

Crompton

Crompton Greaves Consumer Electricals Limited

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Date: May 23, 2024

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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Our Reference: 43/2024-25	Our Reference: 43/2024-25

Dear Sir/Madam,

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

With reference to our earlier intimations dated April 26, 2024, and May 16, 2024, regarding the Earnings Call on the Audited Financial Results for the quarter and year ended March 31, 2024, held on May 16, 2024, please find enclosed herewith 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



**“Crompton Greaves Consumer Electricals Limited
Q4 FY24 Post Result Conference Call”**

May 16, 2024

**MANAGEMENT: MR. PROMEET GHOSH – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER – CROMPTON GREAVES
CONSUMER ELECTRICALS LIMITED
MR. RANGARAJAN SRIRAM - MANAGING DIRECTOR,
BUTTERFLY GANDHIMATHI APPLIANCES LIMITED
MR. KALEESWARAN ARUNACHALAM – CHIEF FINANCIAL
OFFICER – CROMPTON GREAVES CONSUMER
ELECTRICALS LIMITED
MS. SWETA SAGAR – CHIEF BUSINESS OFFICER –
BUTTERFLY GANDHIMATHI APPLIANCES LIMITED
MR. YESHWANT REGE – VP, STRATEGY & FPA -
CROMPTON GREAVES CONSUMER ELECTRICALS
LIMITED
MS. NATASHA KEDIA – HEAD – INVESTOR RELATIONS**

ANALYST: MS. RENU BAID – IIFL SECURITIES

Renu Baid: Hi good evening, everyone. Welcome to the fourth quarter FY24 earnings conference call of Crompton Greaves Consumer Electricals Limited. Today from the management team we have with us, Mr. Promeet Ghosh, Managing Director and CEO, Mr. Rangarajan Sriram, Managing Director, Butterfly Gandhimathi Appliances, Ms. Sweta Sagar, Chief Business Officer, Butterfly Gandhimathi. Mr. Kaleeswaran Arunachalam, Chief Financial Officer. Mr. Yeshwant Rege, Vice President, Strategy & Financial Planning. Ms. Natasha Kedia, Head, Investor Relations. With these words, I now hand over the call to Promeet for his opening remarks after which we start with the Q&A. Thank you and over to you, Promeet.

Promeet Ghosh: Good evening, everyone. We are doing this in the evening on the day that we announced the results for the first time ever I think. So, hopefully you guys are not too tired out for a hectic day earlier today. You know everyone around the table. I'll quickly introduce Sweta Sagar who we have just announced as the Chief Business Officer, who has joined us in about a month ago now almost and she's just been announced as the Chief Business Officer for Butterfly a couple of days ago. She is no stranger to kitchen appliances, has about 20 years of experience much of it Versuni and also at Hindustan Coca-Cola, Hutchison Essar, and a few other notable companies. So, welcome aboard Sweta. What we will do is, if there are some questions that we need to direct you, we will do that, Sweta. So, I will get straight to my remarks. Again, what we have done is, we have uploaded not only the press release, the results, but also a presentation. I trust all of you had a look at it.

So, after I made some short remarks, we will go quickly to a Q&A, idea being that we try and take as many questions as possible of either from what I say just now or from anything else that you may want to talk about. Now, all of you know this is about the third quarter of Crompton 2.0, which we launched after I joined sometime in June. So, it's helpful I think for us to see how Crompton 2.0 is coming along.

What I am delighted to report is on top of what was a very robust quarter for us Q4 in FY23, we had very stellar growth this quarter as well. We are reporting about 14% growth in our ECD business and all of our businesses are practically speaking, we have hit various records in terms of our sales this quarter.

So, having said that, what I am even more pleased to say is a conversation that I have been having with you over the last few quarters is that, as we accelerate growth in our portfolio, we will do it together with also accelerating profitability and you are beginning to see some of that come through. So, our EBITDA profit which was roughly about 10% for the last three quarters is now stepped up to about 12.5%. That is higher than the EBITDA margin

that we had in the quarter last year despite the fact that we have continued to invest across the board in longer term brand building exercise and A&P exercises.

As you probably know, our A&P is up by about 49% wherein we are investing for the future. We are also investing in other areas, but particularly obvious in brand building and there is a further investment of about 14 crores, an expense of 14 crores which has been taken this quarter alone towards EPR. Again, something that I assume you are familiar with. So, with that opening remark, let me quickly get into some of the high points of what happened this year.

Firstly, fans reported the highest quarterly sales this quarter with growth of 13% YoY. Pumps grew by 9% and appliances at 27%. We witnessed an improvement in premium saliency YoY of 3 percentage points, that is 300 basis points. In ceiling fans, 380 basis points in lighting, and 410 basis points in large domestic appliances. To put our premiumization journey in fans in perspective, a year ago we were selling one out of five premium fans. Now, we are probably selling more than one out of every four fans. We have also crossed the milestone by some margin of selling 2 crore fans per annum for the first time. We have had strong double-digit growth in fans in our portfolio for the first time since the pandemic. We have had strong double-digit growth in our fans consistently for the last three quarters for the first time since the pandemic and this is of course, also enabled us to improve our gross margins in fans and they have gone up order of magnitude from about 23% to about 25% this quarter - 23% in Q1 to about 25% in this quarter.

Remember by the way that we talked a lot about how we were focused a lot on cost saving initiatives. Some of this was taking price increases in the market. So, that is what's coming through.

In solar pumps, this is a new area that we entered last year. During the quarter, we secured fresh orders of 87 crores making our total empanelment for the year of about 122 crores. Needless to say, we have therefore a strong pipeline going forward.

Air coolers grew at 33%. We launched new models there. Small domestic appliances grew at 35%. Large kitchen appliances garnered a revenue of 61 crores. Now, this is a business in which we are investing and our profitability factors in as we have told you before, our EBITDA loss of this business. So, our profit, just for context, there is an EBITDA loss which is factored in of 25 crores in this business per annum. As a part of our investing journey in that business, we have set up a new manufacturing line at our Baroda facility.

Lighting for a while has been an area of some anxiety, I am very glad to say is showing great signs of having stabilized. This quarter as well while growth was flat, we can say that the degrowth that we persistently saw in this business has stanchd. In this, within this, B2B in particular has shown robust growth, and you can see the benefits of focusing on enterprise projects in a very, very concerted manner come through.

B2C has still degrown and as you know that is to a great extent because of price erosion in our Lamp segments, also to an extent lighting segments. There is also some degrowth there because unlike last year which included conventional lamps, we this year have entirely stopped making conventional lamps. So, there is 0 conventional lamps in our B2C portfolio anymore. So, we have cleaned that up.

Now, in terms of investments that we are making. You already know that we have been quite focused on A&P spends. During the year A&P spends were 217 crores, which was about 3.14% of our revenue versus about 2.5% of revenue last year. That's about 1.1% higher and that is a structural change that we have done and like I said before, our A&P spends are up about 49% over the last year.

Similarly, we have continued to focus on innovation. Now, you may have over the last quarter also seen some of this translate into a steady flow of patents being granted to us. During the year, 85 design registrations were filed, 17 patent applications made, and 10 patents were granted. 71 crores again, a part of the costs already was incurred towards R&D expenditure. We are working to build on further building on our people's capabilities and as you are aware one of the first things we did about Crompton 2.0, was to roll out a new organization structure, but we built on that further and now we have probably unveiled a corporate purpose and corporate values which are firmly embedded in the way that we do our business.

Even with these higher investments, our Q4 EBIT margin excluding EPR, which as I said was about 14.1 crores was robust at 12.3%, which is 1% higher than last year. ECD EBIT margins have consistently increased during the year from 12.7% in Q1 FY24 to 17.2% in Q4. Again, the Q4 number excludes the EPR impact because obviously that is the entire impact of EPR has been taken in one quarter. So, it is not otherwise comparable. Lighting EBIT even as we are coming back to a stable lighting business in the face of declining prices in the market, has remained very strong. So, lighting EBIT margin is at 11.1%, again, excluding the EPR impact. During the year, cash flow from operation was 130% of PBT, which compares with about 72% cash conversion last year. We remained focused on expanding our go-to-market and we are further expanding into our alternate channels. We

reported last quarter that they account now for about 20% of overall sales. Make no mistake, it's very, very important for an organization like us to have a great mix of channels because that is the secret to profitability.

So, while we are investing in alternate channels, which are areas like ecommerce, MOR, rural, we are very clear we also are continuing to invest a piece in our general trade channel and that's growing as well. That is also our most profitable channel.

Some records there, our ecommerce channel recorded for the second time running materially higher sales than 100 crores again. Our rural channel grew at 23% and our export channel for this year, for the first time again has hit a record and has crossed 100 crore export; still small in context of overall sales, but it is a channel that we are building on and you can see the benefits of that come through. So, we have crossed 100 crores in our exports as well.

Now, very quick word about the future outlook. This quarter we are continuing seeing a fairly strong demand by the summer that we are having this year. So, we have a positive outlook. We continue to watch the commodity space carefully and we are continuing as we have done before to take measured price increases across our product range as we have said we would. We have capitalized on the power of the Crompton brand for requisite investments to help the company maintain its competitiveness and gain market share. While Crompton 2.0 was launched in Jan 2023 and we called out this new approach, I am glad to say that our focus on revenue growth translating also into profit growth seems to be working.

Insofar as Butterfly is concerned, again those results we announced a couple of days ago. As you can see, now we were planning as you recall to merge Butterfly that didn't work out. So, we are moving on. A transition is well underway in Butterfly and we are strengthening the management there. Sweta joining is one of the key elements of that. You will continue to see some of this going forward. We are also in the process of making various interventions, aligning of policies at Butterfly ensuring that the revenue recognition policies etc. are identical to some of those that Crompton follows. That doesn't mean it leads to loss in sales, but what it does do is it differs some times for instance in this case for Butterfly sales from one quarter to another.

There are also settlements that we have closed out. There are one offs that we have taken in that company and clearly, the way forward is to grow from here forward. This quarter the revenue of Butterfly came in at 166 crores. The EBITDA was -20 crores and you can

tell that the transition is having an impact, and one offs are having an impact on the EBITDA there. You can see some of this in much greater detail if you look at the Butterfly results also. Apart from everything else, this also includes 1.2 crore of EPR that we have done. We have also reorganized our manufacturing facilities, moved them out of one of the facilities that we had at Butterfly. We have surrendered that facility. So, we don't incur the costs, but that does mean that there are some one-off cost from reorganization of business at that factory.

Sustainability. Sustainability and there is not a company, frankly, which is more in the midst of sustainability of global warming as us. We are the largest fans company arguably in the world in ceiling fans, we have a huge position in Pumps, we are the largest residential pumps company in the country. We have a large position in Geyser's. We have a large position in Air Coolers. So, a lot of global warming has to do with us, but we are also and that of course translates into what it will in terms of a business, but more importantly, we are very focused on sustainability and what we do to contribute to global warming, and as a measure of some of those efforts, very, very initial measure of some of those efforts, there's a DJSI ranking that we participated in and that DJSI Index we came in the 7th ranked company globally in our segment, but that is something that we are just getting started in and I think you will see more of. With that, I will open the floor for questions.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Aditya Bhartia. Please go ahead.

Aditya Bhartia: Good evening, Sir, my first question is on the pumps business wherein you highlighted some of the solar pumps orders that you have got. Are we considering Agri Pumps as a big opportunity and within that is Kusum scheme something that is exciting us?

Promeet Ghosh: We are absolutely considering Agri Pumps as an exciting opportunity. As you will recall, that is an area that we went in a quite concerted manner some quarters ago and that is bearing results. So, in fact we have now garnered about 7% to 8% market share in the Agri Pumps business. So, it is a very interesting area for us. Whether we participate in Kusum or not that is something that of course depends on whether the profitability metrics of the bids makes sense to us or not, but certainly we see momentum in our Agri business and we are being able to build on the strength of our residential business and translate that into a much better market position in Agri.

Kaleeswaran A.: And just to add to Promeet, there is a strong pipeline that has been built for solar also. I think today we have about 85 plus crores of orders in the pipeline that is executed apart

from the 35 crores of order that we have already executed in Q4 and we will see how the momentum carries forward as we look FY25 onwards.

Aditya Bhartia: Perfect. My second question is on some of the investments that we have been making, like for R&D you mentioned that this year we spent 71 crores, if my memory serves me right, we spent almost a similar number last year as well and A&P also we have stepped up quite a bit. So, do you think that now we have hit a sustainable run rate and from here on these expenses would possibly be increasing at the same rate as revenues and that one time step up that we required is already in the base?

Promeet Ghosh: Yes, I think it is fair to say that the step up is happened and that you would probably see these levels being maintained. That is a fair expectation especially as percentage of revenue, I think you would see those kinds of levels being mentioned

Aditya Bhartia: The last one on Butterfly performance. How should we see that business going forward? All the one offs that you highlighted, are they all being taken into account? Is there something else as well, some other convergence that we may have to work on in the next few quarters? Or from hereon, think things are looking a lot better?

Kaleeswaran A: So, Aditya from a Butterfly perspective, if you look at it, there are 2-3 aspects that we wanted to work upon during the course of the year. One is how do we ensure that the channel mix is optimized and we make it as a pureplay brand, which is where there is the sense in institution and corporate channels, that de-risking is largely completed. The second is in terms of how do we align the policies between Compton and Butterfly at similar levels and also ensure that the one-off bits that we have to be taken has been taken and get that sorted. By and large that has also been completed. As we look forward for the next quarters, we did convey to you folks, when we met last time, we expect the business to start picking up momentum Q2 onwards. That is when you will see both revenue and profitability moving up in the right direction. There are few interventions that we have to make in terms of pricing actions that we have to take for that business also. Those have already started both in trade and in ecommerce. Investments behind the brand continues. You would have seen that even in Q4, we have stepped up our advertisements spends by almost 2.4X compared to the previous year. So, overall, in a nutshell, by and large the revenue corrections are done. We now need to focus how do we get the revenue growth back. The investments towards the revenue growth, let it be people or let it be the A&P spends has been incurred and we will continue to incur. The policy alignments are lastly done one or two here and there could be there. Q2 onwards we should start seeing a lot of these things reflecting back in the results.

Promeet Ghosh: I would say substantially done.

Moderator: The next question we have is from the line of Aniruddha Joshi from ICICI Securities

Aniruddha Joshi: Sir, two questions. One, we have spent considerably in ad spend and R&D, so in this case, the best way to measure any ROI is increase in market share on higher ad spend and R&D. So, if you can indicate what are the market share gains, we would have got or observed across the segments be it in premium products or the let's say overall categories itself? That is question 1. In terms of question 2, at the time of strategy 2.0 presentation, we had seen a possibility of entry in multiple categories that is cables, wires, switches, switch gears, even white goods also. So, any further progress on that front? One last question is in terms of Butterfly was expected to be earning accretive in year one, but now almost year two is over. So, when do we see the earning accretion from this acquisition? That is it from my side. Thanks.

Kaleeswaran A.: From a market share perspective, that is the right perspective to look at it, Aniruddha. Glad to state that our market share has gone up in ceiling fans. Our market share has gone up in premium fans within ceiling also. So, we are moving in the right trajectory from that perspective. Even more important to look at that in a category like Geysers, based on the investments that we have made behind the brand; we have today become a #1 player in ecommerce. Looking forward in categories like lighting where we haven't advertised in the past ever, we have just started investing behind the brand. We are seeing early signs of results in categories like ceiling etc. moving in the positive direction. Having said that, market share is an outcome of various things that we do. It is not right to link it only to A&P spends that is going to have.

As we talked about earlier, one is first how do we have an organization that is driving consumer led innovation where we invest behind this and get new products that are more relevant for the consumers, which goes beyond the functionality. Second is how do we leverage our go to market strength. Now, go to market we are not only talking about the traditional trade which continues to be a great strength for us, but also the alternate channels and how do we increase the share of business from that perspective. Third is on ground execution and outcome of this is what you see in market share, but independent of that we are seeing positive actions and positive trends in market share already.

The second question was in terms of new categories. I think as we said last time, that's an indicative reference of what is the lay of the land available for us and how do we want to go about it. Yes, obviously we will look at new categories and at appropriate time will

come back and communicate what categories we are entering. This is something sensitive and we wouldn't be able to put it up front, but the vectors that we will look at is, one is either our go to market strength or the solutions that we want to look at like large kitchen. That is what will drive our entry into new categories. Things like white goods are not even in the thought process to see whether we have to look at it.

Butterfly, we made some clarification about the path that we want to take on Butterfly in the last two earnings call. The idea for Butterfly is there was a clear opportunity to see whether you make it as a commoditized business which is a mass brand that can be price led at a price warrior play or the alternate choice was it's a young brand, a market leader in South, consumers resonate with it in a very, very good manner. How do we play to the strength of the brand? That means that the business had to take tough calls which means it has to bite the bullet and correct sales and channels like institution and corporate, which are not sustainable because the moment you find that you are getting a Butterfly gas stove in an oil marketing company when you buy a cylinder or when you go to a Reliance Retail and find out along with the garment, you buy a mixer and the brand equity goes down.

So, that's a conscious call to ensure that we correct these channel mixes, ensure that we go to the right channel mix, and also take the other things that we need from one off thing that we talked about earlier. So, from our perspective, this is not a business that we are looking at a one quarter, two quarter perspective. We are committed to this brand. We are continuing to invest behind the brand. We are confident that it will have robust performance as we move forward.

Promeet Ghosh:

All I'd say is that your point about investing in the brand and investing in R&D and innovation translating into market share is right, but fundamentally what this is doing for us, is not only strengthening our position today, but getting us future ready and the future is changing faster than any of us might imagine. Consumer preferences are changing rapidly and regulations are changing rapidly. What all of this does is that it not only translates into market share gains which we are seeing, but hopefully makes our position much more robust for the future

Aniruddha Joshi:

Got it Sir. Very helpful.

Moderator:

The next question we have is from the line of Rahul Gajare from Haitong Securities.

Rahul Gajare: Thanks for the opportunity and I would actually like to congratulate the team for the improved disclosures, giving better color on the performance. So, that is something which I wanted to say upfront. My question is on the Pumps business. Now, can you talk about the margin range that you typically have for these pumps orders that you would be having, and the execution cycle including the cash collection timelines in such orders? So that's the first question.

Promeet Ghosh: The profit profile in solar pumps is very good and as is the cash flow cycle. So, for a large bulk of the orders that we executed last year, the money is in the bank.

Rahul Gajare: Okay. And margin, I was not able to hear the margin?

Kaleeswaran A.: So, we don't disclose segment wise.

Promeet Ghosh: So, the point we are making is that while we don't disclose segment wise margins, the margins in this business are very good.

Rahul Gajare: Sir, my second question is one data point, the EPR number for this particular quarter, if that is something you can maybe provide, I missed that number when you were giving your opening remark.

Promeet Ghosh: Standalone 14.1 crores and 15.2 crores consol. It is also there in the press release that we have made.

Kaleeswaran A. And that is a fully a liability accrued in Q4.

Rahul Gajare: Sure, thank you and all the best.

Renu Baid: Thank you for the opportunity and congratulations team for the strong performance. One question from my side as committed, can you share some more insights in terms of what exactly we are doing in Butterfly to turn the business around and drive growth and volumes and from a medium term perspective, how should one look at profitability, and around this, Sweta who just joined the team, if she can also add her perspective of her readings in terms of shortcomings in the portfolio and where she would like to work upon to strengthen the business positioning and drive the goals? Thank you.

Sweta Sagar: So, thank you for your wishes in first place. It has been about a month and half in this organization. Being associated with Butterfly is very, very exciting because it's a brand which has very strong brand equity as well as leadership in the segments in which it

operates. So, while we have our own strength, the way we are looking at this business to move forward is that it is equally essential for all of us to look at the way how we evolve in the dynamic kitchen appliances industry that we operate and to keep up with the consumer engagement which is also ever changing like Promeet mentioned something back.

For my initial thoughts, what we are trying to lay out in this journey is that while revenue and profitability become the end result, we are planning to have five key areas in which we will focus and we will try to track the business through those five focus areas. The first one is going to be in terms of meaningful innovation, both from a portfolio point of view and from looking at new need statements that the consumer can attribute to. The second is about striking a balance in the channels in which we operate and continue to be competitive in that. The third one is that we will continue our efforts in terms of building productivity and efficiencies in all the functions and all the metrics that we are trying to focus on. Of course, the fourth piece is about building customer and consumer engagement, but to get to all of that, we are also focusing on building people capability. So overall. In this new phase of growth, we are aiming to build a very high energetic team that can embody and live our CREATE values. So, that's how we are looking at taking Butterfly forward.

Renu Baid: Sure. Any inputs in terms of the margin outlook? Can we expect the margins, in 2-3 years to be double digit or they'll be in high single digit levels?

Kaleeswaran A. In the long run we should look at a double digit margin for this business, Renu, but in the near term we want to get this back on growth, get into a category EBIT margin that the business used to operate say 1-2 years back and then expand from there.

Promeet Ghosh: Also, on margins, one of the things you should be cognizant about Butterfly which is for instance, a little bit distinct from Compton is that Butterfly is a much more higher operating leverage business. So, as some of the building blocks that we put in place and revenue comes back, you will see a disproportionate impact on margin.

Renu Baid: Got it. Thanks much, team. Thank you and all the best. The next question is from the line of Akshen Thakkar from Fidelity.

Akshen Thakkar: Couple of my questions got answered. My question was around the ECD business. Promeet when you came in, you highlighted the fact that this is a category which needed investments that there was a little more focus on profitability rather than profitable growth and last three, four quarters has been a good journey. Given where you are in the cycle today, do you feel comfortable with where margins are in ECD business alone and slightly shorter term question you commented on summer having a positive impact on demand, how are you seeing demand on the ground in the last 8-12 weeks, just qualitative comments around that would be useful? Thanks.

Promeet Ghosh: See, as I told you, we continue to work on multiple levers at the same time. So, at one end we are obviously focused on executing well. At another end, we are working on investing in our people, investing in consumer and customer engagements, our channel partner engagement, we are also simultaneously investing in our innovation and our A&P. Having said that, as you all know, there is also a huge focus on Unnati, which is our cost vector and while you didn't see it earlier, some of the benefits of that are now coming through. I remember people are telling me earlier that, your margins have come down because you are filtering away the growth. I said not only us, everybody in the fans business and as well as in the other businesses, particularly in the fan business, the BEE transition made a difference to our margins. What we have done is even as we invested for the future, we have also focused on costs and that is why you see the changes in the margins that we are getting today. And needless to say, that continues apace. So, we are continuing to take both measured price increases sometimes or even frequently, not the approach that the rest of the industry is taking, but we are taking them and we are working on costs. So, yes, I remain quite positive about the way margins will evolve going forward, because at the end of the day that is what we have been saying. We want revenue growth and profit growth. So that's what you will see. Insofar as the outlook for the summer is concerned, actually the demand outlook has been reasonably good. There have been some rains the last few days, but other than that the demand outlook has been quite robust.

Akshen Thakkar: Okay. I'm just going to slip in one more question on the lighting business. It has been notoriously volatile and as investors, as analysts, this has been a business both on top line and on margins. Not just for you, I would say for every other company as well. Really difficult to call. The pricing is not really in your hand, so given that, how do you really handicap growth in this business? I really don't know next three years or the sales would be flat, down 10, up 20, and similarly for margins.

Promeet Ghosh: I understand. So, let me just help you on that journey without giving too much away about it, but I hope that it, it should be indicative. Lighting is two businesses. Lighting is B2B and B2C, they are different businesses. There is a steady price erosion in B2C, particularly in lamps, that price erosion element is not particularly true of B2B. There, that business has a considerable degree of impact coming out of the investments that, for instance, the Government of India is making an infrastructure. So, whether there's a Coastal Road which we did or a new Jewar Airport which we are doing or a bunch of metro projects that we are a part of, all of these impacts the B2B business. In particular, as I said, specific to Crompton, we have built up over the last three quarters a very robust enterprise business, but B2B also has a small business segment, which grows in line with the economy, but we have in a targeted fashion built up an enterprise business. So, you now know what the demand drivers for the B2B business are. Margins by the way between these two businesses are not dramatically different. They are roughly similar. In one, you have to have a large sales force, in the other you don't. It's much more individual, the cost of servicing is much lower. Now, in the B2C business, there are three parts. There are lamps, there's battens, and there are ceiling lights. Now, last couple of years you have seen a price erosion. Now, that price erosion, very tough to tell where it's going to go, but it's there. You have to track what's happening in the market and then you'll have a certain volume growth and then the prices will fall and therefore the overall revenue will often be a degrowth because the price erosion has been so strong. Will the price erosion continue forever? Obviously not. The price erosion is happening because the Chinese for their part are trying to lower their kits that they sell to India, because they have problems in selling in the rest of the world. Now, that can't go on forever. So, at some point in time, this cost driven price erosion will stop. I can't tell you where exactly it will stop, but it can't go on forever. Certainly, to our mind, that's not where we expect this to go. So, you will see then the volume growth and lighting translated into revenue growth. Having done all of this, it's very important when there is price erosion happening that you don't fritter away your margins. It's very, very easy to fritter here, so you have to watch margins of each one of these players very, very carefully in lighting. That's the trick.

Akshen Thakkar.: What is the mix?

Promeet Ghosh: Roughly equal.

Moderator: We will move to the next question, which is from the line of Ravi Swaminathan from Avendus Spark. Please go ahead.

Ravi S: Thanks for taking my question. I'm once again trying to harp on the growth potential for the fans category both from a short-term perspective and from a slightly long-term perspective. Short-term in the sense thinking about last year's high inventory level due to BEE changes and this year summer being quite strong, at least for the industry, what kind of growth that one can have?

Promeet Ghosh: No, one sec, you said high low base level, I think that the fundamental misunderstanding of how our business is done, but let's come back to that.

Ravi S.: No, last year there was a bit of a non-BEE rated fans. And also from say slightly long-term perspective with respect to say the real estate market is likely to do well and some of the competition, is there any change in terms of dynamics where they are slowing down or something of that sort? So, what kind of growth that we can think of say FY25 and then over the 2-3-year period?

Promeet Ghosh: Sorry Ravi if I may, if you will allow me just to explain, one size doesn't fit all. So, you need to understand this. The approach that different companies took to different businesses to the BEE transition was quite different. The way that Crompton took the BEE transition, which as you recall happened on the 1st of Jan 2023 is that Crompton stopped production of Non-BEE fans sometime during the quarter preceding 1st of Jan 2023. What we did instead, we did not stuff the channel with huge amount of inventory of non-BEE fans in the quarter ended December 2022.

You can just go back and have a look at the numbers. What that enabled us to do is that in the quarter from Jan 2023 to March 2023, that was actually a very strong quarter for us because we had not gone and put a lot of fans into the market. So, the quarter Q4 of FY23 was a very strong quarter for us. What we are doing this quarter is breaking many of the records and all of the records that that quarter did in getting the growth that we are doing. So, there's a very different approach that we took. November 2022, we actually stopped making fans. So, that's point #1.

Point #2, insofar is the short run and the long run of fans is concerned, short run you can see. There is a reasonable amount of demand momentum. Certainly, we are seeing it whether others are seeing it or not is another question. We do see some of our peers being quite aggressive in the market in order to get growth and I can see that some of the aggression is translating into margins going the other way than the way that they are going for us, but that is their choice. We are continuing to increase prices and seeing the growth that we are. And the short run is of course helped by the summer and even consumer demand, there is an uptick that we are seeing in the market.

Now, insofar the future is concerned, the future we are particularly optimistic about. Remember that the world is getting warmer. When the world gets warmer, you need more cooling devices, and you use cooling devices for longer periods of time. So, where you had one fan, you would probably have one fan, one personal cooling device, maybe two cooling devices, two personal TPW fans in the same room. Even if you have an AC you would have this. Therefore even have more fans. For a vast, vast majority of the country going all the way to air conditioners is not an option and will never be an option. In fact, across the world you find people, even where people can afford air conditioners, you will find people asking for fans of various types in order for them to supplement their cooling solutions. When it heats, it also cools. So, you have geysers which plays well to us. Lastly, for a bulk, a huge majority of our people as the world gets warmer, as the temperature outside gets warmer, another cooling device is the air cooler, because the refrigerant there, the coolant there is at room temperature, and easily available. Of course, you have to get that water which is where our pumps business comes in and at some other point in time, I'll tell you how that places us squarely in the middle of people who global warming is impacting. In our case, beneficiary. So, it's a very interesting space in our view is fans.

Ravi S: Okay. So, say next year kind of 15% kind of growth for the industry?

Kaleeswaran A.: - We do not give period term projections, allow us to skip that.

Moderator: The next question is from the line of Charanjeet Singh from DSP Mutual Funds. Please go ahead.

Charanjeet Singh: Sir my question is basically on the kitchen as a segment, so we have seen COVID related boom in the overall category, then it kind slowed down. So, how do you see kitchen appliances and kitchen as a category going forward in next 2-3 years perspective, is it going to come back or it could take much more longer and also real estate related demand, from the real estate cycle perspective, most of our products have connect with that particular category. How is that showing traction? These are the two questions.

Promeet Ghosh: I will answer the second question first. Actually, in our business, insofar as I assume, you are talking about fans. If you are talking about fans, fairly large share of our fans business, the demand is generated from replacement and not just necessarily from new builds. So, in terms of the new builds are concerned, it has an impact, but obviously replacements have a much higher impact. Now, insofar as how that is going, we are actually seeing, and we have put it out in the presentation as well, that new builds are going up. There is across eight cities in India, new builds are going up. So that will impact

us positively in any event. At least for us, the business consistently over the last three quarters, I said earlier, that for the last three quarters we have consistently shown strong double-digit growth, which I don't think there is anybody else in this business, other than maybe start-ups who don't have the same scale.

So, insofar as kitchen appliances concerned, maybe I will take a shot and why don't you supplement, Sweta. My understanding is that currently kitchen appliances, yes, the growth remains moderate. I should tell you, having said this, that even though kitchen appliances have come away from a spike from COVID, the growth is moderated across companies, including Butterfly. In Crompton by the way, Crompton has an SDA business. And that SDA business, what we call small domestic appliances, which is really kitchen appliances. Now, that business has consistently grown at close to 30%, quarter after quarter, and is actually a fairly reasonable sized business, though we don't exactly disclose the size of the business currently. So, when we talk about the kitchen appliances business, we are talking about the broader picture and not specifically about a part of the business, which is certainly firing quite well for us currently. So, the thing is that yes, there is that the spike after COVID is probably towards the end of playing out. Kitchen is such a fundamental requirement that tough to see the demand remain depressed for too long. So it will come back and it will come back well. And that's what I think we are all watching for.

Moderator: We will take the next question from Saumil Mehta from Kotak Life. Please go ahead.

Saumil Mehta: So two questions from my side. One is, when I look at the fans growth, what you have given, you mentioned a comment that is largely volume led growth for the 11% growth, what we have done for FY24. Now, I believe this will also have a traction of BLDC fans which will be high priced. You also talked about the overall premiumization strategy going well. So what I want to understand in the economic segment is there quite a bit of deceleration, which is actually pulling down the overall realization? And my second question is with respect to the channel. While the ecom channel for us is going very strongly, at the EBIT level, while I am not looking at a specific number, but at the EBIT level, how different are the margins directionally in ecom versus a general trade or a model trade? Those are the two questions. Thank you.

Kaleeswaran A.: I will take the later one first and come back to the other one, where we don't disclose channel based profitability. Fundamentally, we are a company that is led by unit economics. That is extremely critical for us when we decide to play in any channel. So all

our channels are profitable and the difference is not significantly different between one to another. There is reasonable difference between channels, but otherwise the unit economics is pretty strong across all channels.

On the first question, in terms of the market and how the market is going in terms of fans as a category, we see this in two segments. I think there is one, there is premium and then there is mass. Now BLDC is a sub segment of the premium fans that we play in. And we do see from a category perspective, premium fans are growing at almost a 2x of the overall category growth for fans has been growing in. In terms of mass premium or the value segment is concerned, if I look at our overall fans performance on the market share also, it's reflecting that we are moving in the right direction. Equally important to look at non-ceiling as a category. So today we see there is a significant opportunity in TPW, exhaust and DOMEX fans. Quarter after quarter we have seen strong double digit growth in this category also. And as we look at the future, this is another area where we think the growth can be sustained. This will happen both in traditional trade and in e-commerce for some of these products.

Moderator: We will move to the next question from Aditya from JPMorgan. Please go ahead.

Adithya S.: Hi Sir, thanks for the opportunity. I just wanted to understand the kind of volume growth in the ECD segment. So, you have mentioned that you have taken three price hikes in the second half in fans. So it'll be great if you could help us understand the kind of price and volume growth for fans, appliances and pumps.

Kaleeswaran A.: See, again, we do not give you very specific details of what is the mix between price volume and this. The thing that I would like to say is, it is pretty strong. When I am talking about market share being gained in categories, it doesn't happen without your volume growing. Fundamentally, we need to act like a market leader. If we are a market leader, we need to ensure that the price actions are taken across all the categories. So it's not only to do with fans, we have taken price increase in pumps also, and in some cases even in LDA and SDA too. It does not ensure means that the volumes have driven, we are seeing strong double digit volume growth both in the quarter for fans and for the full year as overall fans as a business.

Moderator: The next question is from the line of Natasha Jain from Nirmal Bang. Please go ahead.

Natasha Jain: Sir, in terms of volume, you said that you grew by strong double digit in fans, is that correct?

Kaleeswaran A.: That's right

Natasha Jain: All right. So now when I see, sequentially your premium saliency that has actually reduced from 26.5% to 24.3%. So I just want to understand, was the volume growth in premium fans lesser than the mass? First is that. And second, you said that you took price hikes in fans, but at an EBIT level, despite all your categories growing strongly, be it appliances or pumps, even fans, we have not seen that translate. So where, I mean, operating leverage benefits should have kicked in at such strong numbers. So is it that the price hike were not absorbed by the channel or the consumer? So those are my two questions.

Kaleeswaran A.: Let me first start with the second question. Just to remind you, if you go back to Q1, the EBIT margin for our ECD segment was 12.7%. As we speak today, our EBIT margin for ECD is at 16.7%. So there has been a significant 400 bps movement in terms of the ECD margin going up. This is backed by two or three actions.

Promeet Ghosh: I mean, are we speaking the same numbers here? There is a big change in EBIT margin.

Natasha Jain: Sir, I meant more on a year-on-year basis, not from first quarter to fourth quarter.

Kaleeswaran A.: Yes. Now when you look at year-on-year basis, as we talked about it, we entered the year on the back of a BEE transition. The cost of increase that has been made on the fans business was never absorbed. Our price increases started kicking in from September, and this has been sequential. We took one in September, one in November, one in February. We are looking at one more as we speak. So these are catch up price increases that has happened over a period of time and not something that happened in the beginning of the year. So which is why if you look at an exit margin to exit margin, you are seeing 400 pips improvement in ECD margin led by some of these price increases in the fan segment. So that shows that the direction is right. And even on a full year basis, if I take the combined margin of where we were in the beginning of the year to now, we are at about 14.5% ECD EBIT margin compared to about 12.5% percentage in the first quarter. So significant needle has moved in terms of ECD margin; that's one.

Promeet Ghosh: And by the way, that is happening despite the stepped up investment. And despite the fact that there is a 14 crore heat on the company, which you can get the details of how that's split to ECD, that was not there last year. So you may just need to make those corrections as well.

Kaleeswaran A.: Maybe you can speak to Natasha, she can help you to bridge this and how to read it. Now, insofar as your first question is concerned, your quarterly premium mix are not comparable because fans is a seasonal business. Q4 and Q1 are our largest quarters where we will see the maximum number of sales happening. And we being the market leader, it is always led by a large part of business coming through ceiling. And then you have the premium fans following it up. And overall if you also see, the mix is between ceiling and TPW. In quarters, you will also see TPW saliency going up and ensuring that the premium fans as a percentage will be down but in absolute it is far higher and that's reflected in terms of the market share gain also.

Promeet Ghosh: It also stands to reason, when the demand is summer driven, then functionality is the primary driver of fans. And later on, the year when the demand is much more up gradation driven, then obviously the more premium fans sell more. So that you can see that the premiumization changes as we go along. It's not the same across, actually we will be happy to help you through this because there is an improvement at the gross margin level, there's an improvement at the EBIT margin level.

Moderator: The next question is from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: Thanks for the opportunity. Sir, again just continuing on margins on the ECD side, if we look at going ahead these price hikes which you said have been taken and will get absorbed going ahead, and we will see more benefits probably on the synergy side which you had said that we do more of. There will be a lot of synergy benefits from Butterfly as well in the appliances side. So should we expect, just to understand the push and pull factors on margins from the current levels going ahead.

Kaleeswaran A: So again, Siddhartha, we do not want to give a forward guidance. We are here for the Q4 earnings. Happy to discuss that as to how are we progressing on that. But directionally, as you could see when we talked about the Compton 2.0 strategy and how do we want to move ahead with, you are seeing significant improvement in the margin journey has already happened. What are some of the fundamentals that we will be guided by in terms of the margin for future? We are an organization that stands for growth. That's what we want to focus upon and that is what the crux of Compton 2.0 is all about. But at the same point of time, unit economics is also going to be guarded against. And if it means that there is a price increase that needs to take to protect the margins consistently, that would happen. That is exactly the reason why we are investing behind the brand, to ensure that there is an organic demand that gets generated, and you don't want to be in a situation where you become a price warrior or a price led business. So I don't think so we are

looking at from that perspective on the way forward. You will see consistent actions as we move forward too.

Siddartha Bera:

Got it.

Promeet Ghosh:

One way of looking at margins also is that you can look around and see how margins are moving for some of our peers and that in the context, to see the kind of step up in margin that we are seeing, will put things in perspective. There is a material downward movement, particularly where the ECD mixes are comparable, there is a material change

Siddartha Bera:

Got it, sir. Sir lastly on this, what will be your CapEx plan for the next two years?

Kaleeswaran A:

Roughly, we are looking about 80 to 100 crores. This will be largely towards manufacturing capability improvement, also behind product development and product innovation.

Moderator:

Thank you. We will take the last question from line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade:

One quick question. If you look at the other expense, I am talking about 3Q to 4Q, it has increased by about 10%. And of that, almost 80%, Rs. 14 crores is EPR cost. If I look at the top line growth, the top line growth Q-o-Q is 23%. Can you help us understand is there any reversal of provisions? If you also could help us with the A&P cost for the third quarter and fourth quarter of FY24, please?

Kaleeswaran A:

See, the other expenditure, as you rightly said, includes EPR. If I look at the absolute increase in other expenditure on a quarter-on-quarter, which is year-on-year basis, there is about roughly Rs. 45 crores increase. And a large part of this is the marketing spends increase that we have got followed by the increase in EPR of about Rs. 14 crores.

You are talking sequentially? Sequentially, you see, the increase is largely on account of EPR only, nothing else. Your marketing expense is in line with the Q3. The Q3 spend itself was on a higher base.

Promeet Ghosh:

So, you know, just so because you are looking at the 31st December 2023, that is Rs. 202 crores, isn't it? You are looking at consol or standalone? It is easier to explain in standalone

Achal Lohade:

No, I am talking about standalone. Where I am coming from is that the margins improvement is actually there in the standalone from 3Q to 4Q, a substantial margin

improvement. And if I see the gross margin, they are stable Q-o-Q, while the EBITDA margin is entirely driven by the other expenses. The percentage came down, and if I look at the absolute adjusting for Rs. 14 crores of EPR impact, then the increase is hardly 2 or 3% while the top line growth is 23% to be precise. So I was just curious if there is a QoQ reduction in A&P or any reversal?

Kaleeswaran A: There is no reversal, first. Let me split this for you to understand this better. The way you need to look at is, sequentially first, the growth that you are referring is on a sequential basis typically. The quarterly basis is not comparable. Rs. 190 crores are what we spent in previous year Q4, that has moved to Rs. 223 crores. Now within this, there is about Rs. 14 crores increase on account of EPR and Rs. 14 crores increase on account of marketing spends when you compare it on year-on-year basis. On a sequential basis, the absolute marketing spends has remained the same between Q3 and Q4 and you have incremental investments on EPR of Rs. 14 crores that we talked about. That's broadly the reconciliation.

Promeet Ghosh: There are no reversals.

Achal Lohade: Understood. Thank you so much.

Renu Baid: Thank you management team and the audience for being patient. Thank you for giving IIFL the opportunity to host this call. Promeet, any closing remarks from your end before we sign off for the day?

Promeet Ghosh: Thank you for joining the call. Appreciate your doing it quite late in the day and trust we have answered your questions. And, if you have any remaining questions, needless to say, please contact Natasha and if needed, we can set up further discussions for you to get a better understanding of where the company is going. Well, have a great evening.

Kaleeswaran A: Thank you, everyone.

Renu Baid: Thank you.

(This document has been edited to improve readability)

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