"Orient Electric Limited Q3FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Orient Electrics Limited Q3FY22 Earnings Conference Call hosted by PhillipCapital (India) Pvt. Ltd.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Deepak Agarwal: Good morning everyone. On behalf Phillip Capital I welcome you all to Orient Electric Limited Q3FY22 Earning Call. Today we have with us Management represented by Mr. Rakesh Khanna - Managing Director & CEO and Mr. Saibal Sengupta – Chief Financial Officer.

Without taking much of time, I would like to hand over the floor to Management for their opening remarks, post which we will open the floor for Q&A. Thank you and over to you Management for your opening remarks. Thanks.

Rakesh Khanna: Good morning, everyone. My name is Rakesh Khanna. It's pleasure to be with all of you. And thank you all for joining us for our 3rd Quarter Earnings Call.

I hope that all of you and your families are safe and healthy in these pressing times once again with Wave 3 surge in past few weeks. Health and safety of our employees and all business partners continue to be our top priority. Our COVID Response Team has continued its surveillance and we have extended support to all our employees, with key Doctor consultation, having oxygen concentrators on the standby and made food delivery available to affected employees and their families. Rapid Antigen Test kits have been arranged at the offices to act as the first line of testing and defense. Agile RT PCR testing and isolation of COVID positive associates and their immediate team contacts were acted upon very promptly.

I am happy to share that severity of virus is less, as no hospitalization has been reported till date from the employees and business partners, and neither has there been any impact on business continuity so far. Moreover, 100% vaccination and greater awareness gives us the confidence that we will be able to come out of this quicker and stronger. We have also carried out Community Health Care programs, with hospitals tie-ups for underprivileged, vaccination drive and mask distribution.

Coming to our overall performance, the 3rd Quarter of Financial Year 22 saw an overall resilient performance even though we continue to face challenges on multiple fronts. For Quarter 3 Financial Year 22 Orient Electric experienced healthy revenue momentum growing by 9.7% year-on-year against a much higher corresponding year-on-year base, which had surged due to consumers extra buying against the pent-up demand last year.

We continue to strengthen our brand image and consumer centricity in all our offerings, which was validated by securing “ET Best Brand” and Consumers Validated “Super Brands Award.” Following our promise of delivering smart products, we were recognized by Ministry of Power and NRE and bagged the prestigious National Energy and Conservation Award 2021 under the category “Most Energy Efficient Appliance of the Year - LED Bulb” for our 9W Self Ballasted LED Bulb.

Despite the looming concern of a Wave 3 led by Omicron variant, the company's preparedness to counter production challenges and ensure business continuity helped in delivering overall revenue growth during this quarter. All factories are up and running in full capacities, and our sales, service and distribution staff including warehouses are all operating smoothly within the given restrictions and guidelines of the government.

Considerably good growths were reported across all business segments, except for Appliances which was impacted due to delayed winter and lack lustre festival season, impacting the inventory rotation in the trade. The Lighting and Switchgear segment performed extremely well with double digit growth during the quarter.

The increase in commodity prices and our inability to pass the entire increase has kept the margins under pressure until now. With a 70% share of the business, the ECD segment has been most severely impacted. We were largely able to compensate for the loss of margin in ECD segments by protecting the Lighting and Switchgear margins through smart component substitution, vendor selection, pre-buying, inventory management and favorable product mix. The ECD segment grew by 4.5% year on year in revenue and continued its positive momentum in Q3 Financial Year 22 despite many headwinds, including raw material, inflationary pressure, and the looming fear of the Wave III COVID.

Fans business had a good sales uptick for the quarter. Our distribution expansion initiatives supported by the increasing adoption of DMS & SFA and Orient Connect platforms are helping the reach expansion and more visibility of sales to support our value selling proposition. Export sales were marginally impacted on account of geopolitical and economic emergencies in countries such as Sudan and Sri Lanka.

In terms of Appliances this business delivered subdued performance during the quarter. Water heaters and kitchen appliances were flattish in the quarter due to pre-buying in Quarter 2, late onset of the winter season and less buyout during the festival season. However, on YTD basis, these categories have registered growth in the range of 30%.

On the Coolers front, which is a significant contributor in Appliances, business, channel partners were already stocked up on previous inventories. With the fear of another COVID wave looming they refrained from making restocking decisions.

Lighting and Switchgear segment on the other hand registered a very strong high double digit growth at 25%. Lighting business had an impressive run. The B2C segment led by Consumer Luminaire and Professional Luminaire recorded encouraging growth, enjoying strong demand from home, small offices and showrooms. In the B2B segment, both private and government business inquiries have increased especially in highways, railways and smart cities. Furthermore, the Façade business is showing very positive traction with new projects coming on the way. This is also helping the company to build its capabilities in this sector as well.

Thus, the slowdown of the EESL business was more than compensated by Consumer Luminaire (CLUM), Professional Luminaire (PLUM), B2B businesses, which also supported the margins.

Switchgear business also recorded good growth in the quarter. The company's new range of switches catering to mass premium segment is being very well received by channels and consumers alike. And volumes continue to pick up pace each month. Through new projects and new dealer appointments, we are placing particular focus on our B2B segment. The company is continuously engaging with the electrician community for advocacy and influencer projects.

On the expenses front our other operating costs also saw an upward trend during Quarter 3 Financial Year 22 as operations resumed to normal pre-COVID levels, ancillary costs such as distribution, marketing, and travel which are essential to drive business growth came back into the system. Thus, our operating EBITDA decreased by 21% year-on-year on an unusually higher base, leading to two year CAGR of 21%.

Looking at about working capital as on 31st December 21, it has increased by 16 days for the previous fiscal year levels. This was due to a planned built up of inventory as readiness for upcoming season Quarter 4 Financial Year 22 coupled with slow moving Cooler inventory. However, due to better working capital management, the working capital days has been on a decreasing trend from 52 days in Quarter 1 Financial Year 22 to 34 days in Quarter 3 Financial Year 22.

In terms of liquidity, our net cash position improved quarter-on-quarter due to improved collections and better working capital management. Furthermore, there is general consensus forming that 3rd Omicron based wave is likely to cause less damage to the healthcare system. And this wave is expected to have milder economic impact than previous waves, making the marketplace feel calmer about the sustainability of consumer demand.

As I had mentioned in my earlier calls, through this entire COVID period, we have continued to invest in our long term strategic plans, cost control measures, improved efficiency in production and have increased partnerships, empower our channel partners with extended credit, which will enable us to grow faster than the market.

On this note, I now hand over back to the PhillipCapital Team. Thank you very much.

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

Rahul Gajare: I have got two questions. The first question I have got is on the ECD margins. I think in the commentary you have indicated that the ECD margin were impacted by cost of product. Could you highlight what was the share of premium and decorative fans in your overall sales of fan in FY21, last year? And what is the share of premium and decorative fans in this particular quarter? And also, if you could highlight the difference in margin between entry level and the premium fans, that is the first question.

Rakesh Khanna: Rahul, first of all, I want to clarify I have said it a few times earlier also, that there is no margin correlation between entry and premium levels. There are products which will have higher margins than some of the premium products also, because it's all dependent on the cost and the customer's ability to pay, competitive pressures and our strategic positioning for a particular product.

Having said that, there is not much of a difference between the mix of the entry level and the premium decorative, it largely remains on the similar side. While the premium has grown and the entry level has also grown, it is just that the middle segment is getting a little squeezed as of now, that's the trend that we are seeing in the market. And therefore, the importance of every single segment remains to be seen.

Rahul Gajare: Will you give a share in terms of the share how much is premium and decorative --?

Rakesh Khanna: Once again, Rahul, it is a little difficult, the way we count premium will be a little different than what you count premium and some of the other peer group companies count premium. We count premium, which will be 10% of our top segment. You understand sometime back there was a discussion that Rs. 3500 was premium according to us. The prices have been gone up by around 17% you cannot call Rs. 3500 as premium. Now we actually call more than Rs. 4000 plus as our premium. So, it's a continuously moving up segment. For us what is important is how is our top 10% behaving and what is the share in that particular segment that Orient is enjoying. We will continue to remain a dominant player in the topmost segment in the market, which they also are clearly in that segment more than 40% of the market share.

Rahul Gajare: Is it fair to say because at 10% of your total sales will be your premium fans.

Rakesh Khanna: That's how we define the premium.

Rahul Gajare: The second question I have got is on your R&D, could you specifically discuss R&D in some detail, specifically highlighting the expenses that you have done towards R&D in last year, FY21. Because I couldn't find any expenses that the company has done last year. And how is it that you have done in the first nine months and plans for the full year? Also, which are the areas or products which you are specifically targeting in terms of in terms of the R&D spending --?

Rakesh Khanna: So, let me first of all tell you what are we targeting in R&D, there would be a few confidential projects, which I will not be able to discuss, those we will share as and when they come out. If you see the recent launch that we have announced of our Floral, which is one of the unique patented design fan, which is for the first time a fan without any shank and rivets. It has been a dream for a lot of people to say, can we remove the rivets and trims from the fan. And nobody has been able to achieve that in metal fan, to say least in aluminum, because that's rather a weak material and cannot hold the blade, unless the shank and rivets are there. So, we have been able to crack that problem. It's a patented design, and we are very hopeful about how that product will do.

The second, there would be focus on the fast-changing market requirement of power efficient fans within this the BLDC inverter series will continue to stay in focus. The redesigning of a lot of fans to get into the Star Rating and meet those requirements will be a lot of issues. There are new emerging taste of the consumer, where the consumers are asking for different kinds of designs so that will be another focus.

Our focus will be in the TPW area where that particular segment shows a good growth. So, there are there are various pockets on which we are focusing, there are various level of priorities that have been set up depending on where we are seeing the highest potential to gain ratio.

In terms of costs as of now, we have not completely isolated and published the R&D spend, because we also believe that R&D doesn't happen only in the labs. R&D is a common activity, which is together delivered by the entire team, which includes the manufacturing team, the marketing team, the sales team and the design team.

Rahul Gajare: So, there's no specific number that we can --?

Rakesh Khanna: No, we don't share that number. As of now, we don't share that number, we slice it out.

Rahul Gajare: In FY20 you used to declare this number in the Annual Report, from 21 I couldn't find this number --. Continuing on this question, when is the Star Rating going to be effective? Is it July of this year for BLDC fans can you throw some light on, is there any change in the BEE norms?

Rakesh Khanna: Currently it stands at July it is not for BLDC fans only, it is for all ceiling fans.

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

Rahul Agarwal: Two questions, firstly on the volume growth if you could just give some color as in what really happened with Fans and Appliances, Consumer Luminaire and Professional Luminaire YoY and QoQ basis, whatever you can help to understand volume please.

Rakesh Khanna: So, when we say that our growth has been 9.7% and the price increase has been in the range of 14% to 15%. It's a normal thing that the volume has been lower, and the price has been higher. It's a simple math, right.

Rahul Agarwal: Anything between Fans and Appliances and Consumer Luminaire and Professional Luminaire if you can specify please?

Rakesh Khanna: What would you like to be specified?

Rahul Agarwal: So, let’s say Fans volume growth YoY what would that be?

Rakesh Khanna: You see that becomes rather complex, because this is that every single segment would have grown and shrunk a little differently, so it would be fairly complex and wide metrics which I will have to give you, wouldn’t be possible in a small time. But largely on a weighted average if you will see this is how it behaves.

Rahul Agarwal: And the second question, purely because of COVID Wave 3 even January must be a problem to raise prices right. And of course, the summer demand will now pick up as this wave subsides so what is lined up for that, what are you thinking in terms of which product mainly you want to pass on? And is the market ready to accept these price hikes, is the channel okay, now settled down, because COVID wave has again disrupted, right. So, just your thoughts on price rise?

Rakesh Khanna: See there is always a little resistance to increase in the price hikes, okay, but despite all this resistance, you would have noticed that the industry has been able to pass 15% to 20% price hike and the market has accepted. I am not saying no to the fact that there is no price sensitivity with respect to demand, there is a little and that's where we say that the volumes have not been as high whereas the total value is high. And that part of price to volume will always remain. But nevertheless, we remain positive because of the total share of wallet and total share of the total household expenses in the categories where we play are not very large. And therefore, a price increase is not likely to deter the customers as much. Although there is some resistance from the trade, in terms of their channel inventory and when the prices go up they prefer to first liquidate their channel inventory. And they keep hoping that the commodity will take a correction and the price may come down. So, there is a certain lag. But we have been able to put through nearly 15% to 20% price increase during the year reasonably well and we are confident the market understands that the commodity increase is a reality. And these costs increase is a reality, it will happen. It will get accepted.

Rahul Agarwal: How much would you take to in 4th Quarter? How much price rise is pending, that’s all that’s my last question.

Rakesh Khanna: So, the gap that you are seeing in the margins is something that we would want to cover up. And we would want to go back to the rightful margins. So, anywhere between 4% to 6% is the kind of price increase depending on different categories. And also, it depends on how much cost increase continues to happen. So, that's the price increase that we are looking at.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: First question on the demand side. Can you talk a little bit about how is the retail demand really panned out in the Q3 this year? I am asking this question, because as you said, you have a very high base, volume growth this quarter has been on a decline, price rise is more. I am asking this question more from an angle of an inventory. Is the retail demand really weak at the ground level which added more inventory to the channel.

And given I understand that there are only 15 to 20 days to the January and the wave has not hit hard to anyone barring some states enforcing lockdown on weekends, hass the sentiment weakened or you think now channel is filling up the inventory, the retail demand is coming back, just first question on this color.

Rakesh Khanna: When I say that the demand has been a little less, see one of the things is we are comparing with last year okay. The second, if we see last two years, the total CAGR has been fairly high. So, if I go to pre-COVID level the CAGR has been good. So, the demand has not been bad demand has been good. It is just a comparison with what everybody was expecting and the kind of growth that we had got used to the very high growth that was not there. The e-commerce team felt a little less because last year the e-commerce growth was very high because everybody went only e-commerce route and this time, people were out in the market. So, while they still saw a better growth, e-commerce saw a little lesser growth.

So, it's a mixed-up thing, but the total if you have grown by close to 10%, if the two year CAGR is close to 25%, then it's an okay growth from the pre-COVID levels.

Rahul Agarwal: And any comment on the inventory side, your channel stocked up well or is it like high or is there a scope of further inventory that can be done by the company?

Rakesh Khanna: Both sentiments played on channel this time. On one side, the sentiment was that the channels saw the prices are going to be going up and channel always tries to stockup when the prices go up. On the second side, the sentiment was playing that what if the next wave comes, and if there are lockdowns. So, there was a caution, and there was an optimism both played and I would say it kind of both neutralized each other, and I do not see any one major factor playing big. So, it is a normal channel inventory. And in case if the Wave 3 doesn't effect, we should be able to see a good uptick.

Rahul Agarwal: I agree you always maintain that fans is something that it's a very high penetrated product, but you are still showing growth in that category by launching very innovative fans and gaining market share. What's the other category, I mean, this is the first time we saw switches and switchgears coming back. But we know that switchgear is more of a new build, the driver is the new build market, which in some pockets are firing of the country.

But generally, your long term view, let's say in the next year, next one and a half to two years, do we see Switches and Switchgears really becoming big in the ECD segment. Big, I mean at least from a growth perspective. Apart from fans which are the categories which we feel, now it's a time to gain market, because already the players are there. So, eventually you have to grow by gaining the market more. So, if you can comment a little bit on that.

Rakesh Khanna: So, first of all, let me say Switches and Switchgears come in Lighting and Switchgear segments, not in ECD. Switches and Switchgears will grow for us because they are not as much dependent on the market growth as much they are dependent on the market share growth which is very small, and the market is very large. And as we get into with the proper range with our rightful presence, for what the brand demands, for what our product quality, etc. demands, we should be able to gain a respectable share in the market, and that will give us a very good growth.

Same in ECD, we will be continuing to focus on the products that we have always set apart from fans, air coolers is a category which although has suffered for the three years. We still remain positive going forward, given the type of weather conditions in India, coolers will continue to do well. Water heaters are still a high growth category they will continue to do well. We will continue to focus on these products.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Could you talk more about the Lighting segment because we have seen even Havells report strong numbers maybe is something to do with the changing competitive landscape. So, your thoughts may be useful on this.

Rakesh Khanna: Of course, we are gaining market share and that's because the competitive landscape is changing a little as we are getting opportunity to improve our shares, that's definitely happening. Also the consumer consumption behavior is changing with Lighting, where the consumer was earlier using a bulb is now using a batten and where the consumer was earlier using a batten wants to now use downlighters and panels.

So, the overall lighting consumption, behavior of the consumer is changing and changing fast. And put together that all is helping for the market to grow. The B2B is also picking up and we have been small in B2B and we are gaining traction on that side gaining a faster acceptance. So, those are the reasons why we are growing well, and we are gaining shares.

Bhavin Vithlani: The second question is, if you could talk about the other categories in the ECD. And correct me if I am wrong, I heard water heaters and the heating category grew by 30%, so correct me if I am wrong.

Rakesh Khanna: So, water heaters and heating appliances. Heating appliances which is the room heating appliances they really suffered because the winter was delayed. And normally these products they pick up and sell in the Quarter 3. If the winters are delayed, the trade is hesitant and on top of it with the COVID wave and all the anxieties related to it, the room heating suffered, but water heater has done well, kitchen appliances has done well.

Bhavin Vithlani: Given that the COVID has hit again, are you seeing any momentum that is kind of slowing down, because we are seeing deceleration in the growth, especially in the ECD segment? Is it more to do with the strong price hikes? And I am drawing analogy with, from the Two-Wheeler manufacturers, who are talking about entry level bikes not doing well or Samsung, LG saying the entry level refrigerators and washing machines actually declining. So, any trend that you could throw that will be useful.

Rakesh Khanna: See there is definitely some kind of headwind, but fortunately, as we are gaining our presence and as we are gaining share, we are not feeling it as much. By and large, the sentiment is reasonably positive and optimistic today in the market. The trade feels that this particular COVID wave will not cause a damage. We are also seeing internationally the governments are now accepting it more as a flu and while UK has announced that this will no more be a compulsion, even masks will not be a compulsion.

So, we are not seeing people emotionally suffering this time. Everybody has comparatively passed through although many people have been infected. So, we are not finding that kind of caution. People are reasonably optimistic. And as an organization our current stand is that we will stay optimistic and we believe the market will sustain growth rest we will all see as it goes by.

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

Keyur Pandya: First question is on the cost front, so I think the entire industry had seen downward cost revision basically cost saving last year and now again when things picked up again and they have gone back to almost normal levels. So, last two quarters, when we see cost on the overhead front, can we say that this is more of sustainable nature of cost and we have reached that level or are there any other cost savings or cost escalation which are yet to be seen? I mean, because of seasonality it may change but as a percentage of sales have we reached a more of sustainable level of cost?

Rakesh Khanna: By and large yes, Keyur, more or less most of the costs have come back. There are some costs as of now for example our marketing costs are not in full swing because every time when we go in for spending the money, we look at what the environment is and if the environment is very healthy, we would spend, there is a careful watch on those ROIs of those spends. So, to some level the cost will go up a little, they will be all productive costs, but largely they are on the sustainable rates now.

Keyur Pandya: Second question, extension of previous two participants question. So, when we talk about ECD, so other than fans, we talk about water heaters and coolers, now kitchen appliances is a large category which has many sub segments. And when I see our website we have a lot of products listed there.

So, are we focusing on all those products at the same time or right now our focus remains on the large categories like water heaters and coolers, and that is why we will talk about them. So, just want to understand when we talk about ECD other than fans, which are our focus areas, which may or may not be, I mean due to time constraint, we may not be talking about it, but just which are the focus areas other than fan.

Rakesh Khanna: Your answer is hidden in your question itself. You see, for us all the categories are important, kitchen appliances are important, but kitchen appliances are highly fragmented area, okay. There are very few market leaders there is hardly any market leader that you can talk about barring some regional market leaders. And there are various reasons for it. Therefore, in kitchen appliances presence is good enough. And we are expanding and growing very well in kitchen appliances by ensuring that we are present.

Coolers and water heaters are focus areas because that's where we are looking at gaining leadership position. So, that's how I differentiate, when you ask me focus areas, I would say coolers and water heaters, because that's where we are looking for leadership positions.

Keyur Pandya: Last question, update on the new CAPEX which we announced, I think it is supposed to be get commercialized by start of say Q1FY23, any update on that. And once that has started, so how it will contribute in the sense, is it increasing our capacity? So, we are adding new products or we are say outsourcing to we are going inwards and doing insourcing and so it will contribute in terms of better gross margins or better margins at operating level. I mean, what is specific objectivity to reach out to some particular geography or to improve margins by insourcing, just to understand how it will reflect say in same medium term in our numbers?

Saibal Sengupta: The Hyderabad project is not going to commercialize from 1st Quarter of FY23. It is going to start within the next few months. The commercialization of the project will happen at the end of FY23 subject to trials, successful trials and all that. As far as the second part of your question is concerned, yes, it is led by the capacity expansion to cater to the future demand, and to service the growth that is coming up. It is going to start with fans as we have always mentioned. The project is going to start with fans and that it will be followed by all the other product lines as well.

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

Achal Lohade: My question was while it is kind of answered in pieces, what I just wanted to ask is that if we look at the demand environment prior to COVID, and during COVID, is it fair to say that the kind of growth all the organized leading players have seen is more to do with the market share gain while the underlying demand was pretty much steady, it was kind of weak prior to COVID. And that is now there in the base, the market share gains are there in the base. And hence, the incremental growth is looking a little weaker, while the demand continues to remain very much steady. Is that a fair assessment? I just wanted to understand your perspective on the same.

Rakesh Khanna: Achal, good way of thinking. See, there are no syndicated data and therefore I cannot say with conformity as to what is happening that these are all judgments and we are all making our judgment call based on whatever best we can understand. And yes, the best understanding is that the larger players or the faster players have gained better shares, okay. Some of the smaller unorganized people have suffered, they have given up for various reasons, was it their ability to match the cost? Was it their ability to plan? Was it their ability to sustain? There are various reasons. But some peers have gained. If that is right, then it's a permanent gain that has come in to these players. And as the market grows back, the gain will be maximum with these people.

This is a hypothesis, I don't know to what extent it will be true as the market opens up and as we get more and more information, which is more syndicated and reliable, we will validate that. But this is a hypothesis which is a reasonably good hypothesis.

Achal Lohade: Another question was, in terms of the urban and rural mix for us, how is it and are you seeing a weakness what we tend to read in media in the rural, do you see in your product categories for your company as well?

Rakesh Khanna: It will be marginal, but you will have to see how we as an industry are more structured. Unlike an FMCG, which are direct reach in rural most of the fan industry, the appliances industry does not have a direct reach to very small towns, and we go through alternate routes. Although, if you go to the smallest village, you will find an Orient fan, it is always there. But, our measurement always happens from the nearest town, because nearest town supplies it to the small rural village.

Currently, we are focusing on expanding the network and expanding the reach. Therefore, naturally, our share from the smaller towns is increasing at a much faster rate. Is it because of the demand or is it because that we are reaching out to those places a lot more, that visibility is not there with us. So, difficult for us to say whether the rural is going down or up, but we measure to us it appears that our rural share is going up, more so, because our reach and expansion is happening in the smaller towns a lot more.

Achal Lohade: Would you be able to put a number to it, is it like now 10%, 15% of the sales from rural or it's hard to put that number?

Rakesh Khanna: Hard to put that number, we don't define those numbers, in terms of our reach. We don't define those numbers.

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

Nikunj Gala: Just want to understand from the price increase which we have taken till date in the range of 12% to 15%, and still in Q4, we would be taking further price increase. And in July if star rating gets implemented, there will be further increase in the range of 10%. How do you see then demand turning out after July month like considering such a sharp increase in the last one year. And especially on the replacement demand, you know that demand can get differed if there is a such a higher price increase.

Rakesh Khanna: Thanks for your concern, Nikunj, it can happen. But I personally don't think that's a huge deterrent, first, because the products that we are talking, specifically fans you are not a high discretionary product. And also, I always say that as a share of wallet it's a very small share of wallet. In the total household spend it’s a very small household spend. So, I don't think it's going to matter as much to the consumer, small, yes, it will affect but not going to be large and it should, people will easily get accustomed to the new price levels.

And secondly, when the new five Star Rating happens the payback period is so quick that the increased cost gets justified very quickly. So, I don't think it's going to be a deterrent for larger time. In short term, yes, psychologically it impacts but logically there is no reason to have any deterrent.

Nikunj Gala: And just secondly say, in case like building the scenario where there is a decline in the commodity price, will you be continuing the price increase which you have taken till date or you will believe that in the competitive intensity surge that you might have to give the benefits to the consumer also.

Rakesh Khanna: Lag always happens on both sides. If the commodity goes up, it’s always with a lag that we are able to pass. When the commodity comes down, there is also a lag. Because understand, in the market there is a high-cost inventory sitting. And no company wants to put the dealer's inventory at loss. And therefore, even if the companies want, there is an inability to pass it on to the market, very quickly. So, there will be a lag on both sides.

Nikunj Gala: So, it's not like in the deflationary scenario, we will continue to enjoy the kind of increase which we have taken because that becomes a new normal, from the consumer perspective. So, there is no such a pricing power at industry level in that case.

Rakesh Khanna: It is generally dependent on the competitive scenario, when the prices go down, the companies cannot immediately pass on the benefit to the customers. There will be a lag also, even if the companies want to do it, there will be a lag.

Moderator: Thank you. The next question is from the line of Bhargav Buddhadev from Kotak Securities. Please go ahead.

Bhargav Buddhadev: In the PPT there is a mention that the Orient has seen market share gain in South and East for fans. Is it possible to highlight very briefly key efforts taken for this, and whether this share gain is sustainable?

Rakesh Khanna: Yes, Bhargav, there have been very sustainable efforts which are going on in South and East. These are the lower market shares for us and therefore, naturally, these are the areas where we would want to focus a little strongly because the gains are better. So, in South for example, we have the whole advertising campaigns in vernacular language, we are going very local. The Connect Project and the DMS Project is going very strongly over there. There are very strong ground teams that have been placed over there. The dealer network expansion is going very fast. So, there are many of these operating level efficiencies that have been built up which are helping us to improve our presence on the ground very strongly.

In East, in Orissa, and Bihar, we are going with a completely new distribution practice of going with the redistribution strategy, where we are going directly to the market, appointing our redistribution partners by the district, and going very intensely into the distribution and the direct dealer strategy. So, we are taking these actions and we hope that we will gain significant positions in these markets.

Bhargav Buddhadev: Lastly, is it possible to highlight how much of our receivables and creditors are covered under the channel financing and vendor financing scheme?

Saibal Sengupta: Mr. Bhargav, the percentages which we had referred in the last quarter that continues to remain, which is roughly about 40% of channel finance is concerned and about 60% plus as far as vendor finance is concerned. That percentage continues to remain as volumes go up, hopefully this will go up further.

Moderator: Thank you. The next question is from the line of Ankur Sharma from HDFC Standard Life Insurance. Please go ahead.

Ankur Sharma: Just two questions. One, as we get into Q4, even Q4 of last year had a fairly high base, both in ECD as also Lighting. So, fair to assume that here again, we might continue with volume degrowth and maybe as we get into Q1 of next year fiscal, we get back to volume and value growth. Would that be a fair assessment or do you believe that channel restocking can be strong in Q4 to even get us some volume growth as well?

Rakesh Khanna: Ankur difficult to say, I generally restrain myself from telling what will happen in Quarter 4, we are still, in January we still have two and a half months to go. We will see it together. But we are hopeful. We are hopeful, we are optimistic, we believe it will go well, we will see.

Ankur Sharma: On the export markets as well, if you could talk a little bit, I think that's about upwards of 10%, 15% of our total fan sales. So, how is that shaping up, I think you did talk about some weakness there in a few markets. So, if you could talk about the export markets, where do you see that kind of, say, two, three years down as well overall fan sales?

Rakesh Khanna: If you say that 10%, I would make a correction there. And in terms of the markets, well, Sudan you all know, it's a large fan market. And it has got hit seriously through the political and economic turmoil there. Sri Lanka is another concern. Sri Lanka is on the verge of bankruptcy as has been announced so one has to be extremely careful in terms of ensuring that the payments etc. are secured. And of course, in such situation, the exports really take a beating. Having said that, the rest of the world is going well and there are new opportunities which are coming, and we are continuously growing in those opportunities. So, it's a balanced view. There is a clear headwind from a few countries, but at the same time, there are opportunities coming from other places.

Ankur Sharma: And any targets in mind, how much you would want to have exports as an overall sales in fans, longer term?

Rakesh Khanna: Yes, our export ambitions are big, but currently I would not want to make statements about them. Yes, we would want to stay in the range of 10% and grow a little better. But opportunities are big and we are working on them.

Moderator: Thank you. The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Just wanted to understand the breakup between multiple brands, obviously Orient is the mother brand, but excluding that De' Longhi, Kenwood and Braun these are the key other brands that we are having. So, what is the revenue contribution from these brands? That is question one.

And question two is, now with the Star Rating coming in from July, so, basically, there will be lot of inventory mismatch and other inventory good, the grade may not be willing to upload at that point of time. And again for the organized just like us, it will be a good opportunity to gain significant market share from smaller stores and organized players. So, how is the company prepared for that? And can you share what are the plans in a way to gain significant share from that event?

Rakesh Khanna: First thing let me tell you about the De' Longhi, Kenwood and Braun. This is a strategic partnership. All these products are very premium products while they are global leaders in their segments in India, India still has to gain sufficient momentum and appreciation for such high quality products at these price points. So, the market is still small. But both us and the De' Longhi Group are fairly clear that this is the time to enter India and as Indian market matures to these kinds of products, we should be having significant presence in this particular segment.

The point to remember is globally these products are market leaders, and therefore, as the market grows in these categories, we should grow very well. Currently these are fairly small, and for us it is more of ensuring that these brands are well represented and present in the country.

The second point that you talked about is about how the complexity of inventory happens, when the changeover happens. It's a very valid point and we are planning very closely on this, you are right that the players who will manage it well, will tend to gain better than some other players. And during this changeover, it's a high focus, as I said earlier also during the day, that one of the focus areas we have for our R&D team is how to reconstruct every fan to match into the newbie regime and get into the best possible Star Rating. So, you are right we have to plan on the inventory very carefully. Not only ours but also our trade partners.

Aniruddha Joshi: So, just hypothetically, if you have to -- just divide our own portfolio currently, how will you say on the, when the Star based rating system comes so where do we stand on that? So, whether some of our portfolio will get affected, or largely our portfolio will require no change as such?

Rakesh Khanna: A fairly large part of the portfolio of all the fans will require a little change, but the change is not very large, okay. It's about managing the specifications of the fan a little better, so that they qualify for the Star Rating. And that's what we are working on, all the fans are undergoing minor adjustments in their specifications to match the Star Rating. So, most of our portfolio will be compliant with the Star Rating.

Moderator: Thank you. The next question is from the line of Charanjit Singh from DSP Mutual Fund. Please go ahead.

Charanjit Singh: First question is, you talked about rural and urban market. So, if you can just touch upon the distribution side in terms of our expansion in the rural, at what pace we are adding touch points in the rural and what are the mix right now of rural versus urban for us.

Second question on the distribution side is in terms of e-commerce versus general trade, what is the mix there and how we are seeing, we are seeing earlier some divergent trends in distribution on general trade versus e-commerce. So, if we can touch upon the sales trends on e-commerce versus general trade. So, those are the two questions from my side.

Rakesh Khanna: Let me first answer your e-commerce versus general trade. E-commerce versus general trade are for different categories is anywhere between 10% to 20% depending on different categories that we are talking. Some of the categories is very small to tell you, for example, in our Lighting, it's very small, it's kind of more or less negligible. One of the reasons is that we have cautiously taken the call as of now, given the kind of product and the challenges that we have that we would rather focus on the trade and we are gaining very quick traction. So, given the limitations we are focusing there. But when it comes to ECD, we are anywhere close to 10% to 20%, depending on different kind of product categories. And also, it depends on different months, there are festive months when suddenly the e-commerce goes up, and some months when the e-commerce percentage is less and the trade percentage is high. But by and large we are in that range.

When you ask about the expansion in terms of the rural expansion, we have our numbers. But as I said, we are not really talking about the expansion in the rural areas. Our expansion is a little differently defined. Our expansion is defined on the quality of expansion that we are doing. We are cutting down at a lot of places and we are expanding at a lot of places. You see, what we are doing is to what extent are we connected with the retailers now, that's a bigger question rather than how many retailers have our materials. To tell you how many retailers have our materials is 125,000 retailers. We don't even have that kind of a target to be at 125,000 retailers because there is no way to measure that. However, our direct reach and direct influence to the retailers has to significantly go up. And those are some of the internal targets that we are not sharing in the public domain for reason of competitive advantage. I can only share with you that there is DMS, SFA and Orient Connect are our three platforms. A combination of them is helping us to improve our direct reach, visibility and influence with the retailer at a very high pace.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Deepak Agarwal for closing comments. Over to you sir.

Deepak Agarwal: Management, request, if any closing comments to the call.

Rakesh Khanna: Thank you all the participants. I once again wish all of you, be safe. And I am sorry, we have not been able to take all your questions, but we will be very happy to answer your questions, you can be sending us the questions. You can write to Saibal directly and we will ensure that all your questions are well answered. Thank you so much once again for your continuous interest. And thank you PhillipCapital Team, especially you Deepak for organizing this call. Thank you.

Deepak Agarwal: Thanks, Management and thanks everyone for joining. And thanks Management for giving us opportunity to host this call. Thank you so much.

Moderator: Thank you very much. On behalf of PhillipCapital (India) Pvt. Ltd. we conclude today's conference. Thank you all for joining, you may now disconnect your lines.