

Crompton

Crompton Greaves Consumer Electricals Limited

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Date: August 21, 2023

To, BSE Limited ("BSE"), Corporate Relationship Department, 2 nd Floor, New Trading Ring, P.J. Towers, Dalal Street, Mumbai - 400 001.	To, National Stock Exchange of India Limited ("NSE"), "Exchange Plaza", 5 th Floor, Plot No. C/1, G Block, Bandra- Kurla Complex Bandra (East), Mumbai - 400 051.
BSE Scrip Code: 539876	NSE Symbol: CROMPTON
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Dear Sir/Madam,

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

With reference to our earlier intimation dated August 07, 2023 and August 14, 2023, regarding the Earnings Call on the unaudited financial results for the quarter ended June 30, 2023, held on August 12, 2023, kindly find enclosed the transcript of the same.

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

Thanking you,

For Crompton Greaves Consumer Electricals Limited

Rashmi Khandelwal
Company Secretary & Compliance Officer
ACS - 28839

Encl: a/a



**“Crompton Greaves Consumer Electricals Limited
Q1 FY24 Result Conference Call”**

August 14, 2023

**MANAGEMENT: MR. SHANTANU KHOSLA – EXECUTIVE VICE
CHAIRMAN
MR. PROMEET GHOSH – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER
MR. KALEESWARAN ARUNACHALAM – CHIEF
FINANCIAL OFFICER
MR. YESHWANT REGE – VP STRATEGY & FINANCIAL
PLANNING
MS. NATASHA KEDIA – HEAD INVESTOR RELATIONS**

ANALYST: MR. KUNAL SHETH – B&K SECURITIES

Moderator: Good morning, all. Ladies and gentlemen, welcome to the Crompton Greaves Consumer Q1 Earnings Call.

From the Crompton management, today, we have Mr. Shantanu Khosla, Executive Vice Chairman; Mr. Promeet Ghosh, Managing Director and Chief Executive Officer; Mr. Kaleeswaran Arunachalam, Chief Financial Officer; and Mr. Yeshwant Rege.

Sir, I would request Mr. Promeet Ghosh to give us some opening remarks and take us through the presentation, post which we will open the floor for a Q&A session. Over to you, sir.

Promeet Ghosh: Thanks, Kunal. Firstly, thanks to B&K Securities for hosting this, and apart from the people that you mentioned, Kunal, we also got Natasha Kedia who looks after IR service. To everyone who is on the call, good morning and welcome.

We are attempting this time to have a different format for our Quarterly Earnings Call. Hopefully, I will give you a cleaner perspective of what the Company is doing. It is my pleasure to take you through an update and presentation of the Company's performance in the past quarter.

Incidentally, the first page what you have is Energion Roverr Smart Fan, which is one of the products that we are proud of it has Underlight and IoT built-in, selling at MRP as high as Rs. 15,000 and is emblematic of the kind of efforts that we are making to premiumize our portfolio.

Let's go to the next page. And before we start also, we were the largest in BLDC grounds-up portfolio, again, indicative of the kind of efforts that we have been making in the market as well as in innovation. Importantly, while you can see a very broad range of BLDC fans, note that this is largely a grounds-up BLDC portfolio rather than simply converting an existing portfolio of fans to BLDC. This is a segment that deserves exceptional focus and that is what we brought to the same.

Let's now get into the next slide. You know, about a month ago, we posted a presentation. We can get into the next page of the presentation. We posted a presentation on our website about Crompton 2.0. I assume most of you have seen it. We also talked a little bit through that presentation. So, I am not going to repeat what we are doing, but just to call out the highlights, firstly, historically, obviously, we had a very strong position in core category, particularly bulbs and fans. We made a successful foray into kitchen. We have invested materially into innovation capability with the consumer led innovations for the category of the market which is exceptional across the country.

We have also focused a lot on being profitability led. Now what we are going to do differently in Crompton 2.0 is firstly be absolute profit led, rather than margin led, and we have as key driver of growth the innovation and the premiumization with changes to both the front-end as well as the backbone, all in aid of ensuring that we are able to deliver on those two key metrics.

Now, firstly, and this is something that you are well aware of, a new organization structure is enabled with an empowered leadership structure, the leadership team. A restructured organization is already in place. We did this about two months ago. Significantly, the organization restructuring meant that we have industry veterans, and the front-end people being here in Crompton for years and years, and at the backend we have a whole bunch of domain experts who have now come in and significantly bolstered that area.

So, our senior leadership team is fully in place, but with an empowered organization also comes accountability, and I think that is at the core of how we see this entire team driving and transforming Crompton into what its rightful position is to deliver a growth-oriented organization.

So, let's go to the next page. A quick update on some of the key steps on Crompton 2.0 that have since been initiated. One, we continue on the premiumization journey. We saw strong growth in the premium ceiling fans category. Saliency of premium fans has since improved to about 28%.

Then the new brand architecture for pumps which we have talked about in the past, particularly in the Mini segment, and we have rolled out a new brand architecture while we have our largest selling Mini Agri Pumps, we also have premium pumps that we are selling and will improve the realization that we are getting.

In the kitchen segment, our focus is being to have a differentiated portfolio with superior and industry-first features based on extensive consumer research and insights. For instance, we introduced chimneys with significantly reduced sound decibel levels and the super slim hobs for consumers so that they do not have to cut their slab.

Now so far as go-to-market is concerned, I will just briefly touch upon that; if someone wants, we can get into greater detail later, but very briefly we have been focusing considerably on building out our alternate channels. So, we started to be very strong in what's called, general trade, but we have also put a lot of emphasis on alternate channels materially contributing to growth going forward and that has grown 32% YoY as you can see. Now alternate channels include e-commerce, rurban, etc. Now particularly e-commerce, for instance, is consistently growing and in Q1 grew at about 44% YoY.

We have also been working on expanding our reach in the small domestic appliances, also called kitchen appliances, as well as B2C lighting. Particularly in lighting, we have significantly expanded our reach by adding several new distributors in the markets with the addition of more feet on street (FoS).

We have also built upon our rurban channel and our e-commerce channel by introducing new products.

For small domestic appliances, the infrastructure setup is nearing completion, particularly in the North and the South, and again, we added distributors and appointed FoS. Together with all of this we have been working on in-store visibility leading to retail transformation.

Brand investment, we spoke of this quite a bit and that as we transform the Company to be demand & growth led, investing in the brand is a critical thing that we intend to do. So, you can see significantly stepped-up A&P spends, which has gone up about 4.2% (at standalone level) in quarter 1, but you are likely to be seeing these elevated levels because we see this as having a huge impact on the off-take of our products in the months and quarters ahead. Similarly, I will talk a little bit about these marketing campaigns being rolled out, and these all have a high share of voice for our products.

And so far as innovation is concerned, we have introduced several new products. In fans, I already mentioned that we have arguably the largest range of BLDC, particularly ones which have been built ground-up. We have added variants under the Mini-series in the pumps category, and we have launched new variants in our water heaters range to put it as specially focused on e-commerce.

For a quick update on Butterfly, I provide an overview and, we can discuss this again in greater detail later, but in particular, as you already know, we are doing very strategic orientation of our channel mix by emphasizing the retail & modern trade and optimizing the e-commerce while de-risking the corporate channel.

In Butterfly, where our core channels are now performing very well, we are in the process of merging Butterfly with Crompton, and we have the opportunity to standardize go-to-market synergy apart from cost synergies and the go-to-market synergies would improve Butterfly's reach, particularly initially in the Western and Northern markets. This is called the '*Power of One*', and we see this take off in the next few quarters.

We have expanded our portfolio. We have made brand investments and also in Butterfly where A&P spends are at 5.4% and launched several above-the-line and below-the-line activities. We have expanded our portfolio in cooking, and food processing and cookware range.

And finally, so far as our integration is concerned, that is underway, and we expect that to be completed by the end of this financial year. We have informed the stock exchanges earlier, and we have now received approval from both the NSE and the BSE, which have enabled us to go ahead with the filings with the NCLT for the merger.

Now, next page, Macro environment. Broadly, I would say, we did not get a lot of help from the macro environment over the last quarter. It has continued to be very challenging, but we work relentlessly to deliver strong results despite rising inflation leading to subdued consumer sentiment or general overall softness in demand.

Unseasonal rains did not particularly help and regulatory changes further added to the volatile demand environment which impacted channel inventory and supply situations. With inflation at 4.8% in June '23, the overall consumer buying index in consumer durable segment has so far remained soft. These pressures impacted the overall margin, but the efforts of premiumization, mix improvement and cost optimization have partially offset the impact.

After a slowdown in April and May 2023, the demand however seems to be picking up from June and that trend will continue in the months to come. Going forward, we expect higher price/mix contribution as we are positioned to deliver improved H2 FY24, hopefully, with improvement in the conditions over the next half of the year.

Now, next specifically getting onto the quarter. I will not read out what we are saying in the presentation because I think that you have read, but just basically just follow with a few of the highlights.

ECD revenue grew by 6% despite the challenging environment, particularly strengthened by strong growth in our appliances segment. The actions that we took on our lighting portfolio helped improve our margins by as much as 300 basis points. We believe that this is going to bolster our lighting, fit for growth, position, as we have over this period focused on the changes in our go-to-market structure.

Now in Butterfly, as I mentioned, we focused towards retail and modern retail channel while de-risking e-commerce, but it is important to note that we have significantly stepped-up A&P spends, while investing in our brand which we expect will payout in the future, and as I said the new organization structure is in place.

Our new built-up kitchen appliances business is so far shaping up well. It is small, and we are obviously investing materially in this business so far, but so far great indications are there.

Next page. These are the consolidated financials. Now you must have seen this already. The ECD margins, the EBIT margin stood at 12.7%. The ECD margins notably include segment or EBIT loss that the kitchen appliances business is currently incurring, and we see that as an investment for the future.

For the lighting segment, EBIT margin improved to 12% and that is despite the revenue decline of 13%.

Now on the ECD segment, fans, broadly volume where we grew about 5%. Q1 saw a strong momentum in ceiling fans and TPW fans. The 5% growth in the fans category was driven by improved saliency of premium segments which I have spoken about already, as well as strong growth in TPW.

Another segment that we focused on that I mentioned earlier is the BLDC segment, which grew 80%+ in the last quarter and quite a large number of about 3 lakh+, very broadly speaking, BLDC fans were sold in the last quarter.

Our media campaign 'Star rated fans' and 'ActivBLDC' have resulted in good momentum and high share of voice. We collaborated with as many as 14 digital influencers to drive profitability and discoverability achieving high views.

Going forward, we plan to add more decorative offerings in the BLDC range, and we recently launched BLDC Baby Enso, which is a smart BLDC fan with energy savings, and needless to say, we are one of the top 2 players in BLDC fans so far. Apart from BLDC fans, like I said, the TPW segment is also growing quite well.

Next, coming to pumps, this has been a flat segment this quarter. We continue the actions that we took in Q4 FY23 to bring our pumps business back on track. We rolled out brand awareness programs for the Mini pump segment to communicate essentially based on faster tank filling as well as greater durability. That has helped contribute to a sharp differentiation from "me too" products which we were earlier making some, maybe or no longer are.

We have also undertaken strategic pricing actions to ensure that the price premium is at the level of which the consumer is willing to pay for. The pumps, the value growth, which I said is relatively flat, but it is a weakness in the north because of increased competitive intensity. While in the Eastern region, which is the other large pumps region for us, is getting back on track, and we are currently working on significantly strengthening our Northern market, and we are also simultaneously seeing promising signs of growth in our Agri segments.

Appliances had shown a strong growth in this category and we spoke about this earlier. This is also a segment where we have actually split into two, one being the large domestic appliances, the other as the small domestic appliances, LDA and SDA are the references to these segments that you are going to see going forward. Now this obviously did not particularly impact the last quarter, where the old original structures took place, but importantly, the small domestic appliances, particularly mixer grinder grew at 50%+ YoY, while the water heaters and the air coolers business grew about 11% YoY, and the large domestic appliances now also fold under the broader fans category and electrical segment for us.

The infrastructure setup is nearing completion, and there has been so far good, experienced management along with particularly the growth in the small domestic appliances market.

Our campaign for the air coolers was well received and resulted in high share of voice. Particularly in storage water heaters, we started supplying products which meet the new BEE criteria and instant water heaters we launched two new SKUs in June '23 named the Solarium Neo 5 liters and Rapidjet 5 liters.

Built-in Kitchen appliances revenue stood at about Rs. 11 crores led by good momentum in chimneys and hobs. Significant efforts are made to develop the channel. There are cumulative 54 brand stores which combine Signature stores as well as Exclusive stores, which now have our kitchen appliances range and have been opened across 20 city clusters and our reach is now in ~260 outlets.

Lead generation campaign and performance marketing has generated quality leads with good conversion rates. We continue to invest in building the business by creating brand awareness and building our people capabilities and some indicator of this, and as I said earlier this business is currently in the loss of 7 crores in Q1.

Lighting: in lighting, we struggled in the past, and one of the many initiatives that we are taking to turnaround the lighting business is that the lighting B2C sales has been ploughed out. It was a part of the overall sales organization earlier and now specifically falls into lighting B2C sales head who falls in directly into the lighting business unit head. We believe that that clear carving out and focus at the sales level will help our go-to-market in lighting.

Insofar as the other elements of our GTM restructuring are concerned, we are strengthening our dealer network with range addition and we will be expanding and driving our outdoor range in lighting. We are also driving premiumization. You may be aware, we introduced a premium range of products and that property will further be developed in this quarter with more launches in that segment, and we have also launched innovative solutions and have entered new categories like rope lighting, table lamps and night lamps etc, all with the objective of broadening our offering in the market.

Softness in the lighting B2C demand is also not unique to us, and I think you must have seen that this is also something that has impacted other industry players, and this is because of a combination of price rationalization and increased competitiveness. The pricing reduction, particularly in the bulbs and battens ranges, also impacts volumes because it leads to lower channel stocking.

Next, let's go to the slide 14, Butterfly. Butterfly reported good performance earlier, but I will quickly take you through the highlights. Revenue was at Rs. 219 crores, which is down 14% due to double-digit growth in the B2C channels, but while we did channel rebalancing, the overall number was about almost 14% lower than last year. Material margin stood at 42% with an expansion of 650 basis points year-on-year. Significant improvement in material margins driven by improvement in retail mix, operating efficiencies and cost optimization.

The Company continued its efforts towards building capabilities across functions such as sales, marketing, operations and R&D, and the 9% EBITDA margin that you see is post the investments both in marketing as well as in people capabilities. We are continuing our efforts in building our people capabilities apart from strengthening processes and compliance, which has resulted in the lower attrition and better safety related performance.

Marketing campaigns, the next page, yes. This is the glimpse of various marketing campaigns that we have rolled out. You know, I will not take you through all of them. You are quite aware of many of these, but the idea essentially is that we are investing both in demand generation by stepping up our B2B and retail activities, as well as by strengthened go-to-market previously in the vast areas like rural and e-commerce, atleast we hope that we will begin to see in the coming days. Now very roughly our A&P spends at Company level was higher. It was at about 4.5% versus the 3% than they were in quarter one in FY '23. That's about 1.5% higher.

We can get into consolidated financial performance. Kaleesh can talk through this later in detail, but I will just hit the high points.

Revenue growth from operations stood at about Rs. 1,877 crores remaining flat Y-o-Y. ECD growth was at 6% Y-o-Y. Softness in demand for lighting and Butterfly. Material margin at 30.8% was mostly due to higher BEE costs in fans and price correction in pumps. This was positively offset by improvement in margins in lighting and appliances as well as rebound in trade for Butterfly.

EBITDA margin was about 10% on account of higher A&P spends. PAT margin remained flat at 6.5%. We continue to have negative working capital and have generated robust cash flows from operations.

Consolidated cash and cash equivalents at the end of the quarter was Rs. 783 crores. This compares with Rs. 657 crores that we had as on 31st March 2023.

Finally, key positive development in the organization as we look to the future is to accelerate growth and healthy margins and deliver strong TSRs for our shareholders. So, as we become a more growth-oriented organization, I believe the stance that we are taking at various ends, at the various elements that you have already seen will lead to value creation for our stakeholders.

We will protect and grow our core categories of fans, large domestic appliances, and pumps, and endeavor to win in the kitchen segment. The kitchen segment now comprises the small domestic appliances business of Compton as well as Butterfly, and we expect that to be a key driver of growth going forward. We have identified cues in lighting, and as I said the improvement on the cost front that we have been able to do in lighting gives us the confidence that lighting business is becoming good for growth as we focus on the GTM and various process enhancements to be able to leverage this cost position.

The way I think about the step change towards Crompton 2.0 is first to strengthen and consolidate the backbone of our organization which begins with creating a center of innovation that is intrinsically led by consumer needs. We have got about 160 people at our Innovation Center at Vikhroli. We have one more R&D Center in Butterfly as well. We had a significant amount of money and investment going into that some of the benefits of which, you have already seen, but it is still early days yet for the benefit we believe the innovation will help us drive.

We will foray into new segments, and we expect to enter about maybe 2-3 whitespaces in the next 3-4 years and that effectively is in the need areas that we believe we have a right in winning and areas that we can become leaders over a period of time. At the same time, we are also developing strategic long-term manufacturing and supply chain footprints, which will support and enable our emboldened ambitions.

In conclusion, I would say, although we are structurally stronger today, we have been in the midst of a rough macro environment with the industry facing some near-term challenges as the broader consumer sentiment is still cautious. Therefore, while the journey of Crompton in H1 FY24 is expected to be a bit bumpy, we expect that the situation will continue to improve, and we are seeing some early signs of that towards the end of this fiscal. We continue to work tirelessly to strengthen our competitive position and simultaneously identify the market leading growth which I need to reassure you about, you know, this really, but our newer initiatives will be unveiled as we go along and finally, I am confident of strong fundamentals in the underlying business and my belief in the future growth trajectory remains strong.

Thank you for your patient listening, and now we will be opening the floor for Q&A.

Shantanu Khosla:

Over to you, Kunal.

Moderator:

The first question is from Anirudh Joshi, ICICI Securities. Anirudh, please go ahead and ask your question.

Anirudh Joshi:

Sir, two questions. One, we have said the gross margins have got impacted due to some of the issues in pumps and the higher BEE costs in fans. So, do we consider this as a one-time or these are in a way structural in nature and so the gross margins are likely to remain lower than what we had seen in earlier quarters? So, that is question number one. How much is structural and how much is one-time impact? And how should we look at margins ahead?

Second question is on EBITDA margin. So, we have raised the A&P, and I can see in the presentation that we are aiming at higher SOV for many products. So, what is the SOM target that we are looking at? Maybe 50 bps market share expansion each year or maybe 100 bps expansion in market share. So, can you please quantify on that? So, basically, what is the ROI that we are looking on the additional investment in ad spends?

Kaleeswaran A.:

So, first to start with as an organization, we would believe market share is an outcome of various activities that we do. It is not that we want to chase a particular market share and see where we land to do it, but investing in end consumer, having innovative products to take to market, which will drive the revenue growth and in turn will lead to our market share. So, it is not that we are chasing a particular number as a market share. It is more about the actions that we want to investigate on.

Coming back to your other questions in terms of gross margin and EBIT, where do we stand? Starting with gross margin, first and foremost, Butterfly and lighting business are done, within

both the business segments we have seen gross margin expansion led by cost initiatives. Having said that, in fan, the BEE cost is yet to be baked into pricing in full, and I think as we go into Q2 and Q3, there are opportunities or compelling cases that is presenting in front of us to take those price increases, which will help us to restore the margins as we move forward.

Secondly, on pumps, it is more in terms of where we see the competitive intensity at this point of time. We have started with the brand architecture. The brand architecture has helped us to arrest decline in pumps and get into a growth phase. We are also seeing some of our early decisions on Agri is starting to give us good green-shoots. We need to see how that sustains as we move forward, but overall, as the brand architecture expands, the premiumization of pumps will also help us to get the gross margin back. So, that is how we are looking at gross margin in a structural way as we look at the forward quarters.

Coming into EBIT, this is a countdown strategy where we clearly said that we are going to invest behind our brands and which means that would lead into 150 to 200 bps increase on a year-to-year basis on our marketing spends, and we think this is something that we will continue to do, and meanwhile that will be more in terms of the revenue growth that we want to deliver rather than a specific marketing quarter led ROIs. Overall, as Promeet said earlier, as an organization, we are now moving towards profit led than being profitability led.

Promeet Ghosh:

I would just add a few more things here, Kaleesh. One, insofar as your question was about structural changes. The cost structure has gone up because of BEE, and now the interesting thing is that all participants in the market obviously are impacted by this, and because of the somewhat weak economic environment, I do not think any of the participants have been able to pass that one, but we believe that in the quarters to come they will be passed and that will bolster margins going forward and so forth. On Pump, yes, insofar as the advertising investment is concerned, I think there is an effort to step that up as we are going to be growth led. Now on the EBIT level, we are hoping that some of the cost synergies will also start to kick in, with the efforts that we are making, but obviously, they cannot be synchronized, but that is something that again will give us some more cushion.

Moderator:

Thank you, Anirudh. We have the next question from Siddhartha Bera, Nomura. Siddhartha, you can please go ahead and ask your question.

Siddhartha Bera:

Sir, my first question is on the fan side. So, you have indicated a 5% value growth in the quarter. What will be the secondary growth in the quarter in the fans category? And also if you can share the overall growth for pumps and overall appliances in the quarter?

Kaleeswaran A.:

Pumps, we delivered a flat growth in terms of the total quarter is concerned. Appliances is close to 19% growth is what we have delivered. Fans, at this point of time, if we have to look at a BEE rated secondary impact that we saw in the industry, past half was significantly lower to where the industry was concerned in terms of non-rated fans. We would assume our primary and secondary to be on track.

Siddhartha Bera: And if I look at, again, on the EBIT margins for the ECD segment, I mean, sequentially, we have seen quite a reasonable correction, contraction on the margins. So, are you planning to take any price hikes? So, last part is because of the BEE as you have indicated. Now, how is the visibility on pricing? By when do you think you can maybe go back to that 15%, 16% margin which you used to report? And how soon can that be, if you can just share some thoughts here?

Kaleeswaran A.: Fundamentally this is like what we wanted to call it as a Crompton 2.0 where we want the organization to be growth led. Now, there are two levers when you are talking about this EBIT. One is, what is an end of price increase or cost reduction that you need to do to improve gross margin? And second is, where do you invest? It was always easy to cut those 200 bps in terms of the marketing spend and get into a business that will have a 14%, 15%, 16% EBIT as compared to a business that has a sustainable revenue growth, which we think will create value. So, allow us not to comment on EBIT target or a margin expansion at this point of time. We believe that as the revenue growth is probably paramount to us as we speak.

Structurally, where would we go? To address your first question, we think on the gross margin there is probably we are moving towards a compelling case of a price increase. Now this is not something that you would tend to calendarize it because it is a market where you have multiple players and you need to be competitive in the industry. So, as we move forward, the case is much stronger to where we were in Q4 or Q1. So, there would be price intervention that we would make in case of fans.

Now, when you do that, then we also talked about premiumization of fans as a portfolio. Mix is also going to be an enabler for us to drive our gross margin. A combination of price increases, mix optimization, moving towards premiumization and continuing to invest behind brand we think will expand our absolute profits and therefore deliver EPS growth in the long run.

Moderator: Thank you. We have the next question from Rahul Gajare, Haitong. Rahul, please go ahead and ask your question.

Rahul Gajare: Now, I think you just mentioned that I think a product mix is what will ultimately aid profitability. I want to understand, could you discuss what is the share of premium fans in the total fans? And how that has moved in the recent past? And also, do you maintain a similar metric for a Company level, across product category, what is it that you classify as premium and the share of that? Because I understand the growth has been impacted at the lower end of the product compared to the higher end of the products. So, that is one thing I want to understand from you all on the premium side.

Kaleeswaran A.: So, from a fans perspective, our portfolio used to be about somewhere around in late teens as a share of premium. Today, as we speak, one-fourth of our fans business comes from premium segment. And this is aided by multiple launches that have been made both in induction and in the BLDC segment. And as we talked about our BLDC strategy has been to build a ground-up portfolio, and that is what has helped us to probably expand the range keeping the consumer

needs in mind. So, this one-fourth of the portfolio has significant headroom to improve as we move forward, which will help us to improve the overall earnings as we look forward.

Now if you look at categories outside fans, probably, I will take lighting as an example, and I will leave it at that. Lighting, if you look at, one way of premiumizing is looking at the same category and see what more you can do in bulbs and battens. The other opportunity is also look at things like ceiling, which probably has got a unique pricing, which is significantly higher than bulbs and battens, and it has got a margin profile also, which is much, much stronger as compared to the bulbs and battens.

So, how do we expand our ceiling range? Today, our ceiling to our portfolio is about one-third as compared to industry, which we would presume is about say 45% to 50%, and that overall also period of time will help us to premiumize the lighting portfolio and help us to improve the margins.

Shantanu Khosla:

No, but very clearly as Promeet said, there is a strong renewed focus on premiumization across all our categories. That includes also Butterfly, where premiumization within the segments that we play in - pressure cookers, gas stoves and mixers is a clear opportunity which the Butterfly team has been introducing initiatives for. For example, recently the Butterfly team introduced Tri-Ply healthier cooking, less oil pressure cooker as a premium.

And in terms of the enablers Promeet talked about which we have strengthened, the back end, the entire supply chain operation, our innovation operation, our real expertise and Center of Excellence, upgrading with us, all are going to have this common focus of driving our strategic drive of accelerating premiumization.

Moderator:

Thank you. We have the next question from Ravi Swaminathan from Spark Avendus. Ravi, please unmute and go ahead and ask your question.

Ravi S:

My question is an extension to the previous participant's question, more towards the BLDC side. So, how do you see the BLDC as a market panning out? What might be the industry average of BLDC out of the total current sales that is happening? And how are we positioned? What is our share of BLDC? And what is the kind of profitability of BLDC fans? Given the fact that apart from the conventional players who are there, there are also few new players who are there in the space like Atomberg, etc. So, if you can give your thought process on it over a two-to-three-year period will be helpful.

Promeet Ghosh:

Look, what I will say is that BLDC is a technology which has some advantages. Induction motors have certain advantages as well. As we look forward, we see both, the BLDC and the induction be a part of the fans that are sold in the future. So, neither of them is going away.

Inssofar as our approach to BLDC is concerned, as you have already seen, we have made significant investments in building out our BLDC range. One difference is that we have built out a BLDC range particularly as a native BLDC.

So, this is a little bit like EVs and Internal combustion engines. You have cars which have been retrofitted with EV technology, and there are cars which have been ground-up bit on the basis of EV technology. We think that for a consumer to truly get the benefit of the technology, we have to do the latter, and while the other may give you some shorter-term benefits, over a period of time that is the direction that we will go towards.

And so, look, it is an interesting technology, and you will see us do more and more in that area. We are one of the top two I would say in that segment already, but we are just getting started.

Ravi:

And my second question is with respect to the white spaces that you had mentioned in the presentation, that you would like to get into. Logically speaking, there are one or two sizable segments where you can easily get into and grab share. That is the switchgear market, switches market where you can strengthen, you already have a very strong presence in reach and distribution where you can get into. And then there is this cable segment, which is capital intensive and probably you may try and avoid. So, your thought process on getting into these segments or some other segment if you can give?

Shantanu Khosla:

We would appreciate that but obviously, we cannot talk about specific segments. There are multiple segments in which we can have the opportunity, which we are evaluating. In fact, we are at different levels of progress in different areas. We are unable to talk about it. You will all be the first to know. The only thing I would mention since you mentioned that, yes, given our infrastructure, there are a lot of segments which are easy to get into. Our focus is not just to get into a segment, but our focus is going to be to get into a segment in which we can win, and that is not easy.

Promeet Ghosh:

We have also said so far as, the direction of the Company is this, we created a separate vertical for new business initiatives which is specifically going to be looking at some of these areas. So, clearly, there is a fair amount of work that is going on to evaluate the various segments.

Moderator:

We have the next question from Renu Baid, IIFL.

Renu Baid:

I have one key question around the margins and profitability. Sorry to harp on it again. If you look at 12.7% ECD margins, they have been all-time low, say about 50-60 basis point impact coming in from the large kitchen appliances. So, can you help us understand while there have been comments given, can you broadly help us bridge the gap from this 13.2% to 13.3% margins to our normalized 17% EBIT margins that you were doing? And in line with the strategy that we have highlighted in terms of focusing more on growth and investing in marketing team, how should we readjust the expectations for EBIT for the ECD segment given the mix and the end market responses which have been there?

Kaleeswaran. A:

So, first and foremost, Renu, I was not to give a forward guidance of what we are looking at in terms of EBIT. But we talked about how we are going to look at growth drivers for the business and how are we going to expand the margin.

Coming specifically to the bridge that you are seeking in terms of how has that moved, roughly about 15 bps which is on account of large kitchen appliances losses that was there, about 150 bps is on account of the higher marketing spends that we have done, and another 150 bps is on account of the gross margin drop that we have seen in ECD. Now this drop is largely and obviously on account of what we talked on fans BEE pricing challenges that we had, which I think as we move into Q2, Q3, we would be taking few price increases at appropriate time. Over a period of time coupled with mix and price, we should be able to get back to the gross margins where we were in ECD.

And coming specifically to EBIT, I think our higher investments should tantamount into revenue growth for us, which would help us to expand absolute EBIT rather than EBIT margin, and that is a structural change that we need to make. Eventually, we believe value creation for all stakeholders will be through EPS expansion rather than looking at a 17% EBIT margin. Now as and when we grow the business and operating leverage kicks in, and we reach there, we do reach there, there's no constraint or cap that we are putting on that number, but right now we want to grow the revenue for the business and towards that if it takes investments into it, we are committed to make those investments.

Renu Baid:

If I can ask on Butterfly?

Kaleeswaran A.:

See, on Butterfly, the good news is we have expanded margins out there. This is largely on account of two things. Shantanu talked about premiumization. We have seen this across categories, for example, the steel cookers have started to pick up as compared to aluminum. So, that is one positive sign. We are seeing that in cookers. We are seeing that in mixer grinders. This coupled with the cost initiatives that we have taken, what we have in Crompton, the project Unnati getting extended to Butterfly has also helped us to drive gross margin improvements out there. There also, considering our learning out here, we would not be curbing on investments behind brand. So, already Butterfly is tracking at about say 5%-5.5% on A&P spends. We would only try to keep that at the same level or increase as we try to grow.

Now the most important lever for Butterfly is the '*Power of One*' that we talked about. While Butterfly is a strong brand in South led by Tamil Nadu, we believe that there are strengths that Crompton can provide to Butterfly and make it a pan-India brand over a period of time, and this is riding on the distribution leverage that Crompton has got. We are starting with few pilot markets in Northern India and in Western India. A couple of markets is what we are starting with. Once we establish that, we think that can expand the growth opportunities for Butterfly beyond where it is today. And the channel optimization is largely done in terms of e-commerce and retail. You have seen good strong double-digit growth in retail and in terms of non-core channel also, we are clearly de-risking.

So, if you look at the key acquisition, Butterfly was largely an e-commerce led business delivering about 5% to 7% EBITDA. Today, we have rationalized it to become a 25% e-commerce business and drive business through retail along with e-commerce. We have also

pushed on the process of rationalizing. A large part is completed in terms of non-core channels and now is the time to invest behind that brand and take it national.

Moderator: Thank you, Renu. We have the next question from Achal Lohade, JM Financial. Achal, please go ahead and ask your question.

Achal Lohade: If you could help us understand in FY '23, what has been the mix in terms of fans, pumps, water heaters and air coolers? Why I am asking this is, given the different challenges we are facing in different segments, if we can understand how the revenue mix and what kind of margins we have had in FY '23, I think that would be of great help.

Kaleeswaran A.: We do not share the data at a category level margin or category level share, but what I can give you is a broad perspective. We are fans led in ECD. A large part of our portfolio comes through fans followed by pumps, and probably in about a year or two, we will see our appliances business also reaching there. So, it is fast growing in appliances led by SDA and the LDA led through water heaters and geysers.

Achal Lohade: Is it possible to get some similar, in the similar fashion the margin? Like, is it the case that pumps is the highest margin compared to fans or other way round?

Shantanu Khosla: ECD is about the same.

Kaleeswaran A.: Yes. Platform margin for ECD at a category level is almost the same.

Shantanu Khosla: Apart from, of course, the large kitchen appliances.

Achal Lohade: And just one more, you said about investment in kitchen appliances, the amount was about Rs. 7 crore in Q1 FY '24. Is it possible to get some sense about 4Q spend as well, what kind of investment was there? And how do you see it from a full-year or next couple of year perspective? Could this be a big drag for the next couple of years in terms of margins and then we see a break-even and then improvement from here on?

Kaleeswaran A.: Again, we do not give forward guidance, but the way you would look at this, this is one of the fastest growing categories within kitchen. This is largely about Rs. 5,000 crores- 6,000 crores in terms of chimneys and hobs growing at about say 10% is what we have seen. Now we have started 10 cities through a signature store route and followed it with B2C. Now we are expanding it beyond the 10 cities.

We are getting into alternate channels beyond EBOs, which is kitchen led, e-commerce led, and bit of modern trade is also starting to contribute in a significant manner. This would continue to have a revenue scale up over the period of time, and it will have losses that we need to take as we look at the current financial year, and these losses are more investment behind the brand both in terms of people and in terms of marketing. We think there is fair amount of opportunity for

us to gain in this segment considering our overall strategy of where we want to be in kitchen and from a longer perspective, this is one of our growth trackers.

Shantanu Khosla: And obviously, as we made a choice to enter this category strategically for the future, our objectives and our goals were such that this would be that you will turn to the Company if you look at it over the medium and long-term.

Promeet Ghosh: Look, many of the investments and capability in the segment have obviously already been made.

Achal Lohade: That is helpful. Just one clarification with respect to, in one of the comments you mentioned that Agri is where you are seeing further scale up. There is change in the brand architecture. You have launched Agri pumps. Would Agri be more competitive in terms of pricing and margins compared to the domestic pumps and the mix as we speak is 70%, 80% domestic pumps? Just wanted to have some clarity over there.

Promeet Ghosh: Yes that is true, that the large share of the pumps segment continues to be residential which you can also call domestic. 'Agris as a business is stepping up and growing well. That 'does not mean that we are de-emphasizing the other one, and the brand architecture by the way is on the residential side, particularly on the segment that we call the 'Mini'. So, yes, we expect to continue our growth momentum in agri, but obviously continue to strengthen our core which is residential.

Achal Lohade: The Agri pumps margin would be lower than the pumps' current margins. Would that be fair?

Kaleeswaran A.: We do not provide sub-segment-wise details. Apologies.

Shantanu Khosla: The important thing from our point of view for Agri is we are market leader in residential pumps. We are still a relatively small player in Agri. Therefore, we believe that Agri is a growth opportunity for us.

Now, of course, to begin to actualize that growth, it is not a single variable, it is a multiple of variables. We have been doing that part of what will be the growth driver, filling in gaps in our Agri portfolio which is obviously different from the domestic. There is also a long-term spend of solar in that particular segment. There are go-to-market differences in terms of the channel. So, it is an entire program which we are now beginning to see some traction of as we build on it, but it is a clear big growth opportunity for us.

Moderator: Thank you. We have the next question from Rahul Agarwal, InCred.

Rahul Agarwal: Sir, just I have one question but across your three segments, and this is largely going to revolve around outlook for the year. It looks like in ECD, fans have grown 5%, pumps flat, appliances 19%, and appliances my sense is about 20% of ECD. So, should we really expect fiscal '24 to have early double-digit revenue growth on ECD? Lighting is declined in first quarter. Obviously, you are working on new products and expanding reach for B2C. How long would this take? And again, the same question, do we see growth in fiscal '24 or not? And similar question of Butterfly.

We also declined Y-o-Y even on revenue in first quarter there as well. What should we expect for full year? So, whatever you can share, it would be really helpful. Thank you.

Kaleeswaran A.:

As just we re-emphasized; we would not be giving forward guidance. But we look at what are the tenets that we are driving towards and how are we trying to make the organization move forward? The first and foremost we will start with lighting. I think lightning, the objective is to make the business fit for growth. So, when we say fit for growth, we always talked about we need to have a business model that is going to be market led, which means that there are categories that we need to expand into like ceiling. We also need to be industrially competitive in categories like bulbs and battens.

Now this would mean that your strong gross margins which will help us, one, to take appropriate pricing actions in categories like bulbs and battens. At the same point of time, we have enough money to invest behind towards brand and other initiatives that we have to do.

Now where are we today as we speak? I think we have got our gross margins in the right trajectory for lighting. Now we need to get our product strategy right and also get our competitive price actions completed. In parallel, we wanted a go-to-market strategy for lighting that is different from how we deal with ECD. So, the team is in place. We are rolling that out. Coupled with this, as lighting is not going to be a story of one, two quarters where we are trying to look at a turnaround etc., we are moving in the right direction. And early signs are pretty positive. As we look at end of this year, we wanted to see how the lighting business transform from where we stand here and move towards a growth trajectory.

As so far as Butterfly is concerned, you have to look at Butterfly in three facets. There is the retail channel, there is e-commerce, and there is non-core. Intrinsically, if you look at the business, it has been discussed earlier. It was e-commerce, which meant the brand was more playing a price warrior game in multiple channels which had a conflicting interest both in trade and e-commerce.

The correction that we have to take in e-commerce has been completed. Now we are not only making Butterfly a Flipkart oriented e-commerce business, it is now in Flipkart. It is in Amazon and as we look at it, it will have its spread in multiple other digital platforms also. And the portfolio is reasonably optimized, and it is well poised for growth in e-commerce as we look at H2 onwards.

In terms of non-core channels, Butterfly as we talked about evolved as a brand over a period of time starting from a business that was into government orders led, corporate led etc. Now all the corporate channels are also getting derisked so that we focus on the core business which will help us to invest behind brand.

Now in that, as we do these two things, we have already seen a strong double-digit growth in terms of our retail channel for Butterfly and we would expect that to continue. With the improvement that we have made in material margin for Butterfly, that has given us the

opportunity to invest behind Butterfly. Now this investment is not only going to be on brand. We need to invest behind people also, and that would mean that as we expand into outside South, we need to take people on board and help them, help make Butterfly a national brand over a period of time.

Now, this is again a business that we need to have a long-term strategy. We as an organization here for long term and not for a quarter or two, and that means we should not be shying away from taking those calls and making those investments for business. So, Butterfly, I think, therefore is pretty well-poised in terms of how it is going to pan out in the coming years and the directions are in the right place.

Coming back to ECD, the three segments that we talked about as far as fan is concerned, there is an opportunity for premiumization. We talked about the range that we have got in BLDC. And premiumization does not mean it is only BLDC which gives a price point at which we can take the consumers to upgrade by having decorative offerings and making fan more part of your lifestyle experience than something that can do air delivery. So, umpteen work is going behind innovation which is consumer led. We are seeing the results of it already. We are a top two player in BLDC segment already with almost a lakh fans being sold per month in the BLDC category itself.

So, as we move forward, we think that is a significant growth driver for us, but as much as we speak, I think we are India's largest player in terms of the economic segment where we play in fans also, and there is enough headroom to grow in that segment too, in many other places and many parts of India where we have representative market share to our overall market share that we have today.

Of course, brand architecture is one lever that we have been talking about, which has helped us to drive Agri is something that we want to focus. We are an 85%-90% residential led category. Over a period of time, we want to grow agri and residential together and see where we land.

And importantly, appliances have given us enormous amount of success in the last three years, and this is something as you could see is probably a start. You have seen appliances, particularly the small domestic appliances category growth that we have seen is more an initiative that we have started in North and South. We have the East and West market available with us. We have e-commerce as a channel that is wider because this is prone towards e-commerce. So, there are enough opportunities available within the appliances space for us also to grow, so, not looking at a near-term growth target or where FY '24 will lead to, in the long term.

Shantanu Khosla:

In terms of the way we look at our offline objective and this is the long-term, mid-term is, we always want to grow our categories faster than the market. Said another way, we always want to aspire to have programs that build our market capabilities. As Kaleesh outlined, for all the ECD segments and for the broader kitchen appliances we think we have the opportunities and programs which will enable us to do that. In fact, as we mentioned the early signs indicated that they are doing that. I think as Kaleesh mentioned, we still have a couple of things to sort out, but

we believe we are sorting that out. So, it probably take a little more time to get on this track of growing faster than market.

Moderator: Sure. Ladies and gentlemen, that was the last question since we have run out of time. I would like to thank the management of Crompton Consumer for taking time out and giving us this opportunity and also giving us a detailed presentation and patiently answering all the questions. Thank you so much, sir. Any closing remarks that you would like to make, sir?

Promeet Ghosh: Thank you very much for joining us. We will keep in touch and in case you have any other questions, feel free to reach out to Natasha, and well, we keep chatting in the future.

Moderator: Thank you so much.

K. Arunachalam: Thank you, Kunal. Thanks everyone.

Moderator: Thank you. This concludes the call.

(This document has been edited to improve readability)

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