

November 09, 2022

**Listing Department  
National Stock Exchange of India Limited**

Exchange Plaza, Plot no. C/1, G Block,  
Bandra-Kurla Complex, Bandra (E),  
Mumbai - 400 051

**Department of Corporate Services -Listing  
BSE Limited**

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

Trading Symbol: ORIENTELEC

Scrip Code: 541301

**Sub.: Transcript of Earnings Call for the quarter and half year ended September 30, 2022.**

Dear Sir / Madam,

In continuation to our earlier letter dated July 26, 2022, filed in terms of the provisions of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, regarding participation of the management of the Company in an Earnings Call, to discuss the Un-Audited financial results of the Company for the quarter and half year ended September 30, 2022, scheduled for Friday, November 04, 2022 at 10:00 AM (IST).

In this regard, transcript of the aforementioned Earnings Call is attached herewith. Further, the said transcript is also available on the website of the Company.

You are requested to take the same on record.

Thanking you,

Yours Sincerely,

For **Orient Electric Limited**

Hitesh Kumar Jain  
**Company Secretary**

Enc: a/a



“Orient Electric Limited Q2 FY23 Earnings Conference Call”

**November 4, 2022**



**MANAGEMENT:**           **MR. RAKESH KHANNA – MANAGING DIRECTOR AND CEO**  
**MR. SAIBAL SENGUPTA – CHIEF FINANCIAL OFFICER**

**MODERATOR:**           **MR. DEEPAK AGARWAL – PHILLIPCAPITAL (INDIA) PVT. LTD.**

**Moderator:** Good morning, ladies and gentlemen. Welcome to the Orient Electric Q2 FY '23 Earnings Conference Call hosted by PhillipCapital (India) Pvt. Ltd. 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 '\*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Deepak Agarwal from PhillipCapital (India) Pvt. Ltd. Thank you, and over to you, sir.

**Deepak Agarwal:** Thanks. Good morning everyone. On behalf of PhillipCapital (India) Pvt. Ltd., I welcome you all to Orient Electric Limited Q2 FY '23 Earning Call. Today we have with us Senior Management represented by Mr. Rakesh Khanna – Managing Director and CEO; and Mr. Saibal Sengupta – Chief Financial Officer. Without taking more time, I would like to hand over the floor to the management for their opening remarks post which we will open the floor for Q&A. Thanks, and over to you, sir. Thank you.

**Rakesh Khanna:** Thank you, Deepak. Good morning everyone. I am Rakesh Khanna. A very warm welcome to all of you and thank you for joining us for our second quarter results discussion for the financial year 2023.

COVID now apparently behind us. Continued global tensions, volatility of commodities and currency, sporadic severity of monsoons and prevailing high inflation, the quarter has seen it all. The quarter under review has seen a decline in revenue and margins. However, a little deeper understanding of underlying reasons gives the confidence of a bright future ahead.

To start with, the revenue decline is mainly in ECD segment. Even though we have continued to improve our share in fan segment in every channel, our primary sales took a beating due to following factors. Firstly, there was destocking by trade channel. This had an industry-wide impact, and the underlying reason was expectation of downward price correction by the trade, unpredictability of product mix after BEE Star Rating implementation from Jan'23.

Second reason was our initiative of going direct in a few states which led to sales reversals of MD stock and blackout period in the big states of AP and Telangana to facilitate a small smooth transition to direct distribution. The good part is that in the states where we have started to stabilize the operations, we have witnessed a growth of more than 40 percent during the quarter which keep increase in market shares. We are confident that the other states will also stabilize well with good trend by the end of Q3, and good positive results will be visible by Q4.

In exports, some key markets experienced economic and political instability impacting the revenue. Thanks, being the basic necessity, we are confident that the demand will come back very soon. Moreover, our initiative of developing new markets is paying off well with significant gains coming from these new markets.

In H1, coolers have grown by more than 140%, and water heaters have grown by a modest of 14%. In Lighting and Switchgear segment, we continue to outperform the industry average both in revenue growth and margins.

The Lighting and Switchgear segment reported a revenue growth of nearly 15% for Q2 Financial Year '23, and 38% for H1. We continue to expand our B2B registering a 40% growth in revenue during the quarter and H1. Revenue from consumer luminaires grew by nearly 17% and 45% in H1.

OEL is fast emerging as a front runner in high growth facade and smart lighting space with steady new influx of orders, and the company remains optimistic about its prospects going ahead with a healthy inquiry pipeline.

OEL won the contract for Srinagar's Smart Lights project under the Smart City program. Company was awarded the prestigious contract to design and provide facade lights for decorating the Kanpur Ganga Barrage to celebrate India's 75th year anniversary.

In lighting and Switchgear segment, OEL continued to post exceptional growth with three-year CAGR of 10% for Q2 and 9% for H1. During the quarter, we

have launched house wires with limited geographies and have received very encouraging initial response from the trade.

For Q2 Financial Year '23, our EBITDA dropped by 2.3% year-on-year. Lower volumes with high cost inventory and competitive pricing pressure posed stress on margins. Lower sales volumes led to reduction in production and purchase which had a cascading impact on unabsorbed manufacturing overheads. All this resulted in an adverse impact on the contribution margins causing lower leverage of the fixed overheads.

However, the execution of long-term strategic plans continued unhindered and incremental investments were made in the quarter towards additional spends Y-on-Y on account of advertisement and brand building and consultancy expenses, which has an impact of 4% of revenue for Q2 and resulting in 34% growth of other expenses. After collecting these additional investments, the normalized EBITDA would have been around 6%, which is that higher than pre-COVID levels.

Our working capital has been reduced from 44 days last year to 41 days in current year from 34 days in June '22.

At an entity level, for the quarter ended 30th September '22, OEL posted revenues of 511 crores with a growth of 17.5% compared to the pre-COVID Financial Year 2020. Adjusting for the extraordinary one-time loss of revenue due to destocking, transition to direct distribution in Fans, destocking in trade, and disrupted key markets in exports, normalized growth revenue would have been around 31.5% versus Financial Year 2020.

On the overall outlook, in fans, the current vacuum in trade channel created due to destocking is likely to result in strong off take by trade in coming quarters. Moreover, there is likely to be increased spending by all major brands and government to create awareness about power consumption, thus leading to a trigger to replace the high-power consuming fan, pushing the growth further. The one-time corrections for distribution restructuring in select states will bear fruits.

Lighting and Switchgear business is well placed to continue the growth journey and outperform industry.

We are focused on our long-term strategy of increasing market reach and market shares, profitability, better cost management and margin improvement. Our strategic Spark project is still ongoing to revamp our processes in GTM, cost excellence and digital business.

Our new Greenfield Hyderabad factory's construction is in full swing which will soon add to our capacity of delivering top quality products with better-managed costs. Our fundamentals of innovation and consumer centricity is continuously fortified. We are dedicated to deliver top quality innovative products to our consumers.

I assume that you all must have read the investor's release. On this note, I hand back to Deepak. Thank you, Deepak and team. Thanks, PhillipCapital for organizing the call.

**Moderator:** Should we open up for questions?

**Rakesh Khanna:** Yes.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Rahul Gajare from Haitong Securities. Please go ahead.

**Rahul Gajare:** Good morning gentlemen. I have got two specific questions, one on revenue, and one on profitability. On the revenue front, you know, you did indicate the three reasons why the revenue was impacted in this particular quarter. It's part of restructuring and the BEE transition. Typically, second quarter would be low on fans. I was just wondering, you know, do these reasons have such a large bearing on the entire ECD you see a 26% degrowth? That is the first part. And connected with this, you know, when you are talking about the distribution, we started the distribution for a quarter or so. So, how much of, in terms of sales, how many states, you know, the states that you have covered, how much of that sales, is covered in the states that you have already covered?

And therefore, what is left? So, we get a sense of, you know, this restructuring will take how much time and impact on the revenue. Thanks.

**Rakesh Khanna:** Rahul, can you please repeat only the question part of it? We understand your query on the redistribution. We just missed out on the question part.

**Rahul Gajare:** So, you know, the specific question over here was, you know, with respect to the distribution change that has happened and which has impacted the revenue, you have covered some states already. So, how much in terms of percentage of sales of fans is coming from the states that you have already covered in the distribution revamp? That's the question.

**Rakesh Khanna:** So, the states that we have covered account for approximately 25% of the market potential.

**Rahul Gajare:** And that's what you have covered, which basically means it's a two-year journey is what I understand from our earlier conversation. So, you expect large part of this to be covered in this particular year or you think it is going to be spread through this year and next year?

**Rakesh Khanna:** No, Rahul. We have not said it's a two-year journey. For every state that we have taken, we are saying it's a two-quarter journey. When we say 25% of market potential has been covered, we have no intentions of covering 100%. We will only address those markets where the market share is low and through the existing structure, we are not able to penetrate deeper. And that's where we have taken calls of completely reshaping and redesigning the distribution. So, we will not touch the states where we are very strong, because we believe that we have great strength in many states. Only in the weak states, we will take these calls.

**Rahul Gajare:** On the profitability, you have indicated your normalized EBITDA would have been 6%, which is about 30 crores of profit in this particular quarter, and the reported number is closer to Rs. 11 crore. So, there is a gap of about Rs. 20 crore. Can you help us identify the larger part of this cost or this difference? You have indicated there is a consulting cost and some other cost overruns

including RM. So, which are the larger parts which had impacted your EBITDA margin in this particular quarter?

**Saibal Sengupta:** I will just take that question. So, basically, despite the implications on the profitability, we did not relent in terms of getting through our investment, the long term strategic investments. One of them, the critical one is on the brand investments. On the advertising and promotion, we have significantly spent in the quarter, especially on some of the new product interventions we have done mainly in the lighting segment. And so that was one significant part of that number that you are rightly stating.

And the second part is, of course, as you know, we have engaged McKensey for some of our very critical strategic initiatives, which obviously is also we see as an investment, because there are two - three levers that we are partnering, they are partnering with us, and thus there also the cost of setting which was not present in the base. So, these are the two major strategic investments although travel and others have obviously come back to normal on a Y-o-Y basis will be there, but we are not relevant to that. These are the two majors which has impacted which you are referring to them up.

**Rahul Gajare:** This is something which one can expect to continue through the year, is it?

**Rakesh Khanna:** Yes, it will, but it will not be on a linear fashion because we can understand lighting, the advertisement we have stepped it up because of the festival period where there is a good amount of traction and sales. In varying proportions on quarter-on-quarter, but yes, it will continue and across the categories.

**Rahul Gajare:** Sir, my last question is on the other income. We are seeing significant spike in other income both in the first quarter and the second quarter given the cash balance that we have. So, just want to understand what is transpiring in the other income? That's my last question.

**Rakesh Khanna:** Other income is essentially some of the liquidations that we do and basically may come in terms of the past provisions which get written back because of the liquidations in few of the items that we have been through. That is the reason from an accounting perspective they get into other income. It should



obviously not a trend that will continue on a linear fashion on a quarter-on-quarter basis.

**Rahul Gajare:** That's very helpful.

**Moderator:** Thank you. We will move on to the next question that is from the line of Ankur from HDFC Life. Please go ahead.

**Ankur:** Thanks for your time. Couple of questions. One, you know, on the fans side, you did highlight about this whole dealer destocking given the upcoming BEE transition and as dealers expect price cuts by companies to clear inventory. Just trying to understand a little more because this is pretty well-known, right, that starting January this whole BEE transition happens. I am assuming companies would have cut down their production already, right, and maybe moved over to the new rated fans. So, do we really see a big price cut in December to clear inventory? That's one. And when do you see the restocking happening? Would it be more like a Q4 driven restocking as the summer comes and the channel restock? Is that the way we should look at it?

**Rakesh Khanna:** Yes. Ankur, it's a little difficult to exactly predict how it will go. You are right that all organizations are aware about the change, and all organizations must have been preparing. I can talk about us. We have prepared well for change over to the new star. Most of the production from November, December is one star. And however, because of the cost of one star is higher, till such time the zero star is selling. Many retailers would want to continue to buy and sell the zero star. The expectation during such time of changeover is that there would be some who may not plan well, etc. Will the prices crash? Do they not crash? Will customer buy zero star? Will customer buy one star? Given that the retailers are in a wait and watch kind of a trend. I agree that they will have to take a call.

**Moderator:** Over to you, sir.

**Rakesh Khanna:** Ankur, did I answer your question in complete or was it you couldn't hear?

**Ankur:** I think we lost you. We are talking about the zero star being cleared by dealers, and I think then we lost you after that. So, I'm sorry. If you could.....

**Rakesh Khanna:** So, we are not really sure, will the restocking happen at the end of quarter 3 or the beginning of quarter 4. But it will definitely happen. We have to just see how the overall market trend happens. We are prepared from our side with the stocks. Should the restocking happen in quarter 3 end or quarter 4 beginning, we are prepared both ways.

**Ankur:** And secondly, you did also in your comments talk about higher competitive intensity in this segment. So, just trying to understand, are you seeing higher competition from existing players? Is it new players, you know, who have come in over the last year or so? If you could just help us on this one?

**Rakesh Khanna:** Sure. You see whenever the volumes go down, the competitive intensity normally tends to increase, because everybody struggles for gaining and protecting volumes. During this time, as the volumes fell down, the competitive intensity therefore increases. I believe this will be short lived, because the volumes will soon pick up, and restocking will happen and the volumes will come back.

**Ankur:** So, it's just a temporary thing, right, because of weaker volumes in the quarter.

**Rakesh Khanna:** Yes.

**Ankur:** And lastly, sir, on the margin outlook, you know -

**Moderator:** Sorry to interrupt, Mr. Ankur. May we request that you return to the question queue.

**Ankur:** Sure.

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

**Bhargav:** So, my first question is on this distribution region. Just wanted to know how many more states are under the consideration in terms of distribution in the region, and if you can also give some sense in terms of timing and how much these states contributing in terms of percentage of revenue for us?

**Rakesh Khanna:** In terms of distribution region, we have taken these states, and we would want to stabilize these states 100% before we pick up the next. There are definitely some more states where our market shares are low. We are definitely trying to improve the market share within the existing system as of now by implementing the good practices that we are placing in these new states, but should the market share not improve, we will pick up the new states. As of now, we have clear plans that till the end of this financial year, we will focus 100% to stabilize these states and gain significant market share in the states before we pick up the new state. And the potential, as I said, these markets have a potential of around 25% on all India basis.

**Bhargav:** And a related question to this is that is the model of implementation very similar across all the states or each state have their own nuances, and hence the timing in terms of rollout could also extend beyond six months?

**Rakesh Khanna:** This is exactly same. This is a complete white paper-based designing of the distribution system, 100% same across. All of them are digitized from day one, and all distributors who come on board are on DMS from day one. All the sales teams are on sales force automation from day one. So, that's the way we are going ahead with this.

**Moderator:** Thank you. The next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

**Manoj Gori:** So, my first question would be like in the opening remarks, if I am not wrong, you highlighted like we have gained market share across channels. At the (secondary 00:23:23) level, however, the primary sales were impacted. Is that correct?

**Rakesh Khanna:** Yes.

**Manoj Gori:** So, I would just like to understand like if we look at like most of the peer companies have reported their numbers. So, why there was a lag when we were gaining market share, so obviously, others should have been impacted more with us. So, can you throw some light over there?

**Rakesh Khanna:** So, as I said, in our numbers, first of all, there is a reduction because of some specific reasons. One, there is a negative sale that we had to recall because of shifting to the new states where we have to take back the stock from the trade. We had blackout period. So, these are the reasons why our revenue is less. That is number one.

Number two, our pipeline inventory in the rest part, which is 75% of the market, our pipeline inventory is much longer than any other player, because we have an MD structure. And therefore, during any such time when the stock correction happens, our stock correction is actually one of the highest, and that's the lag. So, these are the reasons why the reported number, our primary sales would be lower than the other peer group companies' numbers.

**Manoj Gori:** So, secondly, if you look at, just wanted to get sense on a directional basis, so, obviously, we have lacked because of the initiatives that the Company has been taking into various states on the distribution side. Should we expect the outperformance versus players, other players in the industry probably Q4 or probably in FY '24 from the first quarter itself that should be a significant outperformance?

**Rakesh Khanna:** I won't really comment on that part, because you are asking with respect to other capable players. All I will say is from our side, there would not be any such kind of thing holding us back. We will be gaining all the advantages of the new states by that time. By quarter 4 end we should be completely enjoying healthier market share in all these new states. So, that's on the positive side, you will see good results in quarter 4.

**Manoj Gori:** Sir, lastly on the wire side, can you share some thought process over there, like what we are targeting? What would be the manufacturing strategy over there? So, can you throw some light, like what's the longer term thought process over there?

**Rakesh Khanna:** Initially, we will be outsourcing till such time the volumes are small. We will re-evaluate as we gain significant volumes. We do not intend to play very big in wires as a category, but we definitely want the portfolio to be complete considering that in between influencers like electricians and traders would

want a complete portfolio, and therefore, presence of wires seems to be important. We will be playing with that perspective, and initial response from the trade is very good, and we have therefore started with a select range only. We are not going all out with a complete range. We are going with a select range, select geographies. We will learn and then take a final call.

**Manoj Gori:** Does it have any negative impact on the overall operational profitability as of now? And how do we expect any impact, possible impact on the operating profit in the coming year? So, just wanted to understand from an investment point of view for building brand.

**Rakesh Khanna:** Excellent. No negative impact. In fact, what happens is, it is the same infrastructure which can actually put the wires also. Therefore, it does not come with any incremental cost. It only comes with incremental revenue and margin. That's point one. Point two, because that we are now giving a complete portfolio to the partners, it helps to push the rest of the products also. So, this is a category which will only give us a positive, and I do not see any negative.

**Moderator:** Thank you. We will move on to the next question that is from the line of Rahul Agarwal from Incred Capital. Please go ahead.

**Rahul Agarwal:** Sir, first question was a clarification on the distribution rejig you mentioned. So, should I assume that the March 23 will be done with the states you mentioned which is UP, Karnataka, AP and Telangana, and then over time we will realize and we will figure out what really happens with other weaker states, and we will take it up sometime in first half of next year? Is that correct?

**Rakesh Khanna:** The first part of the question, yes, you are correct. By the quarter 4 end, we should be done with these states. We will evaluate the next step if required thereafter.

**Rahul Agarwal:** Sir, could you give any indication like number of at least the number of weaker states less apart from these which you have already named? There could be like another five or there could be another two.

**Rakesh Khanna:** I would hope that we do not have to go anywhere else if we are able to gain our significant market shares as targeted in the other weaker states also by then.

**Rahul Agarwal:** And my last question is, sir, on the fan inventory. Total inventory obviously we have in the balance sheet is 290 crore. If it is possible, could you share what is the split between non-rated and rated inventory right now? And should I assume that maximum by Jan end assuming that the channel fills, refills, restock, destock, by Jan end, what is the entire non-rated fan inventory out of the channel and then start buying rated fans because there is no option anyway because the summer 2023 will be very close?

**Rakesh Khanna:** Given our inventory in terms of mix, we have already corrected most of it, and non-star in a very small quantity left anyway. The non-star being manufactured is only what we are 100% confident that we will be able to sell and the trade really wants it during this period. Otherwise, non-star will not be manufactured. In terms of the total quantity, the total inventory, I don't think it will make a significant shift, because inventory is based on how much inventory we require for the future sales. So, it will be based on that. I really do not see a link between these two things. On your query that our inventory is healthy, answer is yes, the inventory is healthy. There is a very small quantity of non-star available with us now, which will easily get cleared in this month and next month.

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

**Bhargav:** Thanks for the opportunity again. Sir, given that you mentioned you have a very limited inventory of zero-rated fans. Is it fair to say that the discounting intensity will only reduce as we near December and bulk of the discounting has already been done?

**Rakesh Khanna:** Bhargav, yes, as far as we are concerned, it will depend on how the competition is well prepared and how much stock the overall industry is carrying. That will decide how much discounting happens. From our side, our stock is fairly low, and we have very little pressure to sell the stock at any price.

**Bhargav:** And the last question is, is there any risk that the upcoming summer season maybe a washout given higher inventory with the channel of zero-rated fans, and they may not want to fall short of stock, the new energy rating in Q4?

**Rakesh Khanna:** No, I do not see any such challenge, because it is only till such time that the previous inventory gets over that people have a wait and watch. Truly, once that is done, it's over. It all depends on how much is the consumer demand. I personally believe from whatever figure that we are reading in terms of be it the travel and the kind of investments people are doing in terms of the housing sales etc., I have a very strong belief that coming summer will be good, consumer will be outweighed to buy and we all should be happy.

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

**Achal:** You know, my first question was in terms of the manufacturing, is it fair to say that the non-star is almost negligible now, and all the fans what we are currently manufacturing have the star rating?

**Rakesh Khanna:** No, Achal. We are manufacturing significant amount of non-star still, because the trade wants it till the December period. But only very fast moving to the extent that the demand is there only to that extent is that being manufactured. A very rigorous planning process is in place so that we do not get stuck with any of the non-star as the transition happens.

**Achal:** And you know, in terms of the cost impact, the non-BLDC fans will see a cost impact when they are converted into one, two, three, four stars. Can you help us understand what is the impact in terms of the cost?

**Rakesh Khanna:** It depends on different fans. For example, a fan which already has higher number of polls is a very strong fan, will not have as a percentage very high cost of converting from zero star to one start. But a very low-cost fan, which is not very efficient, will have a higher cost. If you want percentage, you can take anywhere between 10% down to 3%, 4% is the kind of cost increase.

**Achal:** In the process, do you see that, you know, there would be an impact on the demand from, you know, at least in the low-end, and also, you know, the move from unorganized to organized players at the industry level?

**Rakesh Khanna:** Some shift may happen, but I personally believe that as the awareness will start going up, people will start understanding the price that they pay by buying a

lower-cost products over a period of time. The awareness will significantly grow in terms of power efficiency, and I believe that more and more people will instead start shifting towards more power efficient fans which will tend to take the average selling price higher.

**Achal:** Just another question I had on the distribution rejig part, you know. What I wanted to check is, is it fair to say that, you know, the states where you are weak in terms of the market share because of the current distribution structure, you are changing it to a direct dealer? You know, if you can give some color as to what exactly are these changes?

**Rakesh Khanna:** I have not understood your question, Achal. Can you repeat?

**Achal:** In terms of the rejig, what does it mean? You know, are you moving to a direct dealer channel or, you know, exclusive distributor and so on so forth?

**Rakesh Khanna:** So, in these states, we go back to the drawing board. We look at the state. We divide the state in districts in talukas, etc. And then we decide how much of the geography can be optimally distributed by a distributor, and thereby, we divide the state. Then in each of those pockets, we go and look for a distributor whom we call a mapped market distributor for that particular geography. This distributor for fans is an exclusive distributor and is a non-retailing distributor. So, this distributor is responsible from day one to put a DMS system that is 100% visibility. His team should be on SFA along with our team, and it's clearly understood how many shops this person is responsible for, and what share in that place. So, this way we complete the entire states and appoint multiple distributors.

Apart from that, there are some very large dealers who would want to buy directly from the company, and we also appoint those very large dealers as the direct dealers. So, this is the process by which we do, and we are gaining very good traction due to this. The retail is very happy because of this. The stock availability is very good. The service levels have gone tremendously up. And therefore, we are seeing a very steep increase in the market shares in these states.



**Achal:** Perfect. If you could just help us with the market share for FY '22 in each of the categories?

**Rakesh Khanna:** We don't have a very syndicated data on the market share. Therefore, I will stay away from quoting market shares.

**Moderator:** Thank you. The next question is from the line of Keyur from ICICI Prudential Life Insurance. Please go ahead.

**Keyur:** Sir, just want to ask when we implement this star rating, any thoughts or discussion with the authorities how strictly or how it will be monitored or implemented? And basically, just one fear is that if this is not implemented properly, then there will be a mustering of fake star rated fans, which are not compliant, but which would be lower in the price, and that may dent the organized players. So, just want to understand industry's efforts or your discussion with the authority, how this will be implemented?

**Rakesh Khanna:** Keyur, BEE star rating fortunately for fans is not being implemented for the first time. There are many other categories where the authorities have gone through the process of learning how to implement. The implementation challenges are there and will remain. However, there are strong processes, which the government has, in terms of ensuring regularly picking up the stocks from the market, checking reaching out to the manufacturer, and taking actions of the manufacturer where it is not as compliant. But yes, there would be challenges, but the government has done a very good job in ensuring that the BEE star ratings are well implemented across the country.

**Keyur:** And second question, say, star rated, basically, it is mandatory to have a star rating. So, say star rated one and two or star rated one, two, three, all this will be similar to what our current fans are, and it will require lower technical change. Is that the correct understanding?

**Rakesh Khanna:** No, Keyur. In fact, most of the fans in the market today do not qualify for single star. Most of the induction fans will have to be, that the specifications will have to be up to make them at least one star or two star. For five star, my own understanding is that as of now, only the BLDC fans will qualify for five star.

**Keyur:** So, some technical changes are required, but still four-star induction motors can be used, but for five star, you will need a different motor and entirely different ecosystem.

**Rakesh Khanna:** Till now, yes. Till now, yes.

**Moderator:** Thank you. The next question is from the line of Nikunj Gala from Sundaram AMC. Please go ahead.

**Nikunj Gala:** Sir, I just need one clarification, like two comments which you made on the call. At one side we are saying there are already, you know, zero star inventory line with the leaders, and we also don't know how the competitions are positioned in terms of zero star, you know, inventory, and there can be a case of we might have to give some discount or the competition might have to give a discount. And in one of your other comment you mentioned you are still producing zero star fans. Just the dealers are asking for it. So, like my main question is, you know, like why are we producing even zero star today? And like these two comments seems to be contradicting, so just need clarification, you know.

**Rakesh Khanna:** See, till December 31, we, all the manufacturers can sell the zero star. This no star fan, the prices is lower today. So, if some part of the trade wants to purchase the zero star and do not want to start with one star because that the price is higher, one has to continue to supply what the market requires. This will come to an end because if by the end of December we want to be exiting with zero inventory of zero star, and so would everybody else want to exit with that, most players would try to ensure that there is lesser of zero star produced. It's as I said, there is a strong process in place, a rigorous thing going on in planning so that the transition is well managed. It's about managing what the market wants versus that we should not end up with any zero star.

**Nikunj Gala:** So, like in few of the markets where you mentioned where there is a requirement for the zero star, but where there is a, you know, inventory which is there are two states where zero star are not required, but there is not possible for move those inventory to there? You know, just I'm trying to understand, this is the case which happened in other sector also whether in auto when BS

IV transition happened, the OEM, you know, two three months ago started not producing those kind of vehicles and not give the most to the dealers. So, maybe at a industry level, some kind of arrangement that we won't produce at all and why to have those kind of dead inventory when we are going into Q4? Just want to understand that thought process.

**Rakesh Khanna:** Nikunj, what you are saying is perfectly right, and the target is that we should not have any kind of a dead zero-star inventory. That's the target, and that's where a very rigorous planning process is being put in place. We will ensure that we are not having any pressures of liquidating any of the non-star inventory. We are very clear on that.

**Moderator:** Thank you. The next question is from the line of Ashish Kacholia from Lucky Investments. Please go ahead.

**Ashish Kacholia:** And my question basically, sir, this change in the distribution model that we have kind of implemented, is it going to be for our entire portfolio of products and across the entire country or it was going to be like in pockets?

**Rakesh Khanna:** The distribution through a master distributor is only in fans. And therefore, it is only in fans that we are making this change. In rest of the products, we anyway do not have the master distributor concept.

**Ashish Kacholia:** So, this, basically, it will be a same distribution model now for across our entire product portfolio or we will have different distribution models for different product categories?

**Rakesh Khanna:** Like what? I have not understood your question. Sorry.

**Ashish Kacholia:** No, I am just asking a simple question. Is our distribution model now uniform across the entire product range or it's going to be different for different product ranges? You change the model in fans.

**Rakesh Khanna:** So, within fans you are talking product range?

**Ashish Kacholia:** No, across different products, so lighting, fans.

**Rakesh Khanna:** So, lighting we are anyway direct. We do not have master distributor for anything else.

**Ashish Kacholia:** So, everything comes to a direct platform now. Is that what you are saying?

**Rakesh Khanna:** In these states, yes.

**Ashish Kacholia:** And the rest of the states?

**Rakesh Khanna:** So, where we have the MD structure, that will continue.

**Ashish Kacholia:** So, one country, one distribution model, is that the objective eventually?

**Rakesh Khanna:** No, Ashish, I mentioned this a while back, that we have taken these states, six states. We are stabilizing in these six states. We are not planning to take up any new state till we completely stabilize. Thereafter, we will evaluate. If any state, our market share consistently is not improving despite the efforts, we will choose to rejig in that particular state, but we have not taken any decisions as of now. But definitely, we value our Master Distributor structure hugely, because it's a phenomenal strength that we have. Some of the states we have excellent market shares, and the strength is our Master distributor. We would not want to touch those states.

**Moderator:** Thank you. The next question is from the line of Rahul Agarwal from Incred Capital. Please go ahead.

**Rahul Agarwal:** Thanks for the follow-up. Sir, one question on exports. You highlighted some issues there. My understanding is, you know, our best years have been about 100 crore plus sales in exports and largely fans, almost like 7, 8% of total fan sales. Which is the largest geography facing this issue right now? And how long does it take to recover? Or is it already done with and 3Q, 4Q should be normalized?

**Rakesh Khanna:** These are some states in the African markets where there is the political and economic turmoil, and from whatever we see, some part of the markets may take a little longer, but the larger part we are already started getting those orders back now. So, the reason is that fans is a very basic kind of a product. Even if

there is an economic and political turmoil, the basic necessity will remain. And therefore, even if the demand goes down, it will not go abruptly down. It will tend to come back.

**Rahul Agarwal:** And lastly, assuming that by March '23, which you alluded earlier, that we are done with most of the states. You have already named, and the BEE rating has a clear picture by that point of time. We obviously enter the summer season stocking. Channel is settled down. Raw material prices are in favor, and your new factory also comes up somewhere around April, May. Everything put together, do we see next year margins going back to pre-COVID levels? I am talking about EBITDA margins going back to 8, 9%? Should fiscal '24 be a stable year? That's the question.

**Rakesh Khanna:** Yes.

**Moderator:** Thank you. The next question is from the line of Vinod. Please go ahead.

**Vinod:** Sir, you mentioned that the entire, all manufacturers will carry zero inventory of the zero-rated fans by December 31st. In your view, what is the likely channel inventory on December 31st? How many days do you think the channel would be carrying at that point of time?

**Rakesh Khanna:** Vinod, very difficult, because in case the channel picks up ahead of time and the whole restocking happens end of quarter 3, the channel will carry large inventory. And in case the restocking doesn't happen, and the restocking happens in initial quarter 4, then they will enter with a lot of vacuum. I do not have a clear visibility on that. We will see how the year ends. But I can only tell you, currently, the channel has a huge vacuum and channel will fill up before the season. It will either be end of the quarter 3 or the beginning of quarter 4.

**Moderator:** We will move on to the next that is from the line of Chirag Lodaya from Valuequest. Please go ahead.

**Chirag Lodaya:** Sir, I have only one question. So, in the states where you are moving from Master distribution to direct distribution, what would be the impact on margins because of this change in that particular state if we want to understand?

**Rakesh Khanna:** Chirag, there would not be any major impact on the margins, because you understand that there will be increased cost of reaching out to the trade. We do not see any gain in margins. That is likely to be neutral, but we do see significant gain in market share in the areas where we were going, and we see a very strong increase in retailer recommendation rate, the service level increase. That is what is going to be the main differentiator.

**Chirag Lodaya:** So, sir, just wanted to know if there is no material change in profitability eventually, and you see increased service levels and improvement in market share. Then why not take whole of India gradually, you know, step-by-step? Why you want to just focus on states where you have low market share at this moment?

**Rakesh Khanna:** Because in some of the states, we already have very high market share, very good service levels. There is no reason to disturb that.

**Moderator:** Thank you. We will move on to the next question that is from the line of Manoj Gori from Equirus Securities. Please go ahead.

**Manoj Gori:** Sir, just one thing I need to understand is with regards to the transitioning from your zero rating fans to one, two, three and other star ratings, sir, how do you actually envisage the demand moving probably? How was your production planning? How do you see the behavior of channel? And what should be the price differential within star ratings? And accordingly, on a blended basis, how do you expect the realizations to move up?

**Rakesh Khanna:** So, Manoj, I addressed this at length earlier. I just repeat it for you. First of all, we will stop manufacturing these fans, stop selling these fans from 31st December. We are aware that there has to be a transition, and there is a very strong process in place for planning and ensuring that the transition is smooth, and we are not stuck with any zero star rated. As far as the trade is concerned, the trade can continue to sell the non-star rated products till such time they have the stock. There is a cost advantage with the non-star fans, and that cost advantage is to the extent of anywhere between 3 to 10% depending on the kind of fan. It is still to be seen how the consumers will react to the star versus non-star ratings. Would the consumers prefer a low-priced non-star fan? Or

will the consumers prefer a star rated fans even at a high price? This all will be seen once the consumer comes into the market. We will understand it by the quarter 4, and that is where the unpredictability is there, and that's one of the reasons why the trade is playing the wait and watch scene as of now.

**Moderator:** Thank you. Ladies and gentlemen, we will be taking the last question that is from the line of Gopal Nawandhar from SBI Life Insurance. Please go ahead.

**Gopal Nawandhar:** I am not sure whether you have talked about this. Has industry taken any price cuts during the last quarter because of the decline in the raw material prices?

**Rakesh Khanna:** Yes. There are continuously price corrections being given not exactly as a price change, but in terms of schemes etc., some benefits have been passed on, and there would be some price corrections which will come now as the commodity prices have come, and the earlier high-cost inventory is getting liquidated. There will be some price corrections, which will come.

**Gopal Nawandhar:** Can you quantify?

**Rakesh Khanna:** Difficult to say, because they vary a lot based on different categories, different fans.

**Gopal Nawandhar:** And what kind of price increase one should expect because of the changes in the star rating? Because considering the raw material prices are falling, will it be required to take any price increase or it can still offset that?

**Rakesh Khanna:** The price, you are right, that there will be some price drops and some price increase. You are absolutely right. What I can say is that the difference between the non-star and star rated fans, there will be a price difference of anywhere between 3% to 10%.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now have the conference over to Mr. Deepak Agarwal for his closing comments.

**Deepak Agarwal:** Thanks everyone, and thanks management for giving us this opportunity to host this call. Management, any closing remarks that you want to make? Thanks.

**Rakesh Khanna:** No, thank you, Deepak. Thank you for hosting, and thanks to all the participants for joining and your continued interest. We are very bullish going forward. We believe that the season is going to be good. I want to wish all of you happy festive season and the coming year. Looking forward to a good quarter 3. Wish you all the best.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of PhillipCapital (India) Pvt. Ltd., that concludes this conference call. Thank you for joining us. And you may now disconnect your lines. Thank you.