

# Crompton

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Date: February 10, 2023

To, <b>BSE Limited (“BSE”)</b> , Corporate Relationship Department, 2 <sup>nd</sup> Floor, New Trading Ring, P.J. Towers, Dalal Street, Mumbai – 400 001.	To, <b>National Stock Exchange of India Limited (“NSE”)</b> , “Exchange Plaza”, 5 <sup>th</sup> Floor, Plot No. C/1, G Block, Bandra- Kurla Complex Bandra (East), Mumbai – 400 051.
<b>BSE Scrip Code: 539876</b>	<b>NSE Symbol: CROMPTON</b>
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<b>Our Reference: 138/2022-23</b>	<b>Our Reference: 138/2022-23</b>

Dear Sir/Madam,

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

With reference to our earlier intimation regarding the Earnings Call on the unaudited financial results for the quarter and nine months ended December 31, 2022 held on February 3, 2023, kindly find enclosed the transcript of the same.

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

Thanking you,

**For Crompton Greaves Consumer Electricals Limited**

**Rashmi Khandelwal**  
**Company Secretary & Compliance Officer**

# Crompton

“Crompton Greaves Consumer Electricals Limited  
Q3 FY2023 Earnings Conference Call”

February 03, 2023

**MANAGEMENT:** **MR. SHANTANU KHOSLA – MANAGING DIRECTOR – CROMPTON GREAVES CONSUMER ELECTRICALS LIMITED**  
**MR. MATHEW JOB – EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER – CROMPTON GREAVES CONSUMER ELECTRICALS LIMITED**  
**MR. RANGARAJAN SRIRAM – CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR – BUTTERFLY GANDHIMATHI APPLIANCES LIMITED**  
**MR. KALEESWARAN ARUNACHALAM – CHIEF FINANCIAL OFFICER – CROMPTON GREAVES CONSUMER ELECTRICALS LIMITED**  
**MR. YESHWANT REGE – VICE PRESIDENT, STRATEGY AND FINANCIAL PLANNING – CROMPTON GREAVES CONSUMER ELECTRICALS LIMITED**

**MODERATOR:** **MS. BHOOMIKA NAIR – DAM CAPITAL ADVISORS**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Q3 FY '23 Earnings Conference Call of Crompton Greaves Consumer Electricals Limited hosted by DAM Capital Advisors. 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 Ms. Bhoomika Nair from DAM Capital Advisors. Thank you, and over to you, ma'am.

**Bhoomika Nair:** Thanks, Michele. Good morning, everyone, and a warm welcome to the Crompton Greaves Consumer Electricals Limited Q3 FY '23 Earnings Call. We have the management today being represented by Mr. Shantanu Khosla, Managing Director; Mr. Mathew Job, Executive Director and CEO and Mr. Rangarajan Sriram, CEO and MD of Butterfly Gandhimathi Appliances; Mr. Kaleeswaran Arunachalam, CFO, and Mr. Yeshwant Rege, Vice President, Strategy and Financial Planning. At this point, I would like to hand over the call to Mr. Khosla for his initial remarks, post which we will open the floor for Q&A. Over to you, sir.

**Shantanu Khosla:** Thank you. Good morning, everyone, and thank you for joining our call and taking the time. We obviously appreciate it. There is no doubt, as you can all see from our official numbers that we released that this was a challenging quarter for us as a company. Given that, I would want to touch in my opening remarks as opposed to the way I normally talk. I would like to dive into a couple of specific areas because I believe these are the areas which probably, we would like you to fully understand the situation.

After that, of course, we will go into questions and be happy to handle any other further questions you have. The first thing I want to talk about is ECD, and within ECD, I think, more so fans. We are obviously the market leaders, and we have consistently been demonstrating good growth in ECD. But as is evident from the numbers, this is the first time in a quarter, the COVID base period stuff that we have declined in revenue, and I did want to spend a couple of minutes explaining that.

This primarily, it was driven by decline in fans, which is frankly been consistently growing both in revenue and market share for a number of quarters continuously. As you are all aware, last quarter was a quarter of transition to the new BEE norms. What we did not do, is we did not overload based on heavy discounting. Our channel partners with non-BEE compliance stock up till December 31. We actually have managed our production planning, our inventory and a switchover in an extremely efficient manner. And therefore, we were able to completely put into the market and the channel non-compliant stock before December 31, without having to resort to extreme discounting to load the trade.

We believe this was the right thing to do, and we have effectively started selling BEE across our range from BLDC down to one star from the beginning of January itself since we do not have excessively high levels of inventory, especially in the mid and low-mid price categories. We think this is good in the long term as we look ahead going into the summer because this means that the superior, the energy-saving products across the price pyramid will get into the hands of the consumer earlier. That choice, that approach obviously led to a difference between us and

competition' performance in terms of growth on the fans business. And since fans is a predominant part of our ECD business is reflected in the overall ECD business.

The second area I would like to mention is Pumps. Like you are aware, Pumps has been performing softly for the last few quarters for us. And we have taken a couple of significant interventions towards the back end of the quarter, which, again, going into the summer season, we believe we will continue to pay dividends and pay off. The first is, given the nature of our competition, a lot of it regional, a lot of it local, we were facing pricing disadvantage in the marketplace. To be clear, we are not correcting that by schemes. We've gone ahead and made a pricing correction in the marketplace on pumps towards the back end of the quarter, which we believe is going to eliminate this competitive disadvantage.

Secondly, we have revamped our entire range based on the new brand architecture, based on consumer needs. Historically, pumps essentially have been differentiated by technical factors, such as head, which is height to which water can be pumped but purely technical factors. Based on a lot of consumer understanding, we have come to believe that from a consumer point of view, head is not really the consumer term. What the consumer is interested in, is how fast you fill my tank. So we have revamped our architecture, which has been going into market in the back end.

And we think that, along with strong marketing support and mass advertising, which we plan over the summer period should begin to bring back the growth in the pumps business through the season. The last segment, of course, is which start giving us confidence is appliances, which, in spite of a general low festive season and the general sluggish demand and macro demand situation has continued to grow aggressively. This is significantly ahead of what most of our domestic appliance competitors across the board have been growing at, and we have now sustained this growth quarter-on-quarter.

In fact, our small appliances business in Crompton is now close to INR 1,000 crores as a segment on an annualized basis, which makes it a strong meaningful player, especially when you add our second brand of Butterfly in the appliance space. So that gives us some confidence that these strategies are in the right direction and sustainable.

The second specific area I would like to address as we talk this is profit. As you are aware, we have historically now for quite a few years, been the largest best performing in terms of absolute margin in our industry. And this time, obviously, we had meaningful profit decline versus previous quarter. So I did want to touch on that briefly just to explain it, and we can talk more as we go into the Q&A on how that happens. But really, if I compare year-on-year, there were 3 parts of this. One was, obviously, a certain amount of profit, which was lost year ago driven by the fact that the volumes came in lower, and that impact stayed out of the gross margin.

The second factor is, as you are aware, we have been consistently making investments, which we believe are the right investments for the long term. investments in innovation, our R&D pent up, investments in capability, culture building, training through our organization at every level and every function. Investments which we have made and we continue to make in our new large

appliances business, which is currently tracking very, very much in line with our expectations. In spite of the challenges of the quarter, we chose not to hold back or pull back on any of those investments. So those incremental investments have flowed through and had an impact on the quarter-on-quarter.

The last and final thing was simply the interest payment, which we are paying on a quarterly basis as part of the Butterfly acquisition funding. So those are really the 3 chunks. But as I say, as we expect the business to begin to come back through strong marketing initiatives, strong product initiatives and a better situation in terms of improved BEE products getting into the hands of the consumers as we go into the summer. We fully expect the top line to start coming back, looking forward. And that automatically obviously, apart from the interest payment aspect, which will only settle down as we pay down the debt, which is again completely on track we will begin to restore our market leading and the industry-leading margin situation.

A couple of critical other areas which we have been focused on and I have been investing and continue to invest is our entire go-to-market. One is, of course, I talked about our investments in training and capability building, where right now, we are doing on a pan-India basis across our sales force. The second one is our continued investments in digitization of the sales force where we have already taken a number of steps, but we are continuing to drive that to improve quality of course, inventory management, etcetera.

But beyond this, specifically, we have also embarked on a retail transformation program, which completely changes the look and feel of Crompton inside our key retail stores. We have completed about 400 stores in the retail transformation initially starting with the South in the previous quarter, and we will expect to do another 1,100 stores on the pan-India base moving forward. So again, as we get into the season and as we get into the summer, we also expect the retail experience to be significantly transformed. Finally, go-to-market investments, which we have been talking about also continue to deliver results.

These are specifically in new channels. As we have talked, we have stepped up our investments, our feet on street, etcetera, in what we call the 'rurban channel', which essentially is small town and large rural areas. This business continues to grow and actually has grown significantly in double digits even in this quarter. The second critical channel where we continue to get strong growth is e-commerce. I'd invite you to go to Amazon and for example, they just tightened ceiling fans or ceiling home fans and they will give you a feel of the kind of work we've done in terms of Amazon ratings, in terms of placements, etcetera, and of course, being competitively priced. This channel is also continuously seeing including this quarter, strong double-digit growth.

So we feel very, very good about it, that as we expand more of these investments and capability building for the key summer period, we are positive looking forward. The last thing I'd briefly like to comment on is the Butterfly performance. Again, we released the results. And in Butterfly compared to some of our key competitors, which have declared results in the kitchen area, which showed a decline. Butterfly has actually shown a marginal growth over the quarter in spite of

the challenging external environment. We feel very good about the way the integration is going. We are beginning to bring capabilities and a greater focus on product innovation into the market.

For example, we have introduced superior pressure cooker. A pressure cooker basically comes traditionally in two materials, aluminum at the bottom end and stainless steel. We have introduced a sandwich laminate material, which is steel, aluminum, steel, and this gives us significant benefit in terms of heat transfer. Therefore, speed of cooking, even-ness of cooking, less oil required while cooking and therefore, healthier cooking. So a lot of these initiatives have been going into market over this period.

And in fact, we have launched about 25 new products across the Butterfly range. Also on Butterfly, we have corrected the significant price disparity, which is built up between e-commerce and open trade, and made it more rational. This has resulted in a stronger growth in open trade and the open trade which after quite a few years, is now beginning to grow robustly overall in Butterfly.

The people integration is also working well. Though we continue to run it obviously under Sriram's leadership currently as an independent operating unit. We have commenced the process of operational integration, which we expect to be well progressed over the next 6 to 9 months, IT systems, financial systems, marketing systems. We are already getting benefits which are accruing by, for example, combining scale in purchase, etcetera. So we are very happy. It is currently in terms of versus the original recommendation, which we had made to our Board of Directors tracking a little ahead of that, so that, we feel good about. So with that, those overall comments, I would not just repeat numbers which you folks already have. We are happy to take on questions.

**Moderator:**

We have the first question from the line of Ankur from HDFC Life.

**Ankur Sharma:**

Three questions. One, on the ECD margins where we have seen this sharp drop. Just trying to understand because as you said you have not tried to push nonrated fans at discounts during the quarter, unlike what maybe some of your peers may have done. So my assumption would be that, therefore, your fans margins would have held up better. And there would have been some benefits of RM prices also kind of coming off from peak levels in Q1.

So if you could just help us understand why, I know you did mention some investments, which you have done, but just a little more how that is working out. And more importantly, when do you see these margins reverting to those historical levels? And second, if you could touch upon your lighting business as well, which continues to struggle over the last few quarters. On the top line, especially when I look at what your peers have been reporting.

So that is second. And third, if you could also touch upon your pumps business. You did say though that, that has been struggling for some time. So if you could tell us what was the Y-o-Y top line growth margins for Q3 on pumps? And when do you see industry and yourself starting to grow again?

**Shantanu Khosla:**

Let me quickly touch the first one on fans and then Mathew can take the lighting and the pumps question. If you look at the fans on the gross margin level. Gross margin, which really reflects the combination of pricing and manufacturing costs, obviously, has held up and we have seen those historical levels. So all this commodity cost, pricing, balance, cost reduction, way back There's no recovery. As I mentioned earlier, the difference in the margin, both on fans and also on the company, is not at that level. It is at the cost below gross margin.

And as I mentioned, one is simply, is the fact that because the volume for the total company, including fans, has declined. We did not start slashing cost. For example, we kept our ad marketing spend in line or slightly above what it was in the previous year same quarter. We did not hold back our investments in continuing to improve our go-to-market capability for the long term, etcetera. So it is that bucket of costs, which is dropping if you will, cost below gross margin, with a drop in our EBITDA, PBT, whichever way you want to look at it.

Now as I said, as the summer comes in, as this inventory stuck in the trade and the presales, etcetera, equalize, going into summer and as we now believe we have an advantage because we will get into the hands of the consumer at superior products earlier, especially at the mid and low price, which is still a large chunk of the market. As the volumes come back, below gross margin costs will stay at the same acute level or probably come down also a little bit, which we thought the margins are. If the issue was a gross margin, then it would be structural as we will have to take pricing action, but we don't see any of that. So that is we expect to pretty quickly start recovering and come back to normal.

**Mathew Job:**

On pumps, no, obviously, the quarter again was tough, we had roughly a 10% decline on pumps. What has been happening on pumps is we are comparatively much stronger in the residential segment where we have a market share closer to 27%. And we have been seeing this in the recent quarters, entry of many new competitors or increased activity by competitors were primarily strong in the other segments like agro in the residential segment.

It also meant that the price differential that Crompton has been having with many of our competitors has enlarged in the last few quarters. So late in the quarter, early December, we have taken some appropriate pricing action, which has given us early results in the month of December. So we think that action what we have taken is the right one to do.

Second, in terms of, we are also trying to build some stronger differentiation for our products, we have done a significant level of work in terms of consumer research. And therefore the consumer research, we have started to build a new brand architecture, which will help us to command the kind of premiums that we have in the market today. So I would say a host of two significant actions in terms of getting our pumps business back on track. First, adjusted pricing to ensure that the premiums are at the level which the consumer is willing to pay. And second, to ensure that the consumer is going to and will be willing to continue paying the premium in the future, strengthen our brand offering through bringing to market, these are products that are most sharply differentiated and supported by above the line investment going forward. So that's what I would say on pumps.

On lighting, we have had a difficult quarter, both on B2C and on B2B. To be fair, I think the B2C business market has seen a lot of price instability in the quarter, and you would have also observed. If you look at some of our competitors that their margins on lighting have also taken a sharp decline. Our focus on the other hand, was to ensure that our margins in B2C lighting structurally remains strong and which is why you would find that the lighting gross margin especially on the B2C side has significantly improved from the previous quarter. In parallel, we have launched a project to ensure that our distribution, especially reach improvement happens for B2C and the current focus is on 2 regions. And once we make it work in these 2 regions, we will then roll it out pan-India.

In B2B, especially the government orders have been slow. The B2B trade business remains on the positive growth. But however, the road lighting business, which is the biggest part of our business, has had again a tough quarter. We think the B2C lighting business will recover in the next quarter. However, B2B will take a little more time to get back on track. Thank you.

**Moderator:** The next question is from the line of Saumil Mehta from Kotak Life.

**Saumil Mehta:** Sir, my question is keeping this quarter aside where obviously, there was softening trends. But even if I look at the last 3 or 4 years and taking the quarterly seasonality aside, our growth versus some of the other peers in the ECD has been not so great. In fact, if I look at Havells it has clearly grown 4 years higher than us in the last 5 years, some of the other peers. Obviously, the journey has been mixed. So can you highlight some specific reasons as to why our performance has been a bit not to the mark? And any corrective measures we are taking to improve the sales?

**Shantanu Khosla:** And I think to answer that question, it is important to go down 1 more level of granularity and look at the business by category. First, let us talk ECD. ECD if you look at the fans business across the industry, we have not been underperforming over time in the fans business. If anything, our fans business has been growing on an average faster than the rest of the market, including Havells, and that has been reflected by the fact that we actually have had consistent market share growth, for the last 16 quarters. Second, we, in terms of our mix, have a large business in pumps.

Pumps, which we count in ECD. If I look at most of the competitors, overall Havells, Orient, etcetera. These folks do not really have a pumps business. In fact, if you go back in time, Havells did launch pumps quite aggressively, but has largely failed and now sells, I think a few crores a month. That business is inherently slower growing than some other ECD segments which Havells has demonstrated a lot of growth in. Finally, you have these small appliances in which, for convenience and simplicity, including water heaters.

Havells got a lot of ECD growth over time in small appliances growth. If you look back over the last 3, 4 years, including a significant growth from personal care in which we don't participate. And correct me if I'm wrong, but that subsegment of ECD is probably one of the largest subsegment of Havells ECD or at least among the large ones. It is not a small subsegment. And that is a fast-growing segment. While our business in that segment was relatively a small part.



However, over the last 3 years, smaller though it may be, that has actually also grown faster than most of our competition. In fact, like I was mentioning, now on a run rate basis, our small appliances business, which used to be very insignificant, it is now pretty much as biggest pumps. So that mix factor explains when you add it up total. Now let me add up one more. I think that is no doubt that we have underachieved in lighting over the last 3, 4 years. No debate. We need to execute our plans better, and we need to keep getting more nimble especially given the rapid innovation and the continuous pricing fluctuations which happened in this market.

So there, we have underperformed and we need to get it. But ECD, if you break it down in granularity and look like-to-like, the picture is slightly different. What we need to do in the future, how do we accelerate the growth? I think the first and most important strategic step to accelerate the growth is the play we have made in kitchen. This is an existing ECD segment in which the Butterfly brand plays. I fully understand, obviously, right now, there are two independent companies, but we own 75% of it as being spend, So just like for Havells they had a new business and a white space opportunity, and let me call it water purifiers, personal care, etcetera.

We have chosen our big incremental growth area to come from what is currently one of the largest segments in the business already, but also has probably the greatest growth opportunity. If I now, as I said today, combined in size, our Butterfly small appliances business and our Crompton appliances business, I am already one of the large players in this kitchen space on a pan-India basis with a revenue of, call it, around INR 2,000 crores on a run rate basis.

There is much more opportunity for growth. So that is the biggest growth play. Second, we have to fix lighting and we need to get lighting going like we had it when we first introduced LED and we moved from a 2 share to a 9, 10 share. We are stagnated to decline since then. So we have to figure out how to fix lightning. Finally, incremental growth area, which is going to be relatively slow in the beginning, but we are very happy with it in terms of the consumer feedback, the customer feedback is large appliances.

That is a significant additional play into a whole category, which right now, again, is not that large today but it is growing well, and we expect this to be a long-term growth area. So the incremental as we want to call a white space, which we expect as we look out over the next couple of years to step change our company's growth is kitchen with two brands, Crompton, and Butterfly, fix lighting, and get it back on the shared growth path at large appliances. There is also, of course, as I have always maintained, significant growth opportunity, which will keep coming and frankly that continues to be the heartbeat of the company, as we do this whole energy efficiency and technology on fans because what you see today, which we are putting in on, is only very BEE Phase 1.

There is got to be a BEE Phase 2 or BEE Phase 3 and technology and energy efficiency will keep improving. But I'd urge you to look at this as a total picture as a group right now.

**Moderator:**

The next question is from the line of Akhilesh Bhandari from ICICI Prudential.

**Akhilesh Bhandari:** Given that you mentioned in your opening remarks that Crompton hasn't been heavy handed in loading it's channel inventory. In your judgment, what would be the difference between Crompton's non-star rated inventory in the market versus some of your closest peers?

**Mathew Job:** I think it is very difficult to get an exact estimate. But I would think that at least 2 to 3 weeks, approximately 3 weeks extra inventory would have been pushed by competition compared to us. And yes, that is the best estimate we have at the moment.

**Shantanu Khosla:** One way you can look at this is, if I take Havells fan, Havells actually has three fan brands. It has got Havells, it's got REO, and it's got Standard. And based on what we understand about their quarter numbers thought it's obviously our understanding and our projection, etcetera, because it's not officially released. Havells, which is the premium brand, was not the one that provided the quarterly growth.

All the quarterly growth was coming in large percentage growth with REO and Standard, which is eco, subeco whether most of this inventory is where potentially the impact of 5%, 6% price increase, which will happen with BEE will be the highest. Plus, of course, we see from the marketplace as we have traveled when the schemes and the discounting started as some companies started this as far back as back end of the November.

And I think part of the benefit we had is, because the important thing is we also ended up with no noncompliant inventory. It was all sold. And I think the flexibility of manufacturing and the close touch of our operating people both in the market, the customer and all the way back to the supply chain helps us to manage that flexibility.

**Moderator:** The next question is from the line of Kiran from Franklin Templeton.

**Kiran Sebastian:** So I just want to understand this clearly. So you mentioned that you are not aggressive in selling into the channel, but you did not imply there was a destocking, right? It was a regular level of selling in, right?

**Shantanu Khosla:** To be absolutely clear about it. We did towards the back end of December, run some schemes on the lower and mid end. So even our inventories would have been slightly higher. But competitive programs were much, much deeper in terms of the discounting, began much earlier. And like Mathew said, that above normal inventory, you can take a guess, they would get somewhere between 2.5 to 3 weeks. Ours would maybe be about a week or less than a week.

**Moderator:** The next question is from the line of Charanjit Singh from DSP Mutual Fund.

**Charanjit Singh:** So first, on the fans segment, while you have been highlighting on a consistent basis that we have been outperforming the market. So if you can give us the numbers for 9 months and for the last 3 years CAGR in terms of how is the market growth? And then how is our growth versus the peers because when we see overall numbers, we don't see that and get that confidence. That is on the fans segment?

Secondly, on the lighting side, this issue we had a year also that lighting has seen a very high competition. We did some corrective measures in terms of sliding capacities bringing a lot more in-house, we focus on technology. But again, this segment is disappointing. So what are the key initiatives you plan to take to bring this segment back on track? These are the 2 questions, sir.

**Mathew Job:**

On fans, the 3-year CAGR has been around 11% So that is one. Second is in terms of lighting, in B2C lighting, you are right, I think there have been phases where we have faced the challenges in terms of slower growth. This is, again, 1 quarter in which— while our focus was on ensuring that our structural margin improve on B2C lighting. And in parallel, we started, as I mentioned, investing on a project to really roll out distribution because if I look at the last few quarters, our numeric reach except on panels, have not really grown.

But actually, if I look at the numbers for the quarter, if you only have reached numbers until November, after a period of time, we'll start to see our reach numbers —starting to grow again. So I am very confident that the B2C lighting business would start showing a positive momentum in the next few quarters because, one, we have addressed the margin issue structurally through a combination of in-housing and finding the right vendor base to do so. So the gross margins on B2C lighting are close to their highest ever levels. Second, in terms of distribution, this project is going to take 9 months to 12 months to execute across the country.

And we really think that, that will help start to grow the B2C lighting business again. As I mentioned some time ago, B2B, I think, is going to take a little bit of time because compared to many of our competitors in terms of the mix of our B2B Lighting business, we have a higher exposure to the street lighting business, which has been a little slow in the last few quarters, and we think it will —take a little more time before that starts to recover.

**Moderator:**

The next question is from the line of Rahul Ranade from Goldman Sachs Asset Management.

**Rahul Ranade:**

So in your assessment, would we have been worse off had we resorted to loading the channel in terms of non-BEE rated fans. At an absolute EBIT level for the quarter, would we have been worse off because only then the strategy makes sense, right? Otherwise, like why would it be to do the case?

**Shantanu Khosla:**

We did not think of this approach on a short-term basis. We are better off, we believe because now the superior product because the one star product saves 30% versus a noncompliant product. So because we have not put old product excess inventory into the system, our new superior product will get into the hands of the consumer earlier. They will get used to energy-saving fans from Crompton first, especially at the lower price points. We will be able to start creating marketing awareness of mid-price and low-price fans, which are now energy saving before other people', especially as we are going into summer. That is the basis on which we took this approach. Not a basis of what is going to make my number better for a particular quarter.

**Moderator:**

The next question is from the line of Rakesh from HDFC Mutual Fund.

**Rakesh:** How much is the price difference between your star-rated and non-star rated fans, especially at your largest selling SKU? The reason I am asking is given the inventory differential in the channel, what visibility you would have and what kind of growth we should expect in your fans business going forward? Also, are you seeing any increased churn within your organization at the key talent level within each product or business, for example, either in fans or lighting?

**Shantanu Khosla:** The steady state price premium is around 5% to 6% on star versus non-star. In this initial month, we may be discounting that by a point or 2, but steady state is about 5% to 6%. Now when you are asking about churn, attrition, etcetera. I would like to split this into two levels. One level where our entire industry has always had high churn is at the front end sales level. This is a common industry thing people come from Havells, to Crompton, Crompton to Bajaj and it is at the lower end. It has picked up.

It has gone down a little, obviously, during COVID, it has picked up after COVID, but it is now kind of at the same level it's historically been. Obviously, that's an area we continue to work because we would like to be better on that. The second is —well, not key manager, but more senior management. As I am just thinking in my head. So you see, a lot of people have, let me call it, for career opportunities or performance reasons, 5 to 6 years is what people tend to spend in an organization. So again, there is nothing unusual.

As always, given that we are focused management by objectives, the reward performance, etcetera, some amount of the people who move on, because actually they have got better opportunities outside based on the performance than what they have inside. And this has been a continuous process. It is not that suddenly something has happened, or anything has happened. Like let me take finance, for example. This company is 8 years old. We had 1 CFO for —7 years, and now we have got our second CFO, 1 year. I know a company which is the same period or maybe even a 3 or 4 CFOs, right.

Let me talk about sales. Sales Head, again 7, 8 years and then the second sales head. We have one, who was Amar, who came in right in the beginning when we created the organization. And in the last couple of years, we've had Sunil. Because also with what is happening with growth, with Butterfly, etcetera, even sometimes, we're now able to get good, good opportunities for people. I mean, like Sriram who was running fans. Now it is a wonderful opportunity for him in his current role as Managing Director of this independent company.

So as long as we are able, so good performing people who we want to retain, by and large, we are able to offer growth opportunities and keep them, like Anand Kumar, who's now running our appliances business. He used to be our Regional General Manager South. Successful 5, 6 stint there, and now he has come in and the last 6 months. The business is doing well and he's doing great. So at the senior level also, I don't think anything is extraordinary. Yes, frontline sales, it is an industry challenge. We have to keep working it.

**Moderator:** The next question is from the line of Renu Baid from IIFL Securities.

**Renu Baid:** I have multiple questions but the key question to ask here is, at the time of Butterfly acquisition, we had guided that the acquisition will be breakeven in FY '23, which is the first year of acquisition, and we were expecting it to be earnings accretive in FY '24. Given that now we have reduced the stake in Butterfly to 75%, where are we on this journey, both in terms of building early operations to Crompton and improving the profitability and turnaround of Butterfly along with the 25%, 30% average kind of group which you had suggested then?

**Shantanu Khosla:** First, we are still on track for our first year to be neutral. No loss, no gain in totality. Obviously, the different accounting things may come in or not, I am not an expert on that, but we are very much on track for it to be neutral. In terms of how we are versus what I call the booklet and what I call the booklet is, the investment recommendation I gave to our Board of Directors recommending the acquisition. We are very much on track on that. Also in year 1, overall if I look as per our current best estimate on Butterfly for the fiscal we may be slightly below on revenue.

And when I say slightly, I mean, maybe a point or 2, nothing beyond that, largely driven by the fact that, obviously, in this industry, for example, Prestige announced its results, and it were down 9%, 10% for the quarter. So that difference is largely because of the overall market conditions, especially in the festival seem to be early in a little weak, this year, but nothing material.

And we are slightly over-delivering versus a booklet in terms of synergies and margins. So that likely we're very much on track and still feel very good about it. The other thing which obviously still doesn't show up in the numbers but will begin to show up in the numbers is the product innovation and consumer ideas, which seem to be a little ahead of our expectations. But that is stuff which will only actualize and commercialize over the next 12, 24 months.

**Mathew Job:** I am just adding to what Shantanu said. So overall, if you look at it, Butterfly is poised to deliver PBT close to about say INR 100 crores for financial year 2022-23. And if you also look at it, at the time of Butterfly acquisition, we did raise debt of about INR 1,000 / 900 crores; INR 500 crores, which is sitting in Crompton, of which INR ' crores will be paid off in March. And a large part of this will also get paid off in FY '24. So as we move into it, we will also see the interest cost declining. You will see the debt coming down. And the INR 100 crores base on which Butterfly is starting to operate activity will start delivering significant growth and that's when you see significant EPS accretion happening at an overall level.

**Moderator:** The next question is from the line of Nikunj Gala from Sundaram AMC.

**Nikunj Gala:** Sir, just on the ECD category per se ex of fan at the industry level, we have seen the last few months, the demand to be kind of a subdued one in the sentiment. So overall sentiments are lower. So according to you, what are the key reasons here excluding the regulatory changes which we have seen in the fans? But what are the 2 or 3 reasons which you believe are leading to a lower sentiment because at some point of time, the inflation in the minds of the consumers should settle down, right? And going forward, from the next 1-year perspective, what are the

key variables which you would be tracking, which will give you confidence that the volume growth in this entire category should come back?

**Shantanu Khosla:**

First, let me take the first part, and obviously, this is data-based judgment because there is no perfect answer for this. If you look at the trends, we all tend to and we all tend to talk about value. But since pre-COVID time to today, on an average, the fans pricing has probably gone up in the industry, about 15%. So volumes have declined for the industry over this period. I don't think there is any doubt about that. This decline has probably been more in the mid and the low segment than it has been at the premium segment.

So based on this, we conclude that this obviously is driven by the price increase, which impacts given the overall economic situation, people with lower affordability more. And therefore, the volume get impacted. The consumer behavior, which we believe happens is given the nature of the fans. My fan may be squeaky, a little bit. Given the overall economic pressures, I continue to live with it even though it is squeaking. Instead of buying a new INR 1,500 fan, maybe I go to the nearby workshop and get my fan motor repaired. Behaviors like that are potentially in this environment delaying. The second thing is we know also if you look at historical data, that is a correlation between housing activity and fans.

Now housing activity, all the data indicates, it has been picking up for the last 18 months or so. However, the fan comes in not at the beginning of the housing activity, but at the end of the housing activity. So there is a lag period because the fan is bought after you move into the house or in the process of moving out. So there is probably about a 24-month lag period. So that gives us some level of optimism that in the not-too-distant future, independent of the macros and the GDP and all that stuff, this also should be a tailwind on the fans category to restore volume. When will the macros inflation, all this stuff recover?

There are many experts who are predicting many things. But the reality is we have to see it happen. The good thing, I guess, from a value point of view and an inflation point of view, though you said in part from this, but there is a long-term positive. Because of lower energy consumption, lower energy bills, the ownership of a fan has become cheaper. We may be taking a 6% price increase, but over a 2-year period, we are paying less. Now we know that is not the only thing that drives it, but that is another tailwind which energy efficiency brings in.

**Moderator:**

The next question is from the line of Keyur from ICICI Prudential Life Insurance.

**Keyur Pandya:**

I just want to understand both for fans and Butterfly portfolio, when we chose not to push fans. And in Butterfly, when we are focusing on, say, off-line channel. In that context, with both of these initiatives. So should we do, especially in fans, should we reap the benefits, say, starting Q4 since our inventory of say, non-rated fans may not be as high as the competition. So basically, I just want to understand in near term, what kind of growth should we expect in fans in Butterfly, and also on the medium-term basis for both of these categories.

**Shantanu Khosla:**

I think on fans, the benefits will be seen through summer consumption. Summer consumption is a period which is obviously the peak consumption period. But this spills over the second half of

4Q and the first half of 1Q. That is when we should start seeing the benefit because that is when the consumer is actually getting aware and going and buying these new rated fans. In terms of Butterfly, which is e-commerce versus open retail.

The industry in which Butterfly operates, sells about 20% to 25% of its revenue comes from e-commerce. Butterfly previously had gone up to a level of 45% of its business coming from e-commerce. And when we acquired and Sriram started operating the business, what we saw was, all the growth historically in Butterfly was coming from e-commerce, and the open trade was actually actively declining, not suddenly but pre-Crompton acquisition.

As we got into it, we saw that part of the reason for this was because of a pricing disparity. So you were not actually building for consumption. You were just creating channel shift at a lower price. So one of the things which Sriram and the team have been doing on Butterfly is correcting this pricing disparity, which has automatically led to more growth coming from the retail channel as it balances out. We are still overdeveloped versus industry in e-commerce. But we are not at a crazy 45%. So now it is much more about getting the right SKUs in, getting the right initiatives in for e-commerce to continue growing that business.

So it is a one-time channel reset to what it should be. This has also been part of the reason, while overall margins and profitability has gradually kept on ticking up for Butterfly because we were underpricing in 1 channel. And this is part of the fun which have enabled Sriram to invest in the innovation, to invest in more capability, invest in, for example, better EHS in the factory, etcetera.

**Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Ms. Bhoomika Nair for closing comments. Over to you, Bhoomika.

**Bhoomika Nair:** Yes, thank you very much, sir to give us an opportunity to host the call and answering all the questions. Wishing you all the very best. Any closing remarks from your side, sir?

**Shantanu Khosla:** Thank you, everyone, as always, we probably have not been able to answer all the questions given time restrictions. But please feel free to contact us. We are all available at any point in time, Kalee, Yeshwant Rege and me, Mathew, and our objective always is to give you the best understanding of our business as we can. Thank you so much, and take care.

**Mathew Job:** Thank you.

**Moderator:** Thank you. On behalf of DAM Capital Advisors, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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(This document has been edited to improve readability)

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