

# Crompton

Crompton Greaves Consumer Electricals Limited

Registered & Corporate Office: Tower 3, 1<sup>st</sup> Floor,

East Wing, Equinox Business Park, LBS Marg,

Kurla (West), Mumbai - 400 070.India

T: +91 22 6167 8499 F: +91 22 6167 8383

W: [www.crompton.co.in](http://www.crompton.co.in) CIN: L31900MH2015PLC262254

Date: February 21, 2024

To, <b>BSE Limited ("BSE"),</b> Corporate Relationship Department, 2 <sup>nd</sup> Floor, New Trading Ring, P.J. Towers, Dalal Street, Mumbai - 400 001.	To, <b>National Stock Exchange of India Limited ("NSE"),</b> "Exchange Plaza", 5 <sup>th</sup> Floor, Plot No. C/1, G Block, Bandra- Kurla Complex Bandra (East), Mumbai - 400 051.
<b>BSE Scrip Code: 539876</b>	<b>NSE Symbol: CROMPTON</b>
<b>ISIN: INE299U01018</b>	<b>ISIN: INE299U01018</b>
<b>Our Reference: 269/2023-24</b>	<b>Our Reference: 269/2023-24</b>

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 January 23, 2024 and February 15, 2024, regarding the Earnings Call on the unaudited financial results for the quarter and nine-months ended December 31, 2023, held on February 15, 2024, kindly find enclosed the transcript of the same.

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

Thanking you,

For **Crompton Greaves Consumer Electricals Limited**

**Rashmi Khandelwal**  
**Company Secretary & Compliance Officer**  
**ACS - 28839**



**“Crompton Greaves Consumer Electricals Limited  
Q3 FY24 Post Result Conference Call”**

**February 15, 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  
MR. YESHWANT REGE – VP, STRATEGY & FPA  
MS. NATASHA KEDIA – HEAD – INVESTOR RELATIONS**

**HOST ANALYST: MR. ABHIJIT AKELLA – KOTAK SECURITIES**

**Abhijit Akella:**

Ladies and gentlemen, very good morning and thank you for joining us for the Q3 FY24 Earnings Conference Call of Crompton Greaves Consumer Electricals. My name is Abhijeet Akella from Kotak Securities and it's my pleasure to welcome the senior management team of Crompton Consumer who are here with us to discuss the results and business outlook. From Crompton, we have Mr. Promeet Ghosh, Managing Director and Chief Executive Officer, accompanied by his team. We will begin the call with opening remarks by management, following which we'll open up the floor for Q&A. I'd now like to invite Mr. Promeet Ghosh to begin the proceedings of the call. Thank you and over to you, Promeet.

**Promeet Ghosh:**

Thank you everyone for joining this morning. I have got with me Kaleesh, who is the CFO, Sriram, who runs Butterfly, Natasha, IR and Yeshwant, our Head of strategy. Before we dig in, I just want to remind you that this is the second quarter that I have been running the company and as you will all remember I joined in May. In June, we rolled out what was Crompton 2.0 and practically speaking, what you are seeing is that there is two quarters of Crompton 2.0 at work and what I would love to discuss with all of you is how that's going. So far as I am concerned, just a reminder of what we did at Crompton 2.0 and what that's resulting in.

So if you recall, we started with laying out the key building blocks through a renewed org structure, moving into a structure where we created centers of excellence for the back end and for the front end empowering the BUs. We said we wanted to focus on reviving growth in what was otherwise a difficult demand environment, while also being clear that the growth would translate into absolute profit growth. We began to focus on not only innovation, but on bringing that innovation to the shops. We said we'd nurture the brand Crompton and therefore we'd step up our investments on A&P. And as we look to the future, we would develop a strategic sourcing footprint for all of our businesses because we are in a business environment which is rapidly evolving and of course also focus on making the company future ready in a global environment where sustainability is going to be increasingly important.

Six months after driving Crompton 2.0, I have to say I am delighted to say that in our core categories, in every category we have performed better than our peers and this includes categories where we have had some difficulties in the past. As you know, some quarters ago there were challenges in some of our businesses in pumps and lighting, etc. So just so we are clear, in fans, in pumps, in lighting where the immediate emphasis was on what was a series of quarters of de-growth as well as on our appliances business, which comprises what we call large domestic appliances such as geysers and coolers, and also our kitchen appliances business, which we have been growing within Crompton. In each one of these categories there has been strong growth.

Having said that, Butterfly, a company that we bought recently, and I said this earlier, that remains a work in progress. We are getting our arms around that and some of that is reflecting in our results.

So since our fundamental approach of strengthening, bolstering our core categories while continuing to invest in building our future, being the kitchen appliances business remains very firmly intact after these two quarters.

Quickly about our standalone performance, we delivered strong revenue growth for the 2<sup>nd</sup> consecutive quarter, led by industry leading ECD growth, which is about 19% YoY growth and you can compare that with anyone else in the industry following what was actually also a robust growth in Q2 of 17%. The consistent investments that we promised in brand have come through, as have our efforts to build GTM excellence as well as further build our innovation pipeline. This led to an absolute growth of about 17% on our standalone profits (PBT).

In Lighting, something that I heard quite a bit about when I came, and that's been an area of and rightly so about notable de-growth. In lighting what we have done over the last six months is, we have worked on key issues, we have taken corrective measures including personnel changes and I'm happy to report that the lighting business this quarter has very moderate growth, but we have arrested the decline and of course profitability in lighting continues, even in that situation, to be quite strong.

Overall economy we have seen what is a K-shaped recovery, premium segments doing better than the others. While generally speaking as all of you know, it is a tough economic environment and that's what, to my mind, makes it especially interesting that in that environment, the kind of growth that we are seeing is coming through.

Let me get into more details on the segmental performance. ECD, now ECD, as you know, comprises several segments for us - it's fans, it's large domestic appliances and small domestic appliances and pumps. In ceiling fans, our emphasis on premium segment is actually paying off. In fact, our ceiling fans, our fans business overall has grown at about 11% YoY and there have been three areas that I have been particularly focused on, which is Premium, Domex and TPW. Domex being domestic exhaust and TPW being table fans. Each one of these segments has seen robust growth. Insofar as our product innovations are concerned, you have seen, and I won't get into detail, there is a pretty robust pipeline which has been introduced already. We have now a large BLDC presence in the market, coming from nothing about two years ago, we have a large BLDC presence. I would argue that we are the second largest BLDC, who have disproportionately grown our BLDC presence in the market. There was a step change from January last year when the BEE norms came in. Again one of the discussions that we have had before, is that that translates into materially higher costs and it was intense because of the demand environment being what it was. Practically speaking, and nobody in the market passed on those costs, even in this market we have passed on cost increases to the market - moderate, as I said earlier, but we have passed on cost increases. Having said that, it remains an area of both reducing costs as well as of passing on cost increases and some of the benefits of those we are beginning to see in our fans business.

Insofar as our LDA business is concerned, this quarter we sold the highest number of storage water heaters that we have ever sold of about 3 lakh units. It is a business which is showing strong double-digit growth, we don't disclose the numbers but strong double-digit growth in large domestic appliances and actually even stronger double-digit growth in our SDA, which is our kitchen appliances business. So both of those, whether it be on the kitchen side of the business or on the home electrical side of the business, both of them have grown strongly. Overall to give you a sense, our appliances business, which is LDA plus SDA is about 24-25% growth last year, which can tell you how that business is doing. We are now already one of the market leaders in water heaters having come from behind a couple of years ago.

Now, in fact, some of the innovation also you can see coming through in our SDA business, our kitchen appliances. I use kitchen appliance and SDA a little bit interchangeably. So I trust that something that you will get used to. We have also introduced, apart from having a mixers business which is doing well, we have also introduced a 750 Watt Mixer which is actually doing quite exceptionally.

Pumps, another area which after witnessing series of some challenges in the market, is now back to being pretty robust. It's 26-27% growth together with strong profitability in our pumps business and that is coming through because not only have we strengthened what our traditional area of expertise has been, which is the leadership in the residential pumps business but also because we made an aggressive push into the agricultural pumps business and I am happy to report that we are steadily gaining share also now and that is obviously growing even faster than the overall pumps business is concerned and from a pretty low number, we are now at about 7-8% market share already. So together with this we are also working quite actively on the solar pump segment. And many of you will have tracked that. We initially got an order for Haryana which we have implemented, also got paid for and now we have got further orders in our kitty which will be met in the future. So the good news there is that, not only is growth coming through, but profitability is strong, and stronger than it has been before.

So the margin improves, actually both in appliances and pumps. Large domestic appliances, there is a value growth of about 28%. This is an incipient business that we are setting up. As you know, this is a business that we have been nurturing, it has grown about 40% year-on-year and on a quarterly basis now recording about Rs. 20 crores per quarter versus Rs. 14 crores in the quarter before, so this is sequential growth. And there is an acceleration of the sales and exclusive business outlets- this is the only business that we sell through exclusive business outlets and part of the reason that we got into this business not only to get into large kitchen appliances, but also to make a foray into exclusive business outlets which we see as being an important go-to-market for all our other premium products in the months and quarters to come, and there is innovation coming through there. So there is a second wave of products after the initial introductions which have been introduced into the market. What we call these, the wave of opportunities which are in fact already in the market.

Insofar as lighting is concerned, like I said earlier, lighting is a business in which we have snatched the degrowth that we were previously witnessing in this year, but I am glad to see that it's back on the growth path and again this is part of the discussion that we had when we started in 2.0. That one of the immediate priorities for us was to get our arms around the lighting business and you can see a trend here. Our effort has been to first get our arms around businesses which have been facing a difficult market environment and lighting is one, pumps is another and actually even fans. You can see the way that the broader business has been going. So the focus is beginning to tell.

Lighting comprises two businesses. One is the institutional B2B business and the other is the B2C business. At the B2C business, the B2C business is kind of broadly flat while the B2B business is actually back on a reasonable growth trajectory. In fact we have secured some prestigious orders, the Mumbai Coastal Road which should be commissioned in the near future, the Ahmedabad Municipal Corporation order, there is a Chennai Municipal Corporation order. All these are large orders which have come through and are being implemented. We have in fact also created a dedicated team for large projects. So some of this is not showing up in the kinds of orders that we are getting and executing now.

Insofar as the B2C segment is concerned, like I said earlier, broadly flat over last year, the LED business, now you must understand that there is a CFL business that we are discontinuing. So the drop off of the CFL business, which anyway we communicated to you earlier, the drop off of the CFL business is a given in the revenue comparison that we are doing over the previous year. So this is obviously contributed to the numbers that you are seeing, but despite that, the business is doing what it is doing. The LED business, LED lamps and battens business, there continues to be pricing pressure and despite that we have seen significant volume growth. In fact, if I am not mistaken, about 5% volume growth in the LED business, despite there being a fairly material price erosion in that segment, we continue to do quite well both in ceiling and in new product introductions, which again if you remember, were areas that we said we were focused on.

Lighting margins continue to be very robust, very robust. So EBIT margins on lighting improved by 1% YoY to 11.2% so all of the work that's been happening to revive the growth in the lighting business, we have not taken our eyes off profitability. And as I have said before, this continues to strengthen our hands as we build up our go-to-market to be able to revive growth in this segment. And again, just to be clear, we are responsible participants in this market. So we know that we want growth together with probability and that is coming through.

Butterfly performance. We have kitchen appliances that we play in two segments, one part of Kitchen appliance is embedded in Crompton, the other part of the kitchen appliances being in Butterfly. Now, I already have told you that kitchen appliances within Crompton are doing very well, the overall appliance business growing at about 28% and I don't mind telling you that the kitchen appliances business in Crompton is doing materially better than that. So it is a business that we know how to run. Our success here on the Crompton side is very heartening. We are getting our

arms around Butterfly and clearing out various elements. So it's a work in progress. I'd say there are actually pretty clear demarcation of how Butterfly is approaching the business there; there was in Butterfly, a very material corporate institutional sale. Now, by definition, that tends to be idiosyncratic. While the core segments are in retail with supply supplemented with e-commerce, now we have focused on growing our retail, strengthening on our e-commerce platform, while let's say de-emphasizing the institutional business, which tends to be episodic and actually the revenue growth has come from a sharp fall off in the institutional sales as a consequence. We did disclose the results of Butterfly a week back and all the details are there. So you can get a sense of that.

Now, profits have been under pressure at Butterfly, part of the reason is the revenue drop that we have seen in recent times as we build back the business. And having said that, we do not want to compromise on advertising spends even when profitability has been under pressure because this is not something that we bought for a quarter. So, there were stepped up advertising at Butterfly, festival promotions also, we went pretty whole hog in and there was also a minimum wage revision in Tamil Nadu where much of our products impacted that that led to an increase in wages.

Now where are we going to go from here? As you know, the legal merger with Butterfly is not happening yet, but the operational integration is well on track and that means that the engagement of the sales, manufacturing, procurement with Crompton and making sure that both ways it works, all of that is working for us on the Crompton side in terms of the sales of kitchen appliances to bring to bear, or are going to particularly bring to bear in Butterfly in the future. And of course, Butterfly itself has a strong brand to bring to bear those benefits to Crompton as well. As we have spoken about in the past, *'Power of One'* is taking the Butterfly product to other parts of the country, that's also being rolled out as a part of Crompton 2.0.

Lastly, channels, go-to-market. I am happy to report that frankly, both our traditional channels as well as our alternate channels have in fact done quite well. So we have seen growth in traditional general trade as well as strong growth in alternate channels because it is important that while we grow our alternate channel, which comprises rural, e-commerce, MFI's, etc, while we grow that and put a lot of resources, we do not neglect the general trade there, which is our lifeblood, which is where we are so much stronger than many other people in the business, and I am delighted to say that both have been growing and it is not both growing in one segment alone. So our general trade has grown in each one of the regions - North, East, West, South what we call NEWS and that we are combining with growth also in the alternate channels and I think we are disclosing that our alternate channels now have seen about close to 40% growth YoY (last year) and that means that the overall saliency of our alternate channels today is steadily going higher at about 17-18%. E-commerce and within that, has doubled. The rest of the growth is coming from strengthening our rural channel.

Lastly, a few other comments on EPR and BIS. As some of you know, the deadline for the BIS standard being implemented passed yesterday and I am very happy to say that we have substantially, infact almost entirely, met that by transitioning our manufacturing facilities to that

standard. I know that has been a bit of a challenge for the industry, but we decided to get ahead of the curve, not assume that the deadlines are flexible, whatever the deadline was, we said guys, we got to get it done and we did. EPR is another area - Extended Producer Responsibility and we worked to put an effort to comply with that standard as well, and that's something that I think will play out, particularly not only last quarter also for everyone.

Insofar as emphasis on sustainability is concerned, EPR, BIS, all I think are elements of how regulations are tightening across our industry and that really helps us as the leading player, because if you can get your arms around it, then that can be a factor that is beneficial to you. So actually, a few weeks ago, as you have seen one of our water heaters was awarded by the President of India as the *'Most Energy Efficient Appliance of the Year'*. Needless to say, that kind of demonstrates to you how focused we are on energy efficiency and sustainability, you will see some of this and some of the others segments as well. Also, happy to note that we were awarded the *'Best Managed Companies'* by Deloitte, and in particular, they focused quite a bit on how Crompton 2.0 was structured.

Some quick concluding remarks. We obviously created Crompton 2.0 after business review which was really about streamlining operations, empowering people, focusing on the long term while ensuring that basically, the word I like to use is 'transform'. That is proceeding apace. So far first quarter, after I joined, some of this was at the initial stages, but some of the results are already coming through and for the next quarter, I can see that that is taking place. And with that I'll stop there and we'll take questions.

**Abhijit Akella:**

Ladies and gentlemen, we are ready to begin the question and answer session. We have our first question from the line of Aniruddha Joshi from ICICI Securities

**Aniruddha Joshi:**

Thanks for the opportunity. Sir, two questions, one you have mentioned under Crompton 2.0 strategy about investment in distribution a lot. Now definitely it is required, but now the new ONDC platform is also expected to be pretty much functional in, let's say, next 1-1.5 years and may pick up a good pace in next, let's say, next 3 years. So it will significantly change, in a way the distribution structure also in India. So what are Crompton's initiatives in that and how do you see that as an opportunity or a concern or your views on that. That is question number one. And two, now we are seeing multiple new product or premium products also getting launched on Crompton brand. Now Crompton has always stood as a very strong value for money, trustworthy, kind of a brand. So it is never seen as more of a fashion brand or a lifestyle brand as such. So do you believe that a new brand will be required or Crompton itself can take care of the fashion and lifestyle aspirations and there is a very strong potential to drive premiumization on the Crompton brand itself. Yeah, that is it from my side.



**Promeet Ghosh:**

Good question. Firstly, on ONDC, look it's something that is coming up. It is something actually we are engaged with the government so that we have a good sense of how that will evolve and understanding how we can participate in it in the future. Now the way that I look at it, is that the go-to-market in India is evolving. Now that does not actually mean that one particular go-to-market will atrophy and the others will become very strong, not really. What we are seeing is actually that they will come together. And indeed, it is important for people to have a strong position in each element of that go-to-market if you want to be successful. So, you have what we call general trade. You have already for the last several years had e-commerce as a new go-to-market. Interestingly, for some of our products, what we are finding is that out of 7-8 people who look at a product on e-commerce, 6-7 of them actually go and buy it on general trade. It is also the cost structures of some of these newer channels is higher, if you don't have a mix of these channels then it is going to be difficult for people to make money. And therefore, you see us growing both general trade as well as alternate channels. And by the way, alternate channels is not just e-commerce, it's also rural. Penetrating deep into the markets, getting to know the nooks and crannies of the country, because your products are recognized there and sell there. So, long story, but you will see even some of the newer age companies today coming up and saying - No we are trying to get into general trade because we are going to have a bulk of it. So, if you need to have all of these and we are obviously in a strong position of having a very great mix, now even that will of course evolve in the future including with ONDC.

Now to the point that you are making about Crompton being a trusted brand. Absolutely Crompton is a trusted brand. But you know what? I wouldn't characterize it only as a value for money brand because what we are seeing in product after product is that there the consumer recognizes the Crompton brand, appreciates the Crompton brand for a range of products, so to give you a sense, our premiums in fans, we have been steadily growing our share of premium fans. Even today, it is actually lower than what it should be, but we have been steadily growing. And that is at about 26-28% already after steadily growing and that's not just ceiling fans, that is a share of all of our fans, including non-ceiling fans. What that tells you is that the consumer has faith in the Crompton brand. We are today selling chimneys which cost Rs. 20,000, one of the products is Rs. 30,000. So you can see that there is appreciation, yes, we need to continue to build the premium aspects of the Crompton brand, but it itself is quite strong. And by the way, actually one of the things I must tell you is that when we recently did a study again, also of the Butterfly brand, and interestingly keeping the business performance in the recent quarter aside that is strong, that brand is very strong as well and we are in the process of building it. So I hope that answers your question.

**Aniruddha Joshi:**

This is very, very helpful. Just lastly, on Butterfly, at the time of acquisition, it was expected to be earning accretive in almost year 1 itself. But now obviously the situation has been bit different. So you want to guide or give a guidance for FY25 or FY26 for Butterfly?

**Kaleeswaran A.:**

We do not provide forward guidance as you know. From an overall business perspective, we called out that Butterfly is a work in progress, more in terms of how do we get our channel balance right.

And we do believe this is couple of quarters away prior to which we get the entire thing right and we start seeing business coming back to the desired level that we want it to be. But having said that, the core channels of Butterfly, which is trade, and e-commerce continues to do well for us. Our entire new product launches is contributing significantly to our overall revenue. All those things are pretty much intact. It is this allied non-strategic channels is something that we are working upon like Corporate, etc. How do we rebalance that and get the business to the right level of growth and profitability?

**Promeet Ghosh:**

Look, all I can tell you Anirudh, is that Butterfly is a strong brand in kitchen appliances, very strong brand in kitchen appliances and a very strong brand in the South. Kitchen Appliances is a business that we have just entered in Crompton. We don't compete, by the way, but it is a business that we've just, we have entered in Crompton three years ago. Again, but we don't disclose the exact size of that business, it is a material business to our overall sales. And that is a business which is growing like I told you earlier, faster than 26-27% which our appliances business is growing. Maybe even materially faster than that. So again, we believe that bringing all of those and that's one of the reasons that we bought Butterfly, it's taking longer than we anticipated, but we do believe that it will show in the performance of Butterfly in the quarters to come and realize what the potential of that brand is. We don't give forward guidance.

**Abhijit Akella:**

Our next question, which is from the line of Mr. Rahul Gajare from Haitong Securities.

**Rahul Gajare:**

I just have one question. You talked about very strong growth in the pumps business, which are mainly sold through channel partners. Can you help break up the growth into Residential and Agri? And if I am not wrong, Agri would account for about 20-25% of the total pumps, which is a very price sensitive market. Also, if you can clarify if there is a particular geography or product like Mini which did well for the company to get that kind of a growth and during the commentary you also talked about rural picking up while we were getting mixed commentary in terms of pick up on the rural side, so you could talk about that also.

**Promeet Ghosh:**

Maybe I will just take a quick shot at it. Rahul, you are right. Firstly, your estimation of the size of the Agri sales in our portfolio is broadly right. While I can't break out the growth numbers between Agri and the Residential, I want to tell you that both of them have grown. In fact, the overall growth in pumps is about 28-30%. So you can kind of run your math from there. And insofar as our channel mix is concerned, again, that channel mix is not a particular channel becoming much more salient. In fact in this segment as well is in all our other segments, rural and general trade have grown. So the growth is not disproportionately coming from any one segment. It is a pretty well distributed growth.

**Rahul Gajare:**

So it is not that residential was significantly higher?

**Promeet Ghosh:** No, no it's not. Residential wasn't significantly higher. Residential was lower because it's a much larger base, but both of them are growing.

**Abhijit Akella:** The next question we have is from the line of Siddharth Bera from Nomura

**Siddhartha Bera:** Sir, our first question is on the ECD portfolio. Now we have seen good growth in the past two quarters. Obviously, part of it is benefiting also because of a low base in the past. So, going ahead, how are you looking at the segment?

**Promeet Ghosh:** What low base, what low base? How did you come to low base?

**Siddhartha Bera:** I just wanted to understand how sustainable is the growth momentum in the coming quarters because we will enter into a peak summer season and it is generally a seasonally strong quarter for us, so just wanted to understand, are some of these growth trends sustainable in the coming quarters or do you expect some change here like on the fans category if I talk about?

**Promeet Ghosh:** So far as low base is concerned I don't know where you getting that from, because if you recall last year 31st December was the BEE transition and there was a race across the industry to make sure that whatever non-BEE fans you had, you saw it. So, this thing about low base, I'd be a little careful about using Siddharth, and we have got good growth last quarter, we have got good growth this quarter and it is obviously very differentiated from the rest of the industry. Look, I don't want to dissect about how the growth will be next quarter, but what I can tell you is that we are putting, we are strengthening the essentials of the business. Putting in place the building blocks, which is kind of showing up, I think in the performance of the company and from my perspective, whether for us, for everybody, consumer growth isn't very strong, but because we are doing what we are, I am pretty optimistic about how and where we will come.

**Kaleeswaran A.:** In fact, many of you had this question that, is there a low base and probably you guys are coming back on a BEE rating. Would like to clarify a few things so all of us are on the same page on this. Please note our ECD growth of 19% is broad based. It's not fans only, fans has grown at 11%, whereas pumps, large domestic appliances, led by geysers, coolers and small domestic appliances, have grown significantly ahead of 20%, and that's why it is delivering the ECD growth. Now it's equally important to note within fans also the BEE change was applicable for non-star rated fans, which is your value segment largely. Our growth of 11% in fan is driven by categories like BLDC, which we have significantly upped our ante and got the investments going behind it and categories like TPW (table, pedestal and wall) fans. So it has got nothing to do with the low base effect. It's a broad-based growth across segments and within fans also there was no impact of BEE ratings having any role to play on having a low base growth that needs to come in from.

**Abhijit Akella:** The next question we have is from the line of Pulkit Patni from Goldman Sachs.

**Pulkit Patni:** My question is primarily on Butterfly. While multiple times in the call, you said that we are trying to fix things. Can you please explain what exactly is going wrong there? I mean you also said the brand is positioned very well. So, is the product positioning not right? Is the channel not working the way it used to work under the previous owner? I mean if you could just explain one, what exactly is the problem because, as somebody else also highlighted we were talking about break even in the first year. Here, we are actually losing money on this one. On top of that, what are you doing to fix things and then some direction on when we are likely to look at better numbers for this particular business?

**Kaleswaran A.:** Pulkit, thanks for raising that. Allow me to give a little bit detailed answer on this and how are we looking at it? See when we acquired Butterfly, now it's about say 1.5-2 years since we have acquired the business and it was during the COVID period and as you all know, there was a COVID fill-in that happened in kitchen and kitchen as a category is not something that is doing to the extent that we would like it to operate today on a pan India basis, and this is reflected in soft results for this full year across all the company players in the industry, that is at a very high level. Having said that, from our perspective, the way we are looking at in Butterfly is 1) it's a high operating leverage business. Which means that the revenue mix it needs to have, needs to be at a minimum threshold for us to drive a steady 7-8% EBITDA growth, which is what we wanted to strive for in that. Now there are few channels that we need to course correct and we need to ensure that our business model is not dependent on that. And why is it important to course correct and what are these channels? The brand is present in channels like corporate which is largely towards end consumer gifting and it is also in institutional government businesses. Now in the long term, we are not in Butterfly business for 1 quarter, 2 quarters. We see this as a business for next 5-10 years. If we have to make this a pan India brand and beyond South, the brand has to have its own position and has to have its take towards a lifestyle experience oriented category, and to ensure that we move in that direction, it is important that first we rebalance the channel strategy. It started with the business largely being a Flipkart led e-commerce price led channel moving towards a broad based Flipkart plus Amazon brand led engagement, that is almost done and it is completed. The second phase of activity that we have to take out to ensure that the corporate business and the government oil marketing company businesses has to be balanced so that we don't have ups and downs of business model when we need to make this a larger brand and not a value for money brand and have a lifestyle brand that it is associated for.

The channel correction is something which is underway. We do think it is about couple of quarters away for us to complete this in full. From the overall business synergy perspective, from a cost perspective, many of the work that we have to integrate with Butterfly, on administrative costs have already started and is giving results. We are also looking at how do we synergize Butterfly's manufacturing facilities for Crompton products and how do we get that operating leverage reduced, the high operating leverage model that Butterfly operates. Revenue synergies with Crompton has also started to work. We are piloting in few markets in north to start with, to see how do we leverage the Crompton's distribution and get Butterfly's product placed. Which is why if you look at it just to quantify it in numbers so that it's easy for you to look at it, we have lost about 35 crores

of corporate sales business, which is about say 5% of EBITDA for this brand. And this is a yoyoing business and you cannot predict when it will come and when it will not because it's not something intrinsic direct consumer driven. So that's something that we are going away with. Then we have gone ahead and invested behind the brand and people considering slowly we want to move this brand beyond South and start the work towards it. So overall, fundamentally as we said earlier, the brand is strong, the brand has got strong resonance with the consumer. We do believe it has got a potential to go beyond Tamil Nadu, South and become a Pan India brand. But it means that there is work that needs to be done. It cannot be a value, price-led brand which needs to be on a deal based business every month and every quarter, like how we did this in Crompton. I think we started on a journey in Crompton and two quarters down the line we do believe that the journey is providing results to us and the strategy is working well for us. It is a similar approach that we are taking in Butterfly also, we do believe two quarters down the line we should start seeing directionally moving in the right place for Butterfly too.

**Promeet Ghosh:**

I'll just give you a little bit of a context here. Even in lighting and in pumps, let's take lighting. What we did is, and it's very much work in progress guys. It's very much work in progress. So let's not go away from that. But what we did is we strengthened the go-to-market and we strengthened the senior team. We are exactly in the process of doing those things at Butterfly. The senior team at Butterfly is being strengthened. The go-to-market at Butterfly is being strengthened, dare I say, materially strengthened with operational integration between the companies materially stepped up. So some of this was going to happen, with the legal integration that for whatever reason did not happen, but going forward, this is not stuff that now you should know or that we are not used to right. So business after business, this is what we are doing and it's at an earlier stage in Butterfly. But it will come through. Much larger businesses, actually than Butterfly.

**Abhijit Akella:**

We move on to our next question, which is from the line of Saumil Mehta from Kotak Life Insurance.

**Saumil Mehta:**

My question is continuing from the previous one. No doubt you know, Butterfly is a strong brand but the competition is also heating up in that space. So Bajaj has entered into that space. You're in South, one of the largest player in South has also entered into that space for the last 12 months. Now we understand changing distribution and better product offerings. But from a next 24 months perspective, what could be the KPIs we need to evaluate, specific to from a marketing perspective and we are sure that the journey is on the right track. Can you give us some specific targets which you have for Butterfly which we can evaluate and you know just to ensure that the journey is on the right track?

**Promeet Ghosh:**

Two quarters ago, three quarters ago or five quarters ago, we had a similar conversation about new people entering our pumps business. We had a similar conversation about other businesses. We had a similar conversation about people entering our fans business. Competition is the way of life. So in consumer durables, there are no entry barriers, there are only sustainability barriers. People can

enter. It's not easy for people to sustain and continue to do well. The secrets of doing well in the consumer business are very simple. They are do you have a strong brand? Do you have the operational scale which arises from being a leader in the business. Now you know the strength of the Crompton brand. You know the strength of the Butterfly brand. Just so we are clear, together between Crompton and Butterfly, we are the second largest kitchen appliances company in the country. So that can give you a sense of the scale. Now the requirements of what, how we are going to do in the business are simple. What's the sales mix? How is the sales mix going to work? Is that sales mix coming, from what are sustainable long term go-to-market fundamentals, namely retail, also e-commerce because that's a material part of our overall market. How much of that is coming from there, is that growing, is that getting expanded? And secondly, other than that, is the revenue growth coming through, is the profit growth coming through? Is the profit margin being restored? Those are simple things here. Nothing complicated for Sriram. Once you put the fundamental building blocks in place, the rest will fall in place.

**Abhijit Akella:**

We can move on to the next question, which is from the line of Achal Lohade from JM Financial.

**Achal Lohade:**

Sir two quick questions. One is the market share, if you could just give us a broad sense about the market share in absolute or a change over last, let's say two years or four years, how has that changed for fans, pumps and lighting if you could?

**Promeet Ghosh:**

I do not want to do that because there are no really trustworthy numbers that we find. I mean clearly you have seen the growth of the rest of the players in the market. So we are clearly gaining share in fans, in pumps, in kitchen appliances and in the Geysers, but I don't know if there are any numbers we want to share, but I do want to be clear that some of these numbers we don't always go by internally, for whatever it's worth.

**Kaleeswaran A.**

As Promeet said, it is coming from the fact that it's not that this industry has got something like a Nielsen which gives you the share, but even otherwise, if we go by what's available on the table, we are gaining share in fans. We are gaining share in pumps. Fans in fact, for the last three quarters, we have been gaining share and the share gain is led by premium fans. Pumps is led by the growth that we are seeing in our residential and in agricultural pumps. Geysers, we have now become a top three player and within e-commerce we are the number one player in e-commerce and where we have gained market share. Lighting, we are holding the share. In lighting we do believe there's an opportunity for us to expand particularly on the ceiling segment, which is something that we should see it happen now in the coming quarters.

**Promeet Ghosh:**

So I mean, maybe we have kind of gained a couple of points of share in fans. I think we are estimated to have a market share of about 27%. According to these numbers we have gained a couple of percentage points, in our own view we have gained more as you can actually see from publicly disclosed numbers. But you make up your minds guys. And like we said, in fans, our premium has been growing and our TPW and our Domex has been growing, all of them growing faster than the

market and in double-digit numbers, double-digit percent terms. Sorry, but that is all I can give you because we don't have any better numbers to do. Again, in pumps as you can tell if you grow 28% YoY means you have grown in both.

**Abhijit Akella:** We'll move on to our next question, which is from the line of Rahul Agarwal from Incred Capital.

**Rahul Agarwal:** So the question essentially is the summation of whatever we just discussed over the last one hour, under Crompton 2.0, it looks like things have changed in terms of the strategy of growing faster than the industry, that is a clear cut intention and an achievement. I think fan, pumps, appliances and lighting we can see that. Similarly on the margins, the strategy is to invest more and invest into brands and hiring talent and hence there is some kind of operating deleverage here because in spite of building up topline, our margins are still lower than what Crompton standalone is known for pre-COVID levels. So question essentially is over the next 3 years and it's more like a conclusion to what we just discussed - across these four categories, and more is on Crompton standalone, we have discussed enough on Butterfly. Fans, pumps, appliances, lighting next 3 years, what will be the growth rate in terms of what the management will be happy with? Obviously you have mentioned that you will do faster than the industry, we understand because we are aware of the category growth here, the fans category and stuff like that, the volumes are pretty low here, right? So that is one.

**Promeet Ghosh:** Volume growth in the industry is lower you are saying?

**Rahul Agarwal:** Yes, I am saying like the category growth for lighting & fans

**Promeet Ghosh:** Yes yes

**Rahul Agarwal:** And combined with the fact that margins obviously are still lower than pre-COVID Crompton standalone, is this a structural low we are seeing or we will again go back to 12-13% over the next three years. So that's my only question.

**Promeet Ghosh:** What we have been telling you is that we will grow topline and we will be also focus on absolute growth of our profits. That doesn't mean that we'll be cavalier about our margin as you can see across segments now, but our focus is on growing the profits and continuing to invest in those things which are going to bolster future growth. So despite the fact that there are challenges in the market, we have not shied away from increasing our A&P spend by 30% because that may go into my cost structure today, but it will build the strength of the brand which will come through as growth tomorrow. So we are doing those things which build the fundamentals, strengthen the fundamentals of the business.

**Kaleeswaran A.:** I think fundamentally, let us start with Crompton 2.0 we said we want to be an organization that is growth focused and absolute profit led. And which is where we said we started at 10% EBITDA

margin and then see how do we move forward from there. Now let me take ECD as a platform and I want to give you a comparison of where did we land in last quarter, Q3 of last year and where are we today in Q3. At an overall level, you look at margins in ECD, which is roughly lower by about say 350 basis points compared to the previous year. Now of this, 80 or 85% of this is driven by marketing spends, which is largely the investment that we have done behind the brands, about Rs. 35 crores incrementally have been spent over last year in this quarter across all the categories, fans, geysers or pumps for that matter. Now as we move forward, we do believe our revenue growth will be in double-digits as a portfolio and that should help us to fund some of these investments that we wanted to look at. And we also believe there are cost opportunities that are still untapped. We are doing very, very good in our direct cost program which is giving us good results over a period of time and we'll continue that. We do believe there is opportunity in indirect cost reduction that has started to give us, where should we go and correct the indirect cost. We have already identified those areas and as we look at the next year onwards, we should be able to start seeing benefits of that also. This, coupled also with the fact that in a category like Fans, we still believe there is room for us to improve the gross margins. We have taken about 3 price increases including what we did yesterday and considering the BEE cost increases that has happened, we still believe there is headroom for us to improve the gross margin in fans. So a combination of all these things along with the growth and where we stand, we do see operating leverage will also kick in as the business starts to scale up in the next two to three-year period beyond the EBITDA margin that where we are today.

**Promeet Ghosh:** In fact, in the last two weeks we have taken further price increases. We have taken price increases in fans and pumps, again.

**Rahul Agarwal:** Right. I get it. But the point is, because you are growing topline, your EBIT obviously YoY nine months is lower than what we were making last year. The point is from a ROCE perspective is that accretive? The strategy is accretive or not, that's what I'm trying to understand.

**Kaleeswaran A.:** Some of these things you need to see - what is the lead indicator and the lag indicator. If you look at it, there were two choices that you had - you be a brand which is into a mass category and where you talked about initially the category growth itself was not there and then try to do a price gain which could become a vicious cycle. We are not here for quarterly profits as we discussed. We are looking at next 3 years, 5 years, 10 years. How do we need to operate? In that set of a context, the amount that you are spending behind the brand today is definitely helping us to premiumize the portfolio. Once we premiumize the portfolio, the throughput will naturally go up across all the channels, let it be in traditional trade or in alternate channels, that's when you will start seeing the operating leverage also play out as we scale up the business in the coming quarters and years. So you don't have a choice, when we all know that the economy is moving towards the K-shape recovery. You can't blame the economy and do what you are doing. You need to be nimble footed. You need to be agile and move towards what the consumer and market is demanding. Our change in strategy is more to amplify that and we do believe it's paying the right results and we are not here



for a quarterly ROCE. We look at the next three years, we believe there is umpteen value in this business and probably it has under achieved to the strength that it has. We wanted to ensure that we maximize that as we look forward. That calls for upfront investment and as any business you would always do that. You don't shy away from that.

**Promeet Ghosh:** Agree with you. I mean obviously a core element of it is operating leverage coming into play. That's fundamental to all of this and we can already see that happen. To be clear, for instance, in pumps, how do you grow margins as well as strong topline, the same thing is happening across and in other businesses of ours as well.

**Abhijit Akella:** We will take the next question from the line of Srinidhi Karlekar of HSBC Securities.

**Srinidhi Karlekar:** Sir wanted to know Butterfly's current business mix by channel and where do you want to take it as a culmination of your channel rebalancing exercise. That is the first question.

**Kaleeswaran A.:** So we give it in the Butterfly press release. Maybe you can connect with Natasha later. She'll be able to help you out with this as to how are we remapping this.

**Promeet Ghosh:** Butterfly is a listed company and full disclosure are made there. But to give you a sense, the Institutional and corporate business is about 15%.

**Sriram Rangarajan:** E-commerce is around 30% and around close to 45%-50% is between trade, which is when we say retail we call Chain Stores plus the distribution plus modern retail, we are close to 50%. And balance is your CSD, exports oil channel and institutions.

**Promeet Ghosh:** So it is about 20% institutional, 30 + 50 very broadly, and the principal reason why you're seeing this fall off is while retail and e-commerce have grown over last year, there has been a very sharp fall in the institutional, in fact it's 70%+ de-growth. Like I said, that kind of business is very episodic, sometimes it will come, sometimes it will not come and we are not going to bank on that as a core area going forward. So that is why you see the kind of de-growth that you have seen in Butterfly. But other than that, both retail, which is general trade and e-commerce have grown.

**Srinidhi Karlekar:** On the gross margin in the butterfly portfolio, with this rebalancing and channel mix, one would have expected improvement in gross margin, but there we see sequential decline in gross margins. So would it be possible to throw some color on that please?

**Promeet Ghosh:** Few things happening here 1) insofar as butterfly is concerned, there is an operating leverage at play here. So if the volumes have come off, then the reverse of the operating leverage and when the volumes come back, then you will have the exactly the reverse come into play because 90% in-house manufacturing. So that is kind of what's come into play and therefore the numbers, when we

look at butterfly, we should just be a little bit careful in analyzing those numbers in absolute terms. So if you see a bulk of this is because of gross margin erosion, which comes from operating leverage. So it is very sensitive. So one quarter if the numbers come down then the margin will sharply correct. But with growth, this number will sharply vary. This is perhaps a point that people should just keep in mind when they are looking at the numbers.

**Abhijit Akella:**

We will take the last question of the day from the line of Indrajit Agarwal of CLSA

**Indrajit Agarwal:**

I have one question on your manufacturing strategy. If you can state how your in-sourcing would change over the next 2-3 years. Butterfly is 90% in-house so how that is going to change and also for the other businesses say fans, lights, pumps, what is the mix now and how do you think that will change in the next two to three years?

**Promeet Ghosh:**

Good question, Indrajit. By the way, this is something that we talked about is an integral part of Crompton 2.0, and there has been progress that's being made at the right time. We will disclose to you the fullest element of how some of this is being done. Not yet, but butterfly, let's say, let me give you an example which is, since it's separately called out. As we discussed earlier, Butterfly is a very high operating leverage company and that operating leverage comes out of the fact that 85% of the manufacturing is done in-house right now. In one quarter, when the volumes come off, that has a disproportionate impact on the profit. But what we are doing today is, like I said earlier, we have a large kitchen appliances business called LDA within Crompton. So the entire manufacturing of our kitchen appliances business in Crompton is outsourced. So what we are doing currently is working on moving the manufacturing from vendors to Butterfly, particularly of some of our products, to start with the mixer grinder. So you will therefore see some of the effects of the operating leverage of Butterfly getting significantly addressed. But also us help improve margins because we are in-sourcing. Now to give you a sense of the other businesses, I am giving you broad numbers because we don't disclose everything, but in fans about 50% of our manufacturing is in-house and balance is outsourced. Fans, we are in the process of significantly stepping up the in-house manufacturing of fans. Currently our manufacturing facilities operate at pretty low capacity utilization. We have 3 actually, 2 of them in Goa - Bethora and Kundaim next to each other, really one unit and one unit in Baddi. Our effort is to do more internally, it is a process that we have started, now 7, maybe 12 months ago, but it's a process that we are accelerating. So you will see more outsourcing. Insofar as lighting is concerned again, we have two manufacturing facilities, one at Baddi and one at Baroda. There also, what we are doing is a mix, actually our own manufacturing we are trying to go up the value curve in some of the more commodity products, we will actually outsource because you want to do what is best for the organization there. Very approximately I'd say about 40-50% is in-house and the rest is outsourced. So depending on which category of product you'll see more in-sourcing and outsourcing, particularly in some of the more value added products where we want to control the entire value chain. We will manufacture in-house and again our Baroda facility is under utilised. Insofar as pumps is concerned, we have one facility at Ahmednagar and again, we have been stepping up our in-housing of pumps and you will see more of that happening. What I am not

getting into in greater detail is there is a strategic overlay to all of this. It is not just producing more internal. It's also producing more of what is important internally and holding and owning critical parts of the value chain, so that is also in progress. And frankly, we see that being a big differentiator in the years and quarters to come. Because in each one of our businesses being able to own the design, being able to come up with the next generation of products, particularly products which are more energy efficient, more sustainable is going to be critical.

**Abhijit Akella:**

I would like to turn the call back over to Mr. Promeet Ghosh for any closing remarks.

**Promeet Ghosh:**

I pretty much made all the points that I set out to. The messages I want to quickly leave with is that what you see is Crompton 2.0 in action and beginning to deliver the results that we were hoping for Crompton, Butterfly is work in progress, perhaps the gyrations on Butterfly are a little bit accentuated because it is a very high operating leverage business. But I have great faith that with the changes that we are making there and with the experience of having delivered and continuing to deliver on the kitchen appliances business as well, it's something that we will get our arms around in the future.

**Kaleeswaran A.:**

Last point I think fundamentally Crompton 2.0 is paying rich dividends for us and I also wanted to reiterate here that Crompton standalone, it's not that we are delivering industry-leading growth only, we continue to be industry leading on margin also. It is very, very important to note that also, in spite of investments being made behind business and if you look at the margin erosion that has happened in the industry in the last one year, it has been due to largely the price and cost challenges for the competitors, whereas for us it is largely due to investments made behind the brands and categories that we operate, which we expect to pay dividends beyond the current quarter and years to come. So we continue to drive revenue and profitability. Thank you.

**Promeet Ghosh:**

And guys, every time we do better than the industry, I have someone say, low base. Hopefully you know as we consistently deliver over quarters, people will get over that.

**Abhijit Akella:**

Thank like to thank the management team for joining in and thanks to all the participants for making time for us.

---

(This document has been edited to improve readability)

***Investor Relations:***

[crompton.investorrelations@crompton.co.in](mailto:crompton.investorrelations@crompton.co.in)

**Registered Address:**

Tower 3, 1st Floor, East Wing,

Equinox Business Park,

LBS Marg, Kurla (West),

Mumbai, Maharashtra, 400070

Website: [www.crompton.co.in](http://www.crompton.co.in)

CIN: L31900MH2015PLC262254