

November 8, 2023

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 ended September 30, 2023

Dear Sir / Madam,

In continuation to our earlier letter dated November 03, 2023, 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 ended September 30, 2023, scheduled for Friday, November 03, 2023 at 4:00 PM (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 FY '24 Earnings Conference Call”
November 03, 2023



**MANAGEMENT: MR. DEEPAK KHETRAPAL – VICE CHAIRMAN AND
MANAGING DIRECTOR – ORIENT ELECTRIC LIMITED
MR. SAIBAL SENGUPTA – CHIEF FINANCIAL OFFICER –
ORIENT ELECTRIC LIMITED**

MODERATOR: MR. ANIRUDDHA JOSHI – ICICI SECURITIES

Moderator: Ladies and gentlemen, good day, and welcome to the Orient Electric Limited Q2 FY '24 Earnings Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you, and over to you, sir.

Aniruddha Joshi: Yes. Thanks, Tayo. On behalf of ICICI Securities, we welcome you all to Q2 FY '24 Results Conference Call of Orient Electric. We have with us today, senior management represented by Mr. Deepak Khetrapal, Vice Chairman and Managing Director; and Mr. Saibal Sengupta, Chief Financial Officer. Initially, I will request the management to indicate about the quarterly performance as well as half yearly performance. And then we will open the floor for a question-and-answer session. Thanks, and over to you, sir.

Deepak Khetrapal: Thank you. Thank you very much. Good afternoon, everyone, and a very warm welcome to the earnings call of Orient Electric, and thanks for finding time to join us. I know it's a busy day, and I've had to rush the earnings call today very quickly after our results were declared and largely to do with the fact that I have some travel commitments starting tomorrow. And if I didn't do that today, we'll have to wait till post-Diwali, and I knew that will be too late.

So yes, so I'm quite sure that most of you would have already had the first look on our Q2 numbers that we've already published. And, a brief presentation of highlights which we have circulated to all of you. So, I'm sure it's with you. But even then, for the benefit of some who may not have an opportunity to go through that here we are.

Well, the fact is that when we did our Q1 earnings call, there was a certain direction that at least I had spoken about in explicit terms as to where we think we are because at that time, we were just recovering from a bit of a hiccup that we went through. And I had mentioned that the key priorities for us will be to stabilize the business, stabilize the organization, remove undesirable anxieties and fears, and worries of everyone, people within the company and outside. And that was the topmost priority.

But at the same time, I'd also mentioned very clearly that we will keep working on the priorities of building the volume and sales growth in the marketplace. And we'll also keep improving on the gross contribution margins that we have in each of our businesses and also sought some indulgence from our investors, whether in this call or in the quarterly call or -when I met many of the large investors one-on-one.

I was very clearly outlining the fact that as of now, the organization is being rebuilt, and we will be making some investments in the organization which will bring benefits over a period of time, but will cost us money right now, and these are the kind of things that get debited to P&L instead of being capitalized, but they are more in the nature of capability building. But by accounting standards, they hit the P&L.

I think on most of those things, which I mentioned, I think we have the performance of Q2, which actually brings out exactly where we have been. I did mention that we will go for a strong growth. And the numbers very clearly indicate that in the quarter that we are reporting today, our overall growth looks 11% in top line, out of which the fan growth itself is close to 25%. And including fans the entire ECD growth is a little muted but it is at 17%, which includes obviously our appliances business.

In Lighting, on year-on-year basis, we have a very small growth, which again, all of us are aware that this is what was expected. Thankfully, on a QoQ basis, there is about 7% growth there, which I think we take some heart from that we are doing the right things.

So, besides like I said, the robust growth in the 2 segments, the other notable features are the progress that we are making on the our strategic levers, and strategic levers include, for example, revamping our go-to-market structure that we had.

So, in go-to-market when we changed in many states, we did have a hiccup. And everybody was unsure whether we'll be able to manage that. There were new things in our company. Orient Electric normally had worked with market distributors. But I'm glad to report that wherever we've gone in this quarter and on top of the previous quarter also, we've actually doubled our revenues in what we call DTM, direct-to-market space for us.

And not only we have doubled the revenues, it also has given us a better opportunity to be able to sell -upsell our products and improve our product mix, so to speak, because the super-premium fan, the Aero series, the idea is to keep promoting them, and we are finding that when we are operating directly in the market, it's so much easier for us to convince the retailers to stock the product and display it, compared to what we were finding in the same states using our traditional master distributors structures. So that's certainly we're very, very happy about.

We had mentioned that the e-commerce and in terms of modern retail outlets, we were behind where we should have been, and we put very focused resources on that. And within a fairly short period, I would say, of the new resources being deployed, even last quarter, we had actually reported more than 50% growth in this segment of this route to the market. In this Q2, again, we have close to 48% or thereabout growth in our e-commerce route to market.

In terms of, I would say, margin improvements, they have sort of -- I'm talking of gross contributions as the entire industry reports. At the company level, we have reported about 400 basis points improvement over the same quarter last year, although there is a small dip vis-a-vis the preceding quarter, but I think that's more to do with, again, the mix of businesses that we have from different segments coming in. But in the overall over last year, every single segment of ours seems to have reported better gross contributions and that sort of makes us happy. And we want to be continuing our thrust on the strategic levers as we had mentioned.

When we say continues -- I mean, we remain completely focused on what I would call today diligent execution rather than trying to reinvent the wheel at this stage where we are still sort of wanting to redetermine where we are and then where the markets are. But we don't realize that our diligent execution of the agreed priorities that we have picked up in terms of direct to market,

in terms of grow South, in terms of improving the product mix in the -- with the premium range and deliberately taking some steps not to pursue growth, even if you have to give up some volumes in what we call the economy segment of fans, we have chosen to do that and that obviously **makes** for some volumes from the numbers.

But overall, I think we're happy that we manage to grow with the right product mix, giving us the higher gross contribution margins. And we plan to keep doing that. In terms of e-commerce, the strategy is being further strengthened by our recent launch of what we call our own website. And where we will be doing direct e-commerce.

Now the benefit of this is why it's difficult to service and grow compared to other -- the platform where we've been on large platforms for e-commerce, which everybody uses. Our own website actually brings us the benefit of a lot more, I would say, intimacy with the consumer with the actual users of our products.

And the feedback and the tastes and the way browsing happens, it gives us very rich data to see the people who are visiting our site, how are they viewing our product and what basis only they're making the choices, what are the features they are preferring to have, what are the price points they are referring to buy our products at, which will actually enable us a lot more in the coming quarters as the database gets richer and richer, the more people visiting our sites, to fine-tune our offerings based on the preferences of every customer segment.

We've seen when you have full access to the data about the consumer's choices being made online, they're a lot more visible to the website. And that definitely helps in terms of creating solutions which will win over more customers as we make progress based on the insights gained from there.

In the regional states, as all of you know 6 states, we have already transitioned, and we are seeing very good traction there. In the current quarter, we've taken a decision, and we are moving the Gujarat market also from master distributor to direct to market. It may take a couple of months to us to really get back the volumes but I think Gujarat represents that opportunity for us. And also, I would say the constraints that we were facing with our current go-to-market structure there, we've made the choice. We are moving on. And very shortly, I think we'll also be passing the benefits in one more market, which will bring more volumes of the right kind of products that we prefer to sell to the market. The distribution penetration that we are currently seeking today is obviously, bringing in its own benefits, higher volumes of BLDC fans, higher volume of premium fans in the lighting business, the professional Luminaires, the B2B in lighting was a chosen area that we wanted to go faster in.

All of these continue to be our thrust areas because they are actually showing us that they have the promise that we have seen in them even before we chose to pursue these areas. The sustainable long-term buildup of our business, I think would keep using these pillars that have been identified and we are focusing a lot more.

Two things which I would say in this quarter we realized that there is room for us to truly transform the quality of our product and the quality of service that we are providing. Because I

see there is room for improvement. And our manufacturing functions and our quality functions have been reoriented to look for quality in a very different perspective compared to how we've looked at traditionally. It's not so much trying to repair it; it is basically to transform it to make these things very clear. To my mind, I think quality, obviously, is a hygiene. And that we need to keep doing. Our goal is to make our consumers or users feel that our product actually has a quality edge over competition

So, I'm seeking to get components, get inputs, get technology and get the design from our R&D teams to start creating fans which not only are competitive, but they are superior in every which way. And I remain conscious of the fact that, from the time we launched our Aero series, which truly impacted the entire, , landscape of the fans industry.

We've not been able to introduce any, I would say, groundbreaking product on similar lines. So that's been a bit of a, realization that we will want to work upon. But as of now, what we're trying to do in terms of R&D and , improvement in the product is that we were actually beginning to notice that in some of the markets, we had gaps in the right product features at the right price points and the competition had been winning on those areas. Having closely monitored the market, having identified. So, bulk of our trust is going into making the right product at the right price point available to the consumers without working against our strategy of choosing the right product mix focused on premium.

So within, , the premium range of BLDC there were, I would say, positions in the market on which competition was walking over the business because we did not position a product to compete in that segment. So, we are beginning to fill those gaps in our portfolio, and they obviously are going to give us significant benefits. On service, my view is that we need to transform service and the current model of service that we provide.

Personally, to me, , is not satisfactory enough. And we have brought in a very senior professional to head our service transformation. And my view is that for Orient Electric, service will become a strategic differentiator. And that's what we will seek and build. It will obviously doesn't happen overnight.

But I'm delighted to say that in the last 3 months itself, the initial feedback that I picked up on our service, I'm already seeing a huge turnaround in the kind of feedback that I'm picking up now on the way, calls are being closed on the way that consumers are beginning to see the change in the response time and how quickly we resolve the problems and things like that.

So, to me, I think over a period of maybe a year or 2, we will very clearly work towards making service as I said, a strategic differentiator. Those are the additions to the earlier talked about strategic lever that we spoke of. So, on the basis of all the, as I said, the numbers are in front of you. I don't want to keep going through the numbers, again, but it's been a fairly, I would say, satisfactory quarter for us at Orient Electric in terms of the growth that we have in the margin improvement.

Coming back to the issue of profitability, which remains an area that we want to improve on, but it may further take a couple of quarters because we will continue the investments towards

building a robust long-term organization. We are needing some investments before they become fully productive.

Commented [JN(1)]: Not clear

So, I know there would be obviously a little bit of a lack of patience from that it's all okay, but we also want to see the improvement in EBITDA and EBITDA percentage and PBT, PAT everything.

My belief is that we are on the right track as long as we can grow the market and keep improving our gross contributions. These investments that we are making today will enable us to get to an operating leverage, we will absorb these costs a lot better because that means that as we grow our business, these costs will not go up any further. In fact, if anything, as I mentioned last time also, significant costs like the McKinsey cost that I had mentioned that we are incurring as we will continue to incur for a few more quarters.

Once those disappear, obviously, all of them drops directly on the bottom line with the benefits I would say, growing in a much bigger proportion as we practice the more and as we keep gaining more and more benefits from them.

So, my apologies to people who wanted to see the improvement in the bottom-line level, but I don't think we have deviated from either our strategy or from our promise last quarter saying we'll give you better growth, we'll give better gross contribution. But we will need to invest for a while in our systems, processes, people to really convert this company into what I would say, a really robust and resilient organization.

On the various segments, all of us, I think, are aware, looking at not just the consumer electricals but on many other sectors from FMCG to even cement and all. B2C has been disappointing for most of us across sectors. The good news has been the B2B business. And in B2B, our focus that we shifted a while ago, it's been, I would say, paying dividends to us. We continue to pursue more and book more business in the professional lighting business, more than the B2C segment, which is largely lamps and battens.

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And I'm sure many of you would have seen the campaign that we had launched, the Orient lights up India, in which we had actually highlighted lots of iconic structures across the country, which sort of showcased the number of large projects that we have done. And that has sort of given us a positioning in the market where a lot many more such projects are now in the pipeline. We actually have a fairly healthy order book right now on those kinds of projects on facade lighting and professional lighting. And the pipeline for booking more orders is actually growing by the day because the number one, our work done is already in evidence for other customers to see that. And at the same time, the team that we had created to address this professional B2B market also has settled on well, and they are gaining confidence and are winning more and more business as we go forward. So B2B hopefully whatever erosion is happening in the B2C segment in terms of value in lighting business, we keep making efforts that we continue to improve the overall lighting business through more and more B2B and professional and facade lighting solutions.

In terms of our other small businesses that we have added to complete our bundle to the consumer along with light, which is switchgear and wires, domestic wires. They are small businesses, as we know, because we got in them in fairly recently. But both of them are showing strong promise. In fact, last evening itself I spent about 3 hours with our team, which we had in Delhi from all over India for switchgear and switches. I was speaking of the first hand for myself, how-what are they seeing on the consumer response? Where are we getting good response? Where are we struggling with the right response?

A very good insights again that we the last night in our own meeting and the review is still going on with the rest of the lighting team. The potential is very good there. But yes, it's taking us a while. But as a percentage growth that we talk about, they look humongous in terms of pure growth in wires, or even switchgear. But to me, the more important part is that not just the consumer, before the consumer, we used to struggle to get our product being stopped at the retailer's level. Unfortunately, in many markets, we are seeing that, the hesitation is getting over because the consumers are coming back asking for our switchgear, which, as we keep claiming is as the best switchgear and the safest will get available for domestic appliance, the domestic PUs in India. So, we are pushing that and wires we know the kind of the market it is. But going as a bundle to the consumer, it's adding a lot of value to the consumers buying needs, I would say.

And in terms of the lighting per se, let's see, as of now, as the lamps, what we say, a loss of value because of the costs coming down, which have been enabled by the basic technology that has gone into the lamps. That still remains a bit of a worry because we keep selling more and more volume, but the overall growth does not show up in the value. And like I said, that's the reality which the entire industry has to cope up with. But we will perhaps keep improving that by focusing even more robustly in B2B business, on our switchgear switches business and on our wires business.

Once again, I would like to clarify that our switchgear and our wires business is focused more on a consumer for domestic use. We are, as of now, not focused on large cables, which is the mainstay of many of the large players in the industry, but we are not competing in that. And as of now, there's no intention to getting there. However, on switchgear we see the opportunities that are beginning to convince more and more of B2B customers.

Many of the B2B customers are actually builders and contractors and influencers who suggest that. And by making our technical presentations, we are convincing more and more of the B2B customers with switchgear existing products, which is a good news. And similarly, at the same time, we are also finding that the opportunity in the international markets and also the pickup from our partners, from whom we had actually taken the initial technology from in Europe, they are also beginning to find the cost points and the quality acceptable to take for their own markets which is overseas, which is again, a benefit, which I think over a period of time, will grow.

So, what are the other highlights there? I mean, in terms of fans, I've talked about in detail. Lighting I've talked about. In appliances, we do know that the 2 of the large categories this year, one- basically coolers, for example, have struggled because of the kind of summers we've had, very early monsoon, although heat built up later. But at the later stage when the heat breaks up,

even if the consumer is buying the product, basically, that just helps liquidation of the channel inventories. And the primary suppliers like us do not gain much from there. So that's been a bit of a dampener for us. Water heater segment is showing more and more traction. And we are sort of organizing ourselves to address it a lot better.

Recently, also, we launched a few new products in the water heater segment, and we want to keep addressing it. We have also noticed a few gaps and I would say, weaknesses in our offering that we had for other appliances, small appliances, like we said, whether it's the mixer grinder, juicer, stuff like that, including, for example, the irons that we sell. Our team has recently been travelling around and trying to identify the right products which we can add to our portfolio to meet the emerging consumer demand a lot better. So that's an area which should hold us much better as we go along.

In terms of -- I don't want to read out many of the names where we've done the facade lighting, it's a too long a list, but I'm sure if you've not seen it, I'm happy to circulate once again, the campaign that we did in which we listed lots of building that we've lit up.

Our cost optimization efforts obviously have been on, and that's where McKinsey has helped in a big way. We have branded that project, Project Sanchay, in which, the quarter under report, we have had savings of INR 13.5 crores which had already built in the P&L.

The other anxiety or curiosity, I'm sure, is there in the investors' mind is on where our Hyderabad project stands. Unfortunately, as I mentioned in the last call, there was an issue about getting the foreign technician to come and commission our automated lines. The progress on that is that we have had our factory site visited and validated by government officials from 2 different ministries. They have already sent the report back to the consulate in China and we are in the queue in the consulate.

. We obviously know the dependency of visas in various countries. So, our consulates also have some backlog, but to be able to get some help and plead for help, showing them the evidence and especially because they've got the reports. As we speak and part of the reason why I'm doing the call today itself rather than doing it early next week is because tomorrow night, I'm leaving for China to go and meet the officials there and to see how quickly we can get those visas processed.

If my, let's say, hope, which I'm sort of -- we'll be able to persuade people if that comes to, 60 to 75 days is our estimated time to commission the Hyderabad project, which typically would also mean that if we start creating after, let's say, commissioning the project, we start ramping up volumes and get the -- although there are a lot of tie-ups already being done for outsourced components with vendors and all. But even then we know that going to commission everything to ramp up takes a little bit of while.

So, , the benefits that we were expecting from our Hyderabad project in terms of providing us better TPW fans, hopefully some savings on the overall cost of the product and thereby giving us better margins, as of now, the benefit from Hyderabad project in the current year would be only marginal.

Earlier we were thinking maybe we'll have at least 2 quarters of benefits coming in. But like I said, this political situation and visas have got delayed, has let us not with much choice but to wait for it. We did examine the option of getting these machines commissioned either remotely or by using some other resources. The only risk is if we end up doing anything with this equipment without the presence of the technicians from the OEM who has supplied this, we run a risk of the warranties getting invalidated. And that's the risk, not so much in financial terms but more in the terms of delay to the project, if the warranties go, and we are not able to commission them, after that, we have to start initiating the sourcing all over again, which is too big a risk to take. We're rather trying everything that we can to get the technicians commission the project.

In terms of the total investments, bulk of the investments have already gone in. Obviously, some residual investments happen only when -- most of these projects happen with the retention money and the payments being released in stages. So, cash flow wise, we still have some money to spend, but in terms of work on site, bulk of the work, which had to happen on site is ready, including the warehouse. What we are waiting for is the commissioning of the automated lines and setting up the full production there. So, I'm traveling tomorrow with as I would say, very fervent hope in my heart that we'll be able to pursue people to make a jump the queue and bring the technicians in faster by getting them the visas.

In terms of how we see the coming quarter or rather the rest of half year, my own belief is that our journey of reporting strong top line growth and improving gross margins will go on. I don't see any major hiccups there. Although there are a few things which I'm sure if I remind you, you'll remember, that last year, Q3 was the quarter in which the bulk of the, I will say, inventories that we had of non-rated fans, the non-star gearing fans had to be liquidated. And that became a very large quarter in terms of fans being sold by manufacturers like us, because we were being stopped from last year, 1st January to sell those fans even if we had them in stock. So as a result of that, in the last year Q3, we had reported very large growth and very large volumes. I don't think we'll be able to find growth in the fans business in Q3.

As a corollary to that, Q4 last year became weak because at that time, the channels were selling their inventory and not buying from us.. So, while Q3 for us may not show as much growth, but we are quite sure that Q4 will make up for what the so-called growth that we are talking about. So, I still hope to end the year in fans with a robust growth of 20% plus. But it may be phased from Q3 being, I would say, very low growth and Q4 bringing us back because it's a base effect as we call it, hitting us in Q3 but benefiting in Q4. At the same time, given that our preparation that we have had in our hands on the professional lighting, the kind of orders we are sitting on, we believe that lighting should be able to report very strong growth in Q3, Q4. And so would appliances business because, as I said, there were a few gaps in our lineup, which we are filling up now through sourcing as that products are flowing into our warehouses, and then we start filling the shelves at the retailers counters. I think in appliances also, I look forward to fairly robust growth. And the focus on margins should continue.

In terms of, like I said, EBITDA would not obviously show as much benefit because I don't think we should be withdrawing the investments, which have been made, which will continue to be made in Q3 and Q4, which are significant. I'm not saying there will no improvement, but it will

not be commensurate with the top line growth and the gross contribution growth. So that's a broad indication of where we see Q3, Q4.

I think -- most of the things I had to say upfront, I have stated. And let me now try to answer a few questions, and if there are items which I missed out, I'll try and fill that up. One of the key highlights that I'm sure you've seen in the release we sent out. Given the fact that Diwali is late this year, but we have to prepare for the high Diwali demand as is normal every season, we had to manufacture and stock lots of products and which has led to increase in inventory and increase in our working capital cycle a little bit. But nothing to worry because we are ready to hit the season running. Thank you. And I will take questions from your side. Thank you very much.

Moderator: Our first question comes from the line of Rahul Agarwal from Incred Capital.

Rahul Agarwal: So, Deepak, I think you've covered most of it, first question was on how does the year look like for the second half and outlook for the year. You've answered most of it. One part to that was also how is the start to October? Could you help us understand what have you seen in October from your side?

Deepak Khetrupal: Typically speaking, we do not share information during the quarter, as all of you are aware. I mean, I do have the numbers with me, but I personally don't think at this moment, we are going to change what we have done. We will report Q3 at the end of Q3. I have given you indications in line with what we think given last year Q3, how strong it was on fans. So, we if anyone looking for very, very large growth in fans, they're not coming in Q3, at least for us. I don't think it will come for the industry as a whole because all of us went through the same cycle of just vacating our warehouses and selling all the fans, which as I mentioned, resulted in a huge inventory with the channel, which hit us in Q4. So, October numbers I'm not sharing at this stage.

Rahul Agarwal: Sure. Actually, I was looking more from a sentiment perspective because as B2C is expected to pick up from festivals. So more from a qualitative perspective, I am not looking for any numbers.

Deepak Khetrupal: No, there is -- I would say, the green shoots are visible, but I think next 3, 4, 5 weeks is where really the peak demand should hit. But sentiment green shoots are definitely visible there.

Rahul Agarwal: Okay. Got it. Second was on the gross margin. I think, obviously, Y-o-Y, the numbers look great, but my sense was we were all expecting it to be maintained even Q-o-Q. But would you say that there is still some under option there. I would imagine 31%, 32% is the range the company should be happy with. Is that what we expect?

Deepak Khetrupal: So, we definitely are working towards that for sure. Look, gross margin numbers when we speak of, again, it's coming from 2 levers, right? One the revenue side. The moment you have a slightly soft quarter and low B2C demand, be it low B2C segment. What does happen is it tends to bring down the average fan realized -- the price realized, right?

That's the effect of B2C market. Whenever the sentiment is down not just the volume struggle, but also the prices -- the buying happens at a slightly lower price than normal. So, I would say on cost parameters, we continue to make very good progress. So that lever is fully in place. As

the consumer sentiment improved, as you were asking me earlier, and as we start seeing buying happening at the levels that we want in terms of product mix, we will definitely see better margins going forward. But the muted B2C demand does hurt companies which are in consumer businesses.

Rahul Agarwal: And lastly, on the DTM strategy, just to recap, you had done 6 states Gujarat got added. As of now, the addition of new state was more on a rolling basis that as you experience, you feel the need of any state going into DTM, you do that. Could you -- could we get some more -- any thoughts of yours on second half? Would you -- there any other state going through that? And how much would Gujarat be of overall business?

Deepak Khetrupal: Yes. Gujarat has been a very significant part of our business, obviously, but we believe the potential there is a lot bigger than what we are doing currently. In terms of the -- I would say 6 states plus Gujarat is 7th state. As of now, as we speak, there are 2 more states under close observation where we are not happy with the performance of the master distributors. We are working with them to find a way in which they can keep working and give us a better performance. But if that doesn't happen, obviously, they are aware, the route that we are taking that either they have to perform, or we will get ourselves to perform there. So, there are 2 more states at best that we might pick up for direct to market in the rest of the year, but not beyond that. Because in every state that we do this transition in, it does hurt us for a few quarters. And we don't want to be dislocating ourselves the last year when you hit too many states together.

Rahul Agarwal: Right. That's exactly the risk, right? Because as the demand improves on B2C side and we have been expecting some recovery on the demand side, in case we go through this, there might be more hiccups. So how would you manage that?

Deepak Khetrupal: No, no, we are being very, very conscious of that. And that's why we think we have one state at a time, let's build it up as you start finding that comfort, then we pick up one more and then the another. That's why I'm saying in the next five months, not more than two. It could be even just one, but absolutely mindful of the risk that you have reminded all of us.

Moderator: Our next question is from Manoj Gori from Equitas

Manoj Gori: Yes. Thank you for the opportunity. So very well highlighted about the base effects during Q3 and Q4. So probably, if you look at the DTM, we are doing in states like Gujarat and probably a couple of more states under consideration. So probably, if you look at FY '25, should be -- ideally should be a very ideal year for us, where probably we would be operating in a normalized scenario.

So, do we expect healthy double-digit kind of growth broad base and once your South facility benefit kicks in, probably what should be the margin trajectory? Where should we look at the margins going ahead in FY '25? If you can throw some light over there?

Deepak Khetrupal: FY '25, I'll brief you around the timing approach that because right now, my biggest anxiety, we have our numbers, but we are behind on being able to commission our Hyderabad project, which is a very key investment in our ongoing strategy going forward, right? So, while we were concerned, valid, all I can tell you is that the way the Hyderabad project has been conceived and

the way it's been sort of implemented, when the project gestation, we do expect a significant improvement in our -- especially if we talk about the TPW category of fans, in which currently we depend only on our Kolkata factory. I expect a huge improvement in quality and in terms of cost competitiveness, right? That's the big benefit expected. Secondly, we also believe that international business is largely about the TPW fans and not old ceiling fans.

Be it capacity of TPW, which actually can produce export quality TPW fan at a competitive price, opens a completely new, I would say, market opportunity for us in international markets. In terms of -- because the lines are going to be automated, the quality will be better in terms of our, I would say, the recurring costs of running those plants and cost of quality, which should benefit us. So, all that we are aware about.

We have internally, let's say, done our calculations as to how much Hyderabad would benefit us. But let me commission that, and as soon our commission is done I'll share in a little more detail, but broadly, I'm outlining the benefits that we seek from Hyderabad. On the overall, let's say, business when you asked, in FY '25, do we expect a robust double-digit growth? I certainly would say, yes.

Would it be, for example, we've had in fans, 20% plus growth, initially 17%. As the base is growing, it may not look as much in percentage terms but in terms of value terms, I think we'll keep replicating and using it.

Moderator: Our next question comes from Natasha Jain with Nirmal Bang.

Natasha Jain: That was a very detailed commentary specially walking through the strategy ahead. So, my question is more on the DTM strategy. Now overall, if I understand that your opex is more of the consulting -- peak consulting costs that gets kicked in. In terms of staff costs, can I map it to this that the more DTM you go to, the bigger your staff cost becomes because you start to deploy your employees on the ground. Just trying to understand how this strategy works. If you could throw some light on that?

Deepak Khetrupal: Yes. Look, the fact that we move to market directly obviously means that we will be spending a little more on people, but those people are, I would say, a fairly modest cost in the overall manpower cost, right? The system at the top has been standing well enough where we're already in the head office of people who really the teams who are running the DTM market. So, the high-cost people are already there. And that's why I was talking about the operating leverage coming in with the benefits of we further deploying the same strategy. But at the same time, let's not also forget that as we spend on people, the margins that we're paying to a master distributor gets saved. So, the overall benefit on gross margins will keep coming in higher than what it costs in terms of deploying the manpower.

Natasha Jain: Understood. Sir, so what happens when a state gets out of the DTM value chain? Do you still remain in the value chain? Do you monitor completely broad those costs in begin to what happen once a state is out of touch.

Deepak Khetrupal: The state is out of what?

- Natasha Jain:** Of the DTM chain, then what happens to the -- so do you still continue to monitor that chain? Or do you get out of the equation completely and where the master distributor takeover like before, only at a better pace, what happens then?
- Deepak Khetrpal:** As of now, there is no plan to do the reverse migration. The migration that we are doing is in whichever state, we are not achieving our potential, we are going direct. And the intent right now is not that we build it up and give it to another master distributor. I don't think that's likely to happen.
- Natasha Jain:** Okay. And sir, geography-wise, can you just throw some light as to which geographies are you stronger in and what's the revenue contribution broadly?
- Deepak Khetrpal:** Typically, we've been much stronger in North and East always, right? South has been actually I would say, a focus area and moderate, also West we are moderate. So that's how this trading we are a pan-India player, as you know. But our strengths are North and East.
- Natasha Jain:** Understood. And sir, lastly, on the website that you've launched. Just want to understand the pricing compared to the GT chain. So how is the pricing there?
- Deepak Khetrpal:** So, pricing, we are very conscious of the fact that we cannot let e-commerce, which is still nascent, destroy our GT, right? We are very conscious of that. So typically, every company has the same struggle. So, what we try and do is whether we work through Amazon or Flipkart or other platforms, or we have our own commerce, we try and sort of differentiate in terms of the SKUs, which are available on those websites and the SKUs which the general trade prefers to stock and sell? As we go forward, we'll keep fine-tuning that, but there is no -- in terms of straightaway we say, will we allow our e-commerce channel to cut the price and sell and take the business from GT, that will be disaster for a company like us who are still very largely dependent on our traditional distribution and retailers, right?
- So, it's a very risky thing to hurt your established channels who have been loyal, who have been selling so many of our products for so long to quickly sort of completely put them off. And because e-commerce, while it's growing very fast, it's the overall -- the proportion of e-commerce for every industry, is still fairly small. So, there is no way that we'll try and steal volumes from GT to e-commerce. No. That will be a suicidal strategy.
- Moderator:** Our next question comes from Dhruv Jain with Ambit Capital.
- Dhruv Jain:** Thank you for the elaborate statement. Sir, I had a couple of questions. So, you mentioned that you are going to be going ahead with certain investments in FY '24. So, we understand that the margins won't be as high. But we've seen Orient in the past do double-digit margin on a sustainable basis. So, in your assessment, how far we are in terms of getting back to that number, 3 quarters, 4 quarters? Any indicated guidance would be helpful.
- Deepak Khetrpal:** Not more than 3 quarters. Ideally 2 quarters, but not more than 3 quarters.
- Dhruv Jain:** Okay. And sir, in some of the other businesses like house wires and also switchgears, so, we see a lot of established players already there in the business. So just wanted actually we are seeing

growth. But do you think that as we scale up larger, will be able to actually compete because it's a crowded market, at least the house wires piece. Any qualitative statement would be helpful, sir.

Deepak Khetrpal:

So, look, the buying behaviour that we noticed in the market was that typically, if a customer is being pursued by us to buy our switchgear, for example. And they always inquire about do you have wires too to go along with it. And the same question, switchgear question is coming up when we started the switchgear, which was good, but we were said where are the switches. So, we added switches.

So, for us, the strategy to also get into wires was largely to, as I said, to complete the bundle that the consumer is looking for. I don't think there are going to be too many consumers who are going to buy only our wire and somebody else's switches and switchgear. We saw this handicap and many of the retailers actually came back to us saying, unless you complete the bundle of lamps, switches, switchgear and wires we are finding it very difficult to retain the consumer in your brand portfolio. Then they go to any other brand, buy all the complete bundle from people who already have the bundle available. So, it's more of meeting the demand of the consumer, which was conveyed to us through the retailers and we're doing that. Are we planning to sort of on a stand-alone basis, become very big in wires? No, that is not even the ambition at least as of now, unless we find something 3 years down the line. But currently, the intention is to fulfil the desire of the consumer to give a full basket of products that she needs to -- when they're renovating their homes or building a new home.

Moderator:

Our next question comes from Nirransh Jain with BNP Paribas.

Nirransh Jain:

So, my first question is on the lighting segment. And considering that we have a higher mix towards professional lighting, I would have ideally expected a higher growth in this quarter, though I understand that it has been offset by the price erosion. But how can we see the lighting segment revenues going forward?

I mean, considering that we have a strong traction in the professional lighting segment. Do you think there's -- till what quarter can we see this base effect of the price erosion that we have seen in the B2C segment?

Deepak Khetrpal:

This is a difficult one because I tell you why because if we see the price erosion in lighting, whenever we think now it's hit the bottom, somehow the technology changes and makes the product even more affordable for the consumer. I mean just go back a few years and remember how expensive LEDs light was. Today, it's a fraction of that. And every time I ask my lighting team, guys, how do you think it can go? Nobody is willing to put in a thing and it's actually true of many of the other product lines also where things like this, the costs actually do keep going down. The only good news is that those costs like they go down, it does not hurt our gross contribution percentage. Because we are not giving away from our pocket, whatever we are able to save in cost using the technology, only that is passed on. Currently, you see that it's very difficult to take the price of lamp even further down from where it is today, but don't hold me to it. I've been surprised many times in the past.

- Nirransh Jain:** Sure. Just my second question is on the D2C side. I remember like a couple of quarters back, the contribution from the -- sorry, direct-to-market sales was around 25%. Any updated number on that considering that we are almost doubling our revenues in these states?
- Deepak Khetrupal:** Again, it's a little tricky for me to share that detailed information because it's -- look, at the end of the day, we are running our business. The more information we have put it out in the public area, the more our competitors are informed about exactly where we are succeeding. As of now, I'm a little protective of the specific details of which particular state, which market. Within every state also there are pockets where we're -- internally, we are really focusing -- we will not even -- for some large states, for example, we are choosing very carefully how to tread there and how to sort of build our, I would say, region of excellence and how we are going about it. So, we are -- I would say a very chosen strategy of staying below the radar and keep doing our work.
- Gross level, I can tell you we have 100% growth. But if you up in each state, tell me the growth, I will be very reluctant to speak about it. Because that's -- that doesn't mean for a while because we don't want to -- as we know, it's a competitive market. The more I understand of our competitors, certainly the more I'm able to prepare myself. Same thing happens with our customers. They're watching us very closely.
- Especially in the markets where they've been very strong and we are trying to make a dent because they will try to sort of product their fort-- that they've built around them, right? So not every strategy I want to put out in the public, but please allow me that luxury.
- Moderator:** Our next question comes from Natasha Jain with Nirmal Bang.
- Natasha Jain:** Just a few data-related questions. So, you say fan growth was 25%. Can I get the volume growth here?
- Deepak Khetrupal:** Volume growth is slightly below 25% because we've gained more in value through price mix.
- Natasha Jain:** Okay. And sir, in terms of lighting B2B and B2C separately as well as with switchgears, can also give us some value growth colour?
- Deepak Khetrupal:** The value growth is what we reported.
- Natasha Jain:** Separately in terms of B2B lighting, B2C lighting, that is your professional lighting in consumer?
- Deepak Khetrupal:** B2C lighting degrowth is significant, which is all being made up -- at this stage, Saibal is with me, our, our CFO on the call. Do you have the details with you or you can get back to them later.
- Saibal Sengupta:** Yes. So, I will give us some indications, Natasha. Basically, as Deepak had already mentioned, the B2C, especially on the lamps and battens are on a negative, especially because of the price erosion but the rest of the CLum is on a positive, and that is also, to some extent, getting neutralized by the B2B, which is mainly on the professional luminaries. So that's how it stacks up.

And which is also getting offset and converting to a 1% segment growth is because of the switchgears. So, it is a small share of the pie. That's how it stacks up. So, the lighting B2C negative -- consumer luminaries -- sorry, B2C lamps negative, consumer luminaires is positive and switchgear, high double digit, that stacks up to the 1%.

- Moderator:** Our next question comes from Rahul Agarwal from Incred Capital.
- Rahul Agarwal:** Thanks for the follow-up. So, the working capital cycle should stabilize at 25, 30 days. Is that a reasonable number to assume?
- Deepak Khetrupal:** Saibal?
- Saibal Sengupta:** Well, the working capital cycle right now is reported around 26 days, which is marginally higher than last year September. It should ideally come down. So, as we go down during the year in quarter 3, quarter 4, particularly by end of the year, we should see a considerable reduction of that. But by that time, the inventory liquidation and the peak season and all the holdups would have gotten utilized and also the festival periods are over.
- Rahul Agarwal:** Got it. The capex for this year and next year, could you help me with the numbers, please, the budget, please?
- Saibal Sengupta:** As you know, we don't share budgets like that, but I have already -- we had been intimating earlier as well, our normal maintenance capex rests in the region of around INR50 crores to INR60 crores per year, which is including the replacements as well as technology and dies and tools. And on top of that, we are doing the Hyderabad, which all of you are aware, it's around INR200 crores, which we always have been mentioning. So, this is where it stacks up.
- So obviously, from a balance sheet perspective, by late this year or early next year, you will see the balance sheet is already -- the CWIP is indicating that, which we have published already. And the normal maintenance capex over and above will continue to be at INR50 crores to INR60 crores level.
- Rahul Agarwal:** Got it. And sir, the earlier question was unanswered. I just wanted to check how much would Gujarat contribute to overall sales?
- Deepak Khetrupal:** As a percentage, can we indicate that, Saibal? Do you have it with you?
- Saibal Sengupta:** Yes. Gujarat is at around 4% of the total domestic sales of fans. I mean don't keep that as a static constant. It obviously fluctuates, but I'm just giving you a sense. That's where the normal share of business is.
- Deepak Khetrupal:** But it's fairly low for us. I mean Gujarat is a large market, it should have a very large portion of our sales. So that's why this transition is being made now.
- Rahul Agarwal:** Got it, sir. And lastly, I'm not sure whether I should ask this question, but I just wanted to know, does the company still need an outside professional to manage operations from July next year? Or would you be happy to continue?

- Deepak Khetrupal:** No, no -- that's very clear. It's not about me being happy or unhappy about it, it's what the company needs. Company does need a full-time managing director here. The search for that is very intensively on. We've actually reached the scale that are including very senior professionals, and the interview process is on, hopefully, everything goes well, in the next few weeks, at least, whether we announce it or not, but we should be able to finalize the candidate and at least start signing up internally. Because we are very advanced in the search process.
- Thank you. So, I think we come to the end of this call.
- Moderator:** Our next question comes from Praveen Sahay with PL India.
- Praveen Sahay:** Just one clarification related to the fan segment. In the presentation, you had mentioned that the BLDC and TPW has grown at a faster rate. So, can you give some indication how much that contributes to your ECD business?
- Deepak Khetrupal:** Saibal, you have the details, right? See what you think is appropriate to -- BLDC and TPW, obviously, we clubbed them in the presentation, so maybe this question is getting clubbed, but we can tell separately how much is BLDC and how much is TPW for us.
- Praveen Sahay:** Or if you can give me some indication of the premium segment of the fan? How much that contributes?
- Saibal Sengupta:** Shall I, Deepak?
- Deepak Khetrupal:** Yes, go ahead.
- Saibal Sengupta:** See, the way it stacks up, as we already mentioned, is BLDC and TPW, obviously, is growing at a high double digit. I don't want to share the numbers, but they are definitely growing at very high double digits, and that's how the BLDC stacks up to almost at an industry level of 15% share of business.
- TPW also has grown at a fairly high double-digit number. Characteristically, TPW forms about 1/4 of the domestic business. That's how it normally happens. Premium, including Deco, for us, we always maintained it around short of 40%, around 35%. That continues to remain so because that's exactly where the value extractions comes, and the margin improvement comes. So roughly, that's how it stacks up.
- Praveen Sahay:** Great. That's helpful. And one thing related to the geographical as indicated in the North and the East is strong for you. And this time, the ECD growth of 17% is largely in those regions, is it quite good that drives the business? Or some new geographic has contributed a large portion to that?
- Deepak Khetrupal:** Now in North and East, by and large, we haven't done the transition to -- and large markets I'm talking about. We've gone in some smaller markets but large markets in North and East, we've not transitioned to DTM. Obviously, the large part of growth that we're speaking about is actually coming from the states where we want DTM, which are not in North and East. So, we're



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obviously gaining ground in the -- in our weaker states, so to speak. We haven't replaced master distributor there.

Moderator: Ladies and gentlemen, that concludes our question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Deepak Khetrupal: My closing comments are nothing. We are thanking all of you one to attend our conference and to ask questions, which help us in explaining to you the strategy that we are pursuing and the numbers that we keep declaring quarter-after-quarter, and also giving us some pointers and some, I would say, food for thought, because a certain area at times, you may not know in your question in what we trigger our mind and what sort of -- it reminds us that could be 1 way of looking at things. So, thank you so much for showing the deep interest and going through the results and asking us some very, very good questions. They are very helpful. Thank you.

Moderator: Thank you, everybody. Happy Diwali.

Deepak Khetrupal: Happy Diwali to all of you.

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

Deepak Khetrupal: Thank you. Bye-bye, everyone. Bye.

(This document has been edited for readability purpose)

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