves out of a weakness of a market.

Anirudh Agarwal: Right. Understood. And basically, related to that, if we just highlight some numbers. In the distribution expansion part, where would we be in terms of the number of distributors, number of retailers' reach? And any other internal metrics that you would be tracking to understand where we are headed with the entire distribution expansion strategy?

Anuj Poddar: So our retail count on annual basis right now is about 2,10,000. On a quarterly basis because of some counters not being active in every quarter, that falls just under 2,00,000, yes. At a distributor level -- one sec, let me just put out the exact number for you. Give me a second, I'll just give you the distributor count. That distributor count today is about 742. And this was again expansion, like I told you, because of starting to move to non-exclusive distributors across different categories.

Anirudh Agarwal: Right. Understood. And the same 742 would have been around 550, 600 a couple of years back, if I remember right?

Anuj Poddar: So a couple of years back, it was that. It was about -- one year back, it was about 654.

Anirudh Agarwal: Okay. So essentially, you're saying that we've got the distributors going up, but the retailers' reach essentially has not gone up. But is there any sense on the WD?

Anuj Poddar: But retailer reach, to be honest, we are not looking to push that because I think marginally, utility of retailer expansion is low. Our focus now has moved to WD from ND, which is to focus on the urban higher value counters where we are present, but extraction needs to be higher.

So rather than focus on just expanding from 2,10,000 to 2,20,000, I don't think the incremental 10,000 counters will give us business. As opposed to the 20,000 counters, how can I start extracting greater values, particularly with my urban and premium products per share?

Anirudh Agarwal: Right. Then the metric to track for you would be WD, right?

Anuj Poddar: That's right. WD and our own portfolio mix, etcetera; urban, rural mix, all of those metrics.

Anirudh Agarwal: Okay. And are you seeing any improvement on that front as of yet on WD and...?

Anuj Poddar: So we saw some in the initial two quarters. Now last two quarters have been kind of flat lining. I think what we're also seeing is that growth is one aspect, but the cash collections have become weaker in the market. I'm not talking to us because they're largely linked to channel finance.

But from retailers to distributors, just with the cash flow has become weaker, the liquidity in the system has dried up, the credit periods have elongated. I think these all typical outcomes of weaker markets. So when the market picks up, I think cash needs to move much faster for that to pick up overall.

Anirudh Agarwal: Right. Understood.

Anuj Poddar: One of the comments I made I think to answer the first question. It's the first time that we've seen a gap between primary and secondary sales. The secondly sales in Q3 have outstripped primary sales. But that lag is only built up, which means people are de-risking a little bit. So that's a good place to be in because when people start then moving away for this de-risk approach, then primary sales should grow faster than secondary sales whenever that happens.

Anirudh Agarwal: Right, understood. And on Fans, Anuj, I mean, let's say, Q3 obviously had a higher view last year, but even on a 9-month basis has been fairly soft. So any outlook on Fans sales as we go ahead?

Anuj Poddar: So on Fans, to be honest, we stay confident. Fans and coolers are 2 areas where even in this year, 9 months, our primary research shows that we've had a marginal growth in market share almost 1 percentage point. So if you look at an overall basis, I think we're trending well. I think Q4, again, we should see a further pickup, particularly on premium Fans. Q3, typically, people stock up at least a little more in sub economies. Q4 is where we should see some pickup in premium. But overall, market share gains are something visible to us on our primary research.

Anirudh Agarwal: Great. And if you could just quantify on the gross margin front, what the impact of these additional schemes and discounting was because given the fact that we've been premiumizing at a decent clip, plus pricing benefits from lower commodity cost on a Y-o-Y basis, there should have been some improvement on the gross margin, right? I mean, as you said, 1.5%, but if you can just elaborate a little bit more on that as to why the single 5 percentage point gross margin impact Y-o-Y?

Anuj Poddar: This impact is as high as almost 3.5 to 4 percentage points. So that is hurting us. We started to take -- signal a correction in that. The way we're doing that is from December, we started to take some price increases, though we've again passed some of that back on, but this is to start signalling that. Ultimately, we need to start also some price increases and the scheme will go down.

The other thing now we started linking from Jan onwards when some of these are flat line schemes, now it's only schemes are getting more and more linked to volume expansion. So to us, now some of the schemes are not all of it can be linked to volume expansion. We started splitting the schemes or the impact of these schemes between the general givebacks to give back or supporting trade, some of it is linked to the overall growth. So we'll see how the market takes that, but it started from January.

Anirudh Agarwal: Understood. Final question from me was on the warranty cost. So recurring warranty cost will be seen in the quarters to come?

E. C. Prasad: Next quarter will be the normalized warranty that we provide for based on the failure rates of the product. So there won't be an aberration like what we had this quarter. So it will be in the range of INR 5 crores to INR 6 crores.

Anirudh Agarwal: Understood. So basically, on the other costs, broadly run rate would be the number X of this INR 21 crores of incremental provision that you've made, that would be the fair run rate to assume going ahead?

E. C. Prasad: Yes, I didn't get that question.

Anirudh Agarwal: No, I was saying on other expenses. So if I ex-out the warranty cost for Q3, the incremental provision that you made, so that number is the sustainable run rate on other expansion?

E. C. Prasad: Yes, yes, that's true. That's true, yes. And besides that, the A&P spend this quarter was a bit low, so that can add up a bit in Q4.

Anirudh Agarwal: Okay. Okay. Understood. By how much? I mean, what the spends have been in this quarter and 9 months till now, if you can share?

Anuj Poddar: This quarter has been about 2.8%, 2.9%. YTD has also been in the same range here.

Anirudh Agarwal: Understood. And this is slightly lower versus last year or?

Anuj Poddar: It's about 1 percentage point lower than last year. Last year, as I would say, with Q3, Q3 was about 4.3% because we had spends towards the 'Built for Life' Campaign. But if see on an annualized basis, about 1 percentage point.

Moderator: Thank you. The next question is from the line of Dhruv Jain from AMBIT Capital. Please go ahead.

Dhruv Jain: Sir, I had a question on the Lighting business, right? So we've seen this prolonged realization impact, right? So when does this start to reverse? And do you expect same next year, the investor is back to double-digit growth? Any free train of thoughts would be helpful, sir.

Anuj Poddar: So firstly, yes, there has been softness in Consumer Lighting in general. And then in the last couple of quarters, the price erosion has been impacting Lighting, Consumer Lighting business. That said, in this quarter, our performance in Consumer Lighting is flat at about 0%, which means we have bucked impact of the softness to make up for it in alternative ways.

We are confident that 2 to 4 quarters out, we shall start seeing growth in Consumer Lighting. Our product range is fully in place now. Our go-to-market has been slightly slower than anticipated because of the softness in marketplace. That said, along with the consulting firm that we've just engaged, we embarked upon a 12-month project for actually expanding a go-to-market.

I think first 6 months Phase 1 is more about more preliminary work. But -- therefore, I think post 6 months, we should start seeing the benefits of that project, which shall culminate in 12 months. So anywhere from 6 months to now to 12 months onwards, you should see an impact or benefit of our go-to-market project that we've initiated and therefore, in turn, benefits on our revenue monetization rate.

Dhruv Jain: Okay. And sir, on the capex side, I think you've done about INR 100 crores kind of capex in this 9 months. And so incrementally, what is the kind of run rate of that you would be expecting? And is there a shift in mindset of kind of doing more things in-house or any free train of thoughts there, sir?

E. C. Prasad: So most of these capex are pertaining to the dyes and moulds that, in the new products that we have invested in and not on the expansions of factories, etcetera. And this would continue for one more year because we'll be launching more products under the Nex and also in the Bajaj categories. So we can expect about INR 40 crores, INR 50 crores more capex coming in for the next financial year.

Dhruv Jain: Okay. And I mean just final question from me. So we've seen a little bit of prolonged kind of down cycle here, right? But individually, say, the 4, 5 key categories that you operate in, do you think that growth for the next 4 or 5 years will be high single digit? Or do you think that there are certain categories, which can bring surprises further from here? The reason for asking this question is that in certain categories like fans, we are seeing penetration of close to about 90%. So just your thoughts there, sir?

Anuj Poddar: That's a good question, Dhruv. I wish we could predict that precisely. That said, I think fans on a value basis should continue to grow despite the penetration levels being high because of an upgradation at an average ASP level of fans category across form is number one. Number two, I think replacement cycles. So fans should continue to come down over the next many years because Indians typically have fans replacement cycle as longest tenure, that has to continue correct -- over a period of time.

When and how the inflection point comes, we shall see. I think the bigger opportunity to my mind lies in appliance space. The recent past, particularly kitchen has been used for everything in the medium term, appliances because of lower penetration, as well as this movement towards higher ASP should see a double figure.

Every cloud has a silver lining as I say. So we've now reached an elongated period of weak market environment. But what that also does really is, it prevents a lot of entrants that were coming in. I do think some of us are all facing a brunt of this and our ability to face a brunt of this is stronger or better than many of these other players. So the 2-tier perspective, I think some of the players, Bajaj, for sure, will be left standing in beneficiaries of this elongated and high-stressed period.

Dhruv Jain: So just one small question to your answer here. So is it that competitive intensity currently is materially lower versus what it was two years back? Are you seeing that on the ground?

Anuj Poddar: It's also competitive intensity, so I think the number of players that are starting are attracted to the sector two, three years ago was very high. I think from a number of players perspective, the intensity is slightly reducing. The nature of competitive intensity is more amongst the existing players that there's a race to the bottom because of tactical measures like discounting, etcetera. That's solely a desperation to sell.

I think that cannot continue for long. So the players as they start reducing, when there's a drive toward consolidation, then automatically some of this pricing irrationality also goes away. So when market comes back, I think what we should be left with is a more consolidated market, fewer stronger players and with a better pricing strategy and rational behaviour. So I am differentiating between the types of competitive intensity.

Dhruv Jain: Okay great. Thank you so much for the elaborate answers and all the best thanks.

Anuj Poddar: I just want to call out and take this opportunity to address what I spoke in the opening comments, that to us, we are clearly here as long-term players. We are here to actually maximize on the next five to seven years. And therefore, we are being very clear on our brand and products. And we are seeing -- I'm saying this with complete conviction, that our brand scores are clearly showing sharp uptick across most of our product categories.

And this brand architecture, how's the brand approach that we unveiled, we've shared with all of you, we're starting to see where the positioning of the brands, particularly Bajaj as a durable brand, is starting to get recognized. Having said that, these are not short-term changes. These are changes that take time to actually start moving the needle where -- as it needle moves over the next two, three years, as we mature in these claims and perception in the marketplace, that's why we called out something with a good design award.

As we start getting recognized for better products, better quality products, better aesthetic products, etcetera, that pricing power brand salience will hold us in very good status over the next three to five years. Okay, not put in the debt is also quality. We measure COPQ, our quality metrics. That is improving drastically. I think all of this with design to actually help us stand out in the next three to five years.

I don't want to name competition, but we are seeing inverse scores for some of the competition, I think the short term that is helping them. For the long run, I think that will start hurting them as a brand -- as products as these line scores continue to deploy them. Moderator, you can go to the next person in the call.

Moderator: The next question is from the line of Chaitanya Panchmatia from PL Capital. Please go ahead.

Chaitanya Panchmatia: I want to ask you, what is the announced manufacturing right now? What percentage of total manufacturing is announced? And what is your target for FY25 or going ahead?

Anuj Poddar: Percentage Inhouse. So percentage of inhouse manufacturing right now is about 20%, 80% outsourced. We don't have a specific target, but I think that should -- for FY25, that should remain at a max of 25%.

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

Rahul Gajare: You've talked about demand at length. I just want to understand one aspect. We do realize that the demand is not as badly impacted at the premium products. And I think you did -- when you commented on the growth of mid-single digit for Morphy Richards, I think that is just supporting that argument, that -- at the premium end of the product, the demand is not as badly impacted.

So what is your thought on, I mean -- and you also indicated that your premium shift has been about 6%. So I would think, at least in your fans, your premium portfolio should be about 25%, 26%. How do you tackle this separately? How do you deal with premium basket? And how do you deal with mass market basket, especially in the light of the next brand also that you have launched? So that's the first question.

Anuj Poddar: So Rahul, I think all valid points. And therefore, we ask and you'll see, historically, our indexing has almost been 95%-plus on premium. So as we start making that shift, I think as a gradual shift, we're starting to see that in our portfolio leading the trends, but also with mixers, grinders, water heaters, etcetera, portfolio mix is improving within that.

While Morphy Richards will lead that in the top 10, Morphy Richards is a small contributor there. I think that will continue to grow even in this weak market, as we've seen. But for us, the bigger step-up will also come from Bajaj itself premiumizing, which we are starting to see. So the fans shift that I talked to you was led by Bajaj, but also the water heaters, mixers, grinders, etcetera, is happening in Bajaj.

Coming to Nex. I think Nex for us was three to five years strategy. So I think going into long-term future, fan will remain a key category for us. And we do think the category, given its size and scale, that merits us having two brands in that category. And Nex will just help us accelerate that shift of gaining share in the premium segment. This year, as we've shared in the deck, we've just launched -- opened it up to trade. We'll see what the response of trade is, but it's not a singular focus for us, that will continue going forward.

Rahul Gajare: I think you all also talked about looking at additional capex of about INR 40 crores to INR 50 crores in moulds. So this is going to be across Morphy Richards, Nex and Bajaj? Or are you going to be focusing more Morphy Richards for a particular type of business and Nex only on the Fans? Can you just clarify that?

Anuj Poddar: So the capex across the company, across brands, that said, actually, Morphy Richards has very less tooling in moulds. So that tends to be bought out products more. So we look at the nature of products, then we showcase some of that in the deck this quarter last quarter. These were not high-volume products. So these are typically not exclusive products to us. But these are -- it's more curation as a brand that we're doing. These are typically third-party products.

A lot of the innovation exclusive products to us still lie under Bajaj, but also in the Nex. So all this capex tooling, etcetera, that will happen in Bajaj and Nex, and that's where we see higher volumes. So we are optimizing that across these different brands and categories.

Rahul Gajare: Anuj, my last question is on the balance sheet. The company has no debt, decent cash flow. I think even in this particular quarter, you would have done, about INR 100 crores of free cash. So your interest cost is about INR 20 crores. And can you just help break this into vendor financing and other than -- if there are any major elements in that other -- so we know how to model this going ahead?

E. C. Prasad: Yes. So out of the INR 20 crores, about INR 11 crores is on the channel financing. We use about INR 800 crores of channel financing limits and this INR 11 crores is pertaining to that. Apart from that, because of the lease accounting that we do for all our warehouses, the new office that we have taken, etcetera, so that -- for the lease accounting, the financial liability is about INR 5 crores. And apart from that, there are some interest on account of the taxes, GST, etcetera, which is on the appeal. So those were there. So these are the, yes, breakup of the interest.

Anuj Poddar: You're seeing interest of cost under the finance cost line, but we also have any interest gain or treasury income that come in other income, yes. So going forward, as cash balance and balance sheet keeps building out, and finance cost line will stay. It will not net out there. But on a cumulative basis, it will start becoming a net surplus for us.

Rahul Gajare: Okay. I missed the -- I did not get the lease number. You talked about INR 11 crores being channel financing. What is the lease numbers?

E. C. Prasad: Lease is about INR 5 crores.

Moderator: The next question is from the line of Praveen Sahay from Prabhudas Lilladher. Please go ahead.

Praveen Sahay: The first is related to the warranty, that's the reassess of warranty. Can you give some more color on that? And like -- because PPT is saying INR 21 crores and the press release is saying INR23 crores. And also if you can give some more color on this, like what exactly the change and this cost has actually arise?

E C Prasad: Yes, sure. So INR 23 crores is at a company level, INR 21 crores is for Consumer business and INR 2 crores to the Lighting business. So that's the breakup. And as I mentioned -- see, this product was new to the industry. I mean, we were the first one to introduce the manufacturing warranty insurance. So the premium accounting, we are not very clear. I mean, even the auditors had a view, we had a view. And based on that, we used to amortize the insurance premium over the period of the warranty.

So for example, if you're giving a 2-year warranty, that premium used to be amortized over the 24 months. Now most of our products are under the insurance. So now the outflow on the premium and the warranty is almost equal today. And at this stage, we had revisited this to see whether this accounting is proper or not. And then we found that there is a huge gap coming in between the premium that we are paying and the actual expenses that we are incurring.

To correct that, we said that we'll discontinue the process of amortizing this premium and charge it off upfront. So this INR 21 crores is a difference of that. From next month onwards, it will be a normal impact that will come in.

Praveen Sahay: Great. And second question is related to, as you mentioned earlier in the call, about scheme linked to the volume expansion has impacted the gross margin. So can you elaborate more on that, like more discounts you are giving to push the volume? Is that a way to look at why the gross margin impacted?

Anuj Poddar: I'm not sure I fully followed the question, but let me try and address it anyway. So first, I'll just break that up. Our underlying gross margins are improving because our COGS have improved slightly, but also because the portfolio mix has improved towards premium products, so our gross margin is slightly expanded if we go by our ASP, MOP, DLP, etcetera.

That said, we have certain schemes running across categories for channels, etcetera. So we have a month-end credit or payback to them of certain commissions, incentives. So when you net that out, that is the one that is taking away. That's the various forms of discounting in schemes. That is adding up to almost 3 to 4 percentage points. But without that, our actual gross margin expanded by 1.5%.

So that's the overall performance in the last couple of quarters, including this quarter 3. The linkage to volume that we said, we are tinkering around the team to see how we can mitigate the impact of some of the stuff. So there are two measures that we've done for that. One is now we further started signalling price increase because I think prices do not increase adequately, not just by us, but by industry also. So we have since the last couple of months started signalling price increase to the market.

But while in the initial stages, also passing that back through discounts. But at some point, we'll pull back those discounts to actually get full effect to the price increase. The second aspect that we spoke -- comment I mentioned earlier, is some of these schemes that were not linked to volume growth, we now started linking the schemes to volume growth to try and see if we can get an operating leverage benefit of the scheme also and therefore negates on the discount at an EBIT level.

That said, I think these are all practical measures that we are trying to optimize and balance to balance between top line market share, defense and bottom line. I think the real -- how this will really fall away when we start moving against these headwinds and demand comes back, there I think we'll all stop having some of these measures in place.

Praveen Sahay: Okay. Great. Thank you. And lastly, on your advertisement, what is the normal as a percentage of sales we can consider?

Anuj Poddar: So right now, we're operating at about just under 3%. So for the near term, if you can consider that, when we start seeing more buoyancy, we would like to go up to 4%-odd. But right now, we don't need to balance and we are not seeing great ROI advertisement with muted demand, then we don't want to burn cash here. So on an earlier comment on the price increase that I mentioned, our price increase in Fans between December and Jan has been about 2.5%.

Praveen Sahay: Thank you sir. Thank you for taking my questions. All the best

Moderator: Thank you. The next question is from the line of Sarang from Entrust Family Office.

Sarang: Hello, Thank you so much for the opportunity. My question is related to Morphy Richards. Just wanted to know couple of things over here. Like how big is the brand for us? And like you mentioned that the growth rate in MR is in single digit. My question is with the expected turnaround in sentiments and demand coming back, what can be the expected growth rate going forward? And also on the profitability front, if you can throw some color on how MR is doing?

And lastly, how well penetrated is MR given that we have already -- we are already a well-established player when it comes to distribution network? So these are my questions related to Morphy Richards.

Anuj Poddar: So first on MR, we're now starting to see growth rate. We had de-growth happening if you take -- go back 2 quarters before that de-growth, not because premium segment was de-growing, but because we do not have a product road map in place. This was something I've spoken in the past. But post signing of the long-term licensing deal is when we started working on a long-term product road map. And now since the last 2 quarters, you are starting to see us introduce new products that are unique to Morphy Richards indistinct and separate from Bajaj. This is also a function or part of the journey of repositioning Morphy Richards as an aspirational lifestyle brand so premium if this is a price point.

But if you look at the nature of products, now we're starting clearly, have very differentiated products in Morphy Richards, whether it be coffee maker, garment steamers, air fryers, digital toasters, so on and so forth, personal grooming etcetera. So we are distinct from a portfolio of the company that we have under any other brand.

Now we're starting to see the growth in Morphy Richard. I think going forward, the growth rate of percentage will only pick up in Morphy Richard, both as the market evolves, but also as our products -- start coming out more and more of these products, we do expect that to happen, showcase some of these products.

Sorry, if the question on penetration from India perspective, Morphy Richards operates the segment, if you cut that into a low single-digit penetration. But as that part of India growth, I think that penetration level and growth rate should stay healthy, if that answers your question.

The question on penetration was more geographic in nature. I think Morphy will remain or at least in the new future, our focus on Morphy will remain towards the top 50 cities of India. So while it's open through certain channels, particularly online to anybody anywhere in India. But from a go-to-market perspective, I think top 50 cities is a big change for us.

Sarang: Okay. Okay. Any color on channel mix if you can provide for Morphy Richards?

Anuj Poddar: So I think Morphy is a flip of the rest for Bajaj, and Morphy is about 60% plus in alternate channels, and between 30% to 40% in general trade. Bajaj is exactly the other way around it.

Sarang: Understood. Thank you so much.

Anuj Poddar: Thank you.

Moderator: The next question is from the line of Hardik Rawat from IIFL Securities.

Hardik Rawat: Most of my questions have been answered. I just wanted to understand what has been the volume growth this time around in the Lighting segment because considering that there's been a price erosion still you managed to stay flat Y-o-Y. So just wanted to understand on that front.

Anuj Poddar: So the volume growth -- also, if you look at our product mix, it has been relatively flat. Why we -- despite pricing erosion, our revenue has also shrunk because our ASPs have gone up for portfolio premiumization. So it's not volume growth that is compensated, but its portfolio premiumization that's compensated for a pricing erosion.

Hardik Rawat: So is it fair to assume that volume growth has also been flat Y-o-Y, both volume and value?

Anuj Poddar: Yes.

Hardik Rawat: Alright. Thank you so much.

Moderator: Thank you. The next question is from the line of Chirag Lodaya from Value quest Investment Advisors.

Chirag Lodaya: Yes. Thank you for the opportunity. Sir, I had one question, you mentioned in the beginning that we are moving towards nonexclusive distributors, etcetera, so where are we in that journey? And if you can share initial signs of what kind of results you would have seen from categories, etcetera?

Anuj Poddar: Chirag, as I said earlier in the call also, we've added about 100 distributors over the last one year, from 640 or 650 to about 740 right now. So that's part of -- some of these are because of the move towards nonexclusive etcetera.

That said, I think the growth expansion in terms of appointment of these distributors has been slower than we expected. I'll come to the reasons. And secondly, while we appointed distributors, their investments in putting feet on street or DSOs or push in the market has been lower or slower than we expected. I think both are a result of a weaker market, where there are also little risk averse right now not taking those bets on investments as they would in a boiled market. Or if they are willing to take those investments, earlier point I made where credit cycles in the market have elongated, their own paybacks from retail has slowed down. Therefore, they are also getting pinched right now.

So if the market had been more buoyant, we would have seen a further expansion of our distributor count, but also further feet on street from these distributors. So I think that GTM has been slower because of these factors that I mentioned.

Chirag Lodaya: And how are we implementing its category by category, city by city, state by state, how are we implementing it?

Anuj Poddar: I'm not sure what the question means. How are we implementing what?

Chirag Lodaya: I mean, it's a big rejig right, on the overall GTM side. So...

Anuj Poddar: Yes.

Chirag Lodaya: You are thinking category by category, expecting out one category and appointing new distributors, you are picking particular geography and you are distributing those categories amongst different distributor. How you are taking it?

Anuj Poddar: So I think there are 2, 3 factors. Firstly, if you look at all our current distributors and current business, the clear skews between with distributors focus on which category, which is not going just a supper like particular category for maybe various reasons, either the interest or potential or affinity or ability, etcetera. So that's first factor where we see a clear skew where there is we see, let's say, an opportunity in fans for the distributors to focus on appliances. Then that merits a discussion on, should fans continue with the a distributor or move to separate a distributor. That's point or factor 1.

Factor 2, where we are ourselves, let's say, in fans or the categories for growing something, let's say, Nirlep is a good example or Morphy Richards where we're growing, we feel the need to now pick up that business. But we map the plan of that distributors, but plan of the distributers skewed to a certain number of counters, which you think for Nirlep requires a different kind of counters.

Then again, either that distributor has to be willing to actually invest in more DSOs to change or create a new plan for Nirlep or we need a separate distributor for Nirlep. Similarly for Morphy Richards or Next as we go forward. Therefore, we're also mapping into the future as to what our product category brands are and what is the big plan reply for that.

So it's a mix of both, what is it that they currently have data showing that's skewed towards where we feel is a loss of opportunity or going forward into a future where we feel proactively need a separate approach and is the distributor right or able or willing to do that.

Third aspect in all of this really is actual scoring in performance of these distributors, each of their -- fundamentally, investment appetite, etcetera, maybe constrained and may not match our expansion. So I think if we put all of these 3 factors, that's what defines our go-to-market structure. That's the plan on the query.

In execution when you do some changes like this, you can't come at it hard at one go across all India because there is impact of disruption. So some of those changes are by design calibrated so that both the business of trade and the business of us is not disrupted in a negative manner, but it's done in a smooth manner. This is something we've been doing.

For example, if you look at lighting. We started this journey almost 18 months ago we carved of lighting. So unlike the earlier implementation of TOC RREP where it was a very harsh implementation that had a stop/start mode, this is something we've been doing since the last 18 months in a more calibrated manner.

We have example of that is fans, where you've seen us have growth in fans business also by introducing wholesalers and other segments that were not operating earlier. We've done that in a manner without really disrupting business on overall basis. So the execution is far more calibrated, the strategic structural approach is more one time and very clear what we want to do.

Chirag Lodaya: Fair point. But in your opinion, how much time it might take for 2 years? 18, 20. If I just take 18, 20

Anuj Poddar: We will continue over the next 18 months we feel. So this will not -- and it's not designed to cater to now, but this is designed to cater to the next 5 years what we have to do. So the next 18 months, we will keep rejigging on our go-to-market and distribution so that if you look at out 3 to 5 years out, this distribution structures will cater to that.

Again, there are different models than that. So like if I only called out one model, which is in consumer lighting, we're engaging a consumer -- sorry, consulting firm where we're actually approaching that in a certain project-level basis, so we're doing that. Similarly for Nex. In the Nirlep, we are right now actually doing that on almost a clean slate greenfield basis. But for existing Bajaj and Morphy where we are actually doing that in a far more calibrated manner.

Chirag Lodaya: Right. And anything material you would like to call out on Nirlep because a lot of NPDs you have mentioned in the presentation on cookware also. Anything meaningful happening there, can we expect material growth?

Anuj Poddar: So Nirlep launch is slower than anticipated, we expected Q3 launch will happen. It did not happen for various operational reasons. Q4, we launched, but this is not a pan India launch right now. We're testing it in Maharashtra and East, which is Western Bengal and parts of Odissa right now. Because we see how that goes before we expand that in the coming fiscal year.

Chirag Lodaya: Got it. And just one, what would be our net working capital days today?

E C Prasad: Net working capital days is close to 22 -- 22, 23 days.

Chirag Lodaya: Versus the same time last year March '23?

E C Prasad: So we need to calculate that. So we'll come back later with that figure.

Chirag Lodaya: No problem. And just lastly, hypothetically, if we start growing double digits from next year, is it possible to achieve this 9-10% margin guidance in next 1 or 2 years? Or you would like to recalibrate given the situation?

Anuj Poddar: If it grows double digits in 2 years, it is possible.

Chirag Lodaya: Thank you and all the best.

Moderator: Thank you. 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.

Anuj Poddar: So thank you very much once again for joining us. I think you have address all our questions. All are in the same end -- that we stay firm on our conviction on a strategic road map, which clearly, to us, internally, our brand score and brand product score that we are seeing is telling us that we are in the right part, we're not taking shortcuts.

We're not compromising product quality. We're not compromising on the brand. While we are taking certain tactical calls on sales, but I'd rather tactical calls on sales and discounting while holding firm the proposition that we're offering to consumers. I think that will hold us in good stead over the medium term.

We are seeing competition takes at irrational calls not just on pricing, but actually on product quality, etcetera. I think there is different ways to achieve margin. We are not tempted to follow that course. We will stay the course in what we are doing.

With that said, we are confident about also the anecdotal feedback that we're getting on our products, etcetera. And I think if that continues on a consistent basis, then I do believe that our monetization and all of this will also improve, our pricing power will improve, that remains our core thesis as we go forward. Thank you once again, and good evening.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.