

Crompton

“Crompton Greaves Consumer Electricals Limited Q1 FY-17
Earnings Conference Call”

August 1, 2016

Analyst: Ms. Renu Baid - Institutional Equities – Research, IIFL

Management: Mr. Shantanu Khosla – Managing Director
Mr. Mathew Job – Chief Executive Officer,
Mr. Sandeep Batra – Chief Financial Officer,
Mr. Yeshwant Rege – Vice President-Strategy and
Financial Planning

Moderator: Good day, ladies and gentlemen and welcome to the Crompton Greaves Consumer Electricals Limited Earnings Conference Call hosted by India Infoline Limited. 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 this 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 hand the conference over to Ms. Renu Baid from India Infoline Limited. Thank you and over to you, ma'am.

Renu Baid: Good morning everyone and thank you for joining. On behalf of IIFL Institutional Equities I would like to welcome the senior management team of Crompton Greaves Consumer Electricals to discuss the business strategy and outlook post 1Q FY17 Earnings Call.

The management is represented today with Mr. Shantanu Khosla – Managing Director; Mr. Mathew Job – Chief Executive Officer; Mr. Sandeep Batra – Chief Financial Officer; and Mr. Yeshwant Rege – Vice President-Strategy and Financial Planning.

I would now request Mr. Khosla for his opening remarks post which we can open the floor for Q&A. Over to you, sir.

Shantanu Khosla: Good morning and welcome to the call everyone. This is Shantanu here in our offices in Bombay and with me I have Mathew, Sandeep and Yeshwant. As usual I will try and give some color to our results briefly and then we are happy to take on any questions any of you may have.

Total income for the quarter was Rs. 1,121 crores growth of 15.4%. We posted an operating profit that is profit before corporate expenses it is a onetime item of Rs. 172.5 crores for the quarter, a growth of 24.4%. Operating profit before corporate expenses on onetime items increased from 14.3% in the last quarter to 15.4% this quarter.

Margin expansion of 110 basis points was after accounting for the investment which we have made in advertising. Our advertising spend was in excess of Rs. 25 crores for the quarter. Again as we have been saying over the past couple of calls we continue to provide perspective on our profit based on operating profit i.e. PBIT before corporate expenses and onetime items simply to provide a comparison from the previous period when this business was a part of Crompton Greaves and hopefully give some color that were to you. We will continue to provide in exactly the same manner till we come to the October November

December quarter from when we will have a proper base period and we will give straight out comparative numbers because they will exist.

The other thing I would like to point out to all of you is this quarter, which is a seasonal business for fans, tends to be the strongest quarter of the year. It also is because of the seasonality, the quarter in which we have the highest margin as a company. We are quite pleased with our performance in this quarter and from our perspective this provides encouragement to us that the strategic choices that we have talked about seen at least initially to be delivering results as we move forward to the important phase of executions. Like you are aware, these choices are five. Firstly, it is a focus for driving our brand, building brand equity, investing in the brand. Like you are aware we commenced advertising of the Crompton brand with two separate commercials over the last quarter.

We have as we had mentioned earlier managed to do this investment without being margin dilutive as we have continued to drive efficiencies in cost and operational efficiencies enabling us to fund this investment. We are quite pleased with the initial results of this advertising. Our tracking indicates that spontaneous awareness of our brands have gone up across all four categories and the advertising itself appears to be engaging and persuasive.

Our second key strategy which we talked was investment on focusing on innovation in our portfolio. We continue to work this. We have already put out into the marketplace some key innovations especially on fans. Obviously I cannot talk about the future but we have a strong innovation pipeline which we are working for the rest of the fiscal and beyond across all our four categories. Go to market improving both our availability, our distribution and importantly the quality of our presence in all our stores is an ongoing program. We have commenced this program but like I had mentioned earlier this is a journey and we will continue to focus and drive this area because we believe it is critical for a consumer facing and consumer centric business in the long term.

Operational excellence is our fourth pillar, we are continuing to work on this hard and seeing initial results both in cost reduction and also simply operational efficiencies as we are beginning to leverage the benefits of being a single consumer facing company. As I mentioned earlier, it is savings which we are driving in this area which are helping us to invest in both the advertising and the innovation going forward.

Our fifth key leg is of course the organization building capabilities, getting more efficient and effective structures in place. Here one of our large programs and key

investments is putting in place a new ERP system which will help us become much more real time and effective in the use of data to take our business and operational decisions. This program has commenced and we are working this and it is proceeding as per our schedule.

Finally, like I talked in our previous calls really in our core business some of our key focus areas are in fans, to really drive the premium segment of our fans with consumer meaningful innovation. This segment continues to deliver good results but there are still a lot of upside possibility. Volume growth on premium fans in this quarter was in excess of 60%. So we are happy with the progress there. On pumps we have talked about focusing and building the agri segment where relatively our shares are lower versus the urban domestic segment. This continues to move forward and growth in this segment over the quarter was 25%.

Finally lighting. Lighting we talked about lighting being a volatile segment as the entire market is going through transition from traditional CFL and GLS to far superior LED lighting. We had also talked about how our choice is to really focus on the future and drive LED. Our progress here is also good and our LED business actually over this quarter grew by close to 90%. In fact, one of the critical milestones which we hit this quarter on our lighting business was for the first time ever our LED business has now become bigger than our non-LED business which is good for our future.

Of course the non-LED business continues to decline, our CFL business continues to decline but while we need to manage that, our focus on the way we will manage that will really be to continue to drive LED which has plenty of upside opportunity.

Net we have had a good start. Our business in this first quarter is encouraging both as we had mentioned in terms of topline but also in terms of continual progress on our bottom line. It gives us encouragement that our strategic choices are right. That being said it is a competitive marketplace, we need to make sure that we continue to stay rigorously focused on high quality execution as we move forward and continue to stay agile especially in lighting as the market keeps transforming right in front of us.

With that, I just like to toss it open and take any questions which any of you may have, we are happy to address among us anything at all for the time we have. If there are any further questions, please feel free to contact Yeshwant after this call. Thanks.

- Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session.
- The first question is from the line of Venugopal Garre from Bernstein. Please go ahead.
- Venugopal Garre:** On the lighting segment I just wanted to understand on a sequential basis there has been some margin decline, is it more because of volume decline on a QoQ basis or is it more mix led?
- Shantanu Khosla:** Thanks, Venu. Sandeep?
- Sandeep Batra:** Yes, I think on a sequential basis there will be of course two reasons for the decline in margin. One of course is the higher advertising spend a part of it which has impacted the margins. So if you will recall we advertised both lighting and fans in the first quarter. So the predominant contribution for the decline will be the higher advertising spend plus of course as you know the whole product mix is getting rapidly restructured with LED increasing and the traditional business coming down. Some impact has come from the mix restructuring.
- Venugopal Garre:** Sir secondly, on the fan segment just a clarification the 60% volume growth was what, this is like did I hear it correctly is it 60% volume growth?
- Shantanu Khosla:** Yes, it is 60% growth in the premium segment, okay just to clarify we define the premium segment as fans which sell for above Rs. 2,500.
- Venugopal Garre:** Okay this clarifies but sir within the fan segment just wanted to understand the EESL programs which are now sort of increasing intensely towards fans which are of course not the premium segment but the economy segment. What is your take on that I mean are we looking forward to it in terms of a positive thing for participating or do we see some impact of that?
- Shantanu Khosla:** Mathew?
- Mathew Job:** This is Mathew. We will participate in these programs like we have done in the past also with lighting in a logical in a profitable manner and we expect that our supplies for EESL in Fans also should start sometime in this quarter.
- Venugopal Garre:** And lastly sir dividend payout any thought process until now or we will have to wait for any clarity on that?

Shantanu Khosla: Like we had mentioned in the last call, we fully intend to make sure that all stakeholders, shareholders particularly get value creation. Dividend is definitely one of the ways we are looking at providing value to our shareholders. We have not yet worked through with the Board etc exactly what our final dividend policy and plan is. We expect to do that and work it out internally with our Board through this quarter.

Moderator: Thank you. The next question is from the line of Inderjeet Singh from Macquarie. Please go ahead.

Inderjeet Singh: My first question is on the lighting. If you could throw some more kind of a color on this what is the current proportion or a mix of the fixtures part in this how do you plan to kind of ramp up margins in this business from this mid-single digit kind of a number or a high single digit number to more like a 10%, 12%, is that possible? So some kind of a road map on this over the next couple of years would be helpful?

Shantanu Khosla: Okay let me first tell you the way we look at the segments of lighting, okay. They are two first broad segments the way we look at it. Business to business and business to consumer. And within this we look at LED and non-LED. Within LED you have three segments. Regular LED bulbs, LED tube lights and then you have fixtures. So that part of the tree with which we look at. If for a moment I leave out B2B and talk more about the consumer part of the business, what we are seeing is in line with our strategic choice, significant growth happening in LED and a corresponding decline happening in non-LED. Within LED we have up till now primarily made interventions in the bulb segment on LED where we actually led industry price correction as cost came down which has subsequently been followed by most people as we expected.

The second focus area is obviously driving LED fixtures and LED tube lights and this is part of the opportunity moving forward. That will be our focus area from a consumer lighting point of view. As far as the margins go, what has happened and this is not for us but also a reading of the industry as traditional lighting volumes have declined, prices have also come down in traditional lighting and margins have actually declined in traditional lighting.

Simultaneously most of the cost reduction is coming in the LED. So the LED margins are on the way up and the non-LED margins are on the way down. I hesitate to give you a specific margin goal for the future and an exact glide path but suffice to say that we do not in the long term see our lighting margins staying at 5%. We definitely believe there is an opportunity over time as this transition

and transformation begins to settle down to have the margins move upward. Our goal would definitely be to get margins to industry levels in this business.

Inderjeet Singh: Okay and just a follow up to that. Could you give us a sense how large is the B2B segment at this point of time and I think in an earlier response to I think Venu's question you were saying that the supply for EESL will start this quarter. Was that specifically for fans that was mentioned?

Mathew Job: See our B2B business is roughly half the total lighting business for us. In terms of EESL yes what I mentioned earlier is the supplies in this quarter will start primarily for fans and as we mentioned before for lighting we have already been supplying for EESL for the last few quarters already and that will continue as well.

Inderjeet Singh: Okay and last question is it was mentioned that we have an EBIT of roughly around Rs. 170 odd crores adjusted for corporate expenses and one time. Can you just break those numbers as to what that one time is and how much is that and how much our corporate expenses? That would be from my side. Thank you.

Sandeep Batra: So our corporate expenses are about Rs. 20 crores. And if you look at the reported EBITDA and the one that we have reported as PBIT before corporate expenses the delta is of that order around Rs. 20 crores. And the total onetime expenses which are there in this quarter will be about Rs. 3 crores, Rs. 4 crores.

Inderjeet Singh: And pertaining to?

Sandeep Batra: They are largely onetime demerger and some one time initiatives that we have undertaken. The cost related to that.

Moderator: The next question is from the line of Yash Javeri from Alder Capital. Please go ahead.

Yash Javeri: Yes, my questions have been answered. Thanks.

Moderator: Thank you. The next question is from the line of Venkatesh Balasubramaniam from Citi Research. Please go ahead.

V Balasubramaniam: My first question is, is it possible for you to share the revenues in your four sub segments in terms of lighting, fans, pumps and appliances along those lines. Is it possible for you to share that?

Shantanu Khosla: We do not break out the segments in electrical durable segment, however fans are the largest, pumps are second, and appliances is third in terms of size. Our

growth was strong in this entire segment both on fans and on pumps which frankly are the largest part of this whole segment.

V Balasubramaniam: Okay sir just another on a related thing, what we have data from the erstwhile company Crompton Consumer when it was a part of the original Crompton Greaves at that point in time FY15 lighting was almost like Rs. 983 crore kind of a business. But according to the estimates which you have given for FY16 the revenues in the electric lamps was around Rs. 563 crores. So does that mean that there has been a 43% decline from FY15 to FY16 in terms of revenues in electric lamps and lighting or is it like you have changed some kind of classification, fixtures are there, are fixtures still a part of your lighting business? Can you clarify on that?

Shantanu Khosla: I think there are two things. One is our business is definitely not declined anywhere near that in fact it has grown. Second I think maybe part of the confusion is because we officially declared results for only half year results because the company came into being in October 1. If you want further details and specifics on this, maybe after the call the best thing to do is to speak to Yeshwant and he will provide you exact details of the numbers.

V Balasubramaniam: Okay, I got the answer sir, I think I made the mistake, it should be double this number approximately.

Shantanu Khosla: Yes, right.

V Balasubramaniam: Yes, okay now you also refinanced your debt recently that is what we read in the press and what a press article also suggested was the way the refinancing is working is you are repaying at the end of the third year, fourth year and fifth year which means that for the first three years you are not going to repay any debt. Now if you are not going to repay any debt and with a negative working capital business, what are you going to do with the cash?

Sandeep Batra: Let me take that question. So there will be in the next three years till the repayment of the debt becomes due, there will be cash generation. So there will be a deployment that you do of the cash, little bit of CAPEX, some amount of dividend the company would like to distribute. At the end of the day whatever cash gets left over there are opportunities. We have within the company about Rs. 200 crores of acceptances which are vendor bills that have got discounted with banks where there is an arbitrage opportunity available to the company in case you wish to finance that acceptances. So the cost of that acceptance is far higher

than the cost of our borrowing. So we will look at such arbitrage opportunities in that interim period to deploy whatever surplus cash that is available.

V Balasubramaniam: Okay sir the reason I was asking was have you thought about opportunities in adjacent categories for example where you do not have such a big presence like say wires and cables in terms of either starting a new business or in terms of acquisitions?

Shantanu Khosla: Okay. I think we talked this maybe a couple of calls ago. One of our where to play choices is to successfully enter at least one new meaningful adjacency. So obviously we are in the process of evaluating which is the right one to do and to make sure that we succeed and create even more value for shareholders. Obviously I cannot talk about more details of what it is likely to be. Now we are like I had mentioned earlier absolutely agnostic to how we do it, whether we do it internally, whether we do it with partnerships, whether we do it externally. These are all on the plate, we will simply figure out which is the best way to do it to maximize chances of success but entering one more adjacency is a strategic choice we have made which we will do over the coming medium and long term.

Moderator: Thank you. Next question is from the line of Harish Bihani from Kotak. Please go ahead.

Harish Bihani: Sir, is it possible to share the growth numbers for the segments like fans, pumps, appliances broad growth numbers for the quarter?

Shantanu Khosla: Again the only reason I am hesitant to sharing it is really competition. I do not want to release data which will put us at a competitive disadvantage because it is a very competitive business. We had definitely robust growth on fans and pumps. We believe that the growth was at a level which was meeting our objective of gaining market share.

Harish Bihani: Okay and when you say the premium segment has grown by 60% which means of the total fan sales of about 8%, 9% premium, that has grown by 60% would that be a correct understanding?

Shantanu Khosla: Absolutely and right now our premium fan sales have grown to a little above 10% of the total fans business. So it is still relatively underdeveloped.

Harish Bihani: Okay and another clarification is on the advertisement expense for the quarter of about Rs. 25 crores which you suggested. Now is this only advertisement or is this sales promotion plus advertisement which was somewhere around Rs. 35 crores for the second half last year?

Shantanu Khosla: This is only television advertising.

Harish Bihani: And third is on EESL fans, now in the initial stage now but will these fans be in the category of something like a Crompton Riviera, Bajaj Bahar, Orient Hurricane? Will that be the kind of category where one should look at when analyzing the fan segment?

Shantanu Khosla: I believe that right now the whole EESL program is more focused on the economy segment of fans and essentially it is the government program is conceptually trying to do the same thing as the lighting program which is to drive energy saving fans and increase it or reduce the energy consumption of the country. So it is a energy saving mass fans and obviously this public private partnership will be to drive this by creating scale, reducing costs and passing on those cost benefits of energy saving fans to more and more consumers.

Harish Bihani: Understood sir but the procurement price hypothetically says what we hear is say Rs. 800 for EESL. If I had all the cost say closer to a Rs. 1,100 to say a Rs. 1,200 will this compete with a Rs. 1,300 to a Rs. 1,400 fans are what I wanted to understand? Will that be a broad understanding would be correct or how would that be?

Mathew Job: I think I would say a good, if you look at what has happened in the LED business if you see for example over time the gap between the market prices and the prices of EESL has come down. So a similar phenomenon can be expected here but you know as I mentioned before we are participating in the EESL business in a very logical way so that we ensure that our minimum expectations of profitability are met. And I think you know a lot of the stuff we have done in terms of driving operational efficiencies were actually allowing us to compete in this business in a fairly profitable manner and that is what we see going forward as well.

Harish Bihani: Okay and my last question is what you had indicated is that some of the companies indicating that the LED bulbs program is seeing some kind of exhaustion, also the prices have kind of come down, the tenders have not come in the EESL, EESL has not asked for a tender for the past couple of months. So what do you really see over there? Do you really see scope that after say next 50 million bulbs, will this program continue or is the price gap comes so low that most consumers would want to go to a normal shop and buy LED bulb versus buying from EESL. What is your thought process over there?

Shantanu Khosla: I mean it is obviously just our thinking on the future. One is I believe that prices have now stabilized in the sense that a lot of cost has come out of the system

because of scale but that has now reached a going level. Second, I personally do not think that the program is going to stop however I do think it will stop growing the way it has been growing and reach a more sustenance level.

Moderator: Next question is from the line of Aman Batra from Goldman Sachs. Please go ahead.

Aman Batra: If you can highlight what is the kind of distribution reach you have and how does it stack up against the peers and as an extension if you can also highlight what are the different routes to market the go-to-market strategy? How many different lines of distribution or sales lines you have for each? Is it separate for each of the products or is it a common distribution platform how do you have that?

Shantanu Khosla: First today our reach is about around a 100,000 stores and this we believe as the business growth has opportunity to increase. But importantly also the quality in the stores has an opportunity to increase and become more let me call it shopper friendly. In terms of channels and I rather talk the channels than our structure to service or channels because our structure will always adapt based on providing the best service to the different types of channels. One which is still the largest and most significant is the traditional electrical channel, which is a combination of distributors, large dealers in big electrical markets such as Lohar Chawl in Bombay and also wholesalers, electrical wholesalers who take the product further and deeper than we can ourselves.

The second key channel is obviously the emerging or some would call it emerged but I believe it is still emerging modern trade which is growing and becoming more significant. Its significance varies based on category. So for example for small appliances it is far more significant than say pumps tend to be more specialty. The third key emerging channel which is growing is obviously e-commerce and e-commerce is another meaningful channel again, channel salience varies based on the category, small appliances in e-commerce, lighting and LED is growing well in e-commerce. So these are the typical if you will retail or to consumer channel.

Then of course we have government channels which are critical for parts of our business. These government channels would be one of course EESL but beyond EESL they are channels which are very important for our street lighting business where typically the customer is the Municipal Corporation as they are doing it so we have these B2G channel. And finally we have B2B channels right which are again key for the different segments of ours. These B2B channels would be commercial complexes, factories, etc, etc. So it is a multi-channel business in that

sense and we are continuing to work to grow and build more consumer and shopper centric programs with all our channels.

Aman Batra: Sir, just an extension on that so when you are saying or you are saying that the connect with the consumer is very important. So this one lakh stores reach how would we split that between still let us say direct reach and indirect reach and would you focus on direct reach more going forward?

Shantanu Khosla: Yes, we will focus on direct reach and want to grow the direct reach without a doubt. But I do not think it is a question of either or at the same time we have to be driving focus and programs for all these channels because our growth aspirations require us and we see the opportunities in all the channels. It is not that one is dying and one is growing.

Moderator: Thank you. The next question is from the line of Chanchal Khandelwal from Birla Mutual Fund. Please go ahead.

Chanchal Khandelwal: Just wanted to pick your brains. We have seen numbers of other consumer companies being reported since you have a FMCG background I just wanted to pick your brains here. We are talking about rural slowdown big happening and we have seen all the durable companies report a strong set of number. Is it because of the penetration which is increasing or is it because of electricity availability where durable's growth is coming strong your reading into it?

Shantanu Khosla: Chanchal, I cannot really comment on other company's performance or even more other industry performances. But frankly if you want to have a chat on my point of view on the FMCG industry just fix up with Yeshwant, I am happy to talk about it, right. But I am not close enough right now to the numbers and supply that on the FMCG to make any intelligent comments. I do not even stay close to.

Chanchal Khandelwal: No, what I wanted to understand is the rural India. Is Rural India also growing for you or is there a pain which you are seeing and is it that most of the growth is coming from the urban or the top 100 or top 200 places within India?

Shantanu Khosla: Okay, I think for our business; our business the percentage of the business which comes from rural consumption is relatively low. We still have opportunities for growth and relatively lower development even in small urban India, what is technically urban India as per the census. You know Class 4, Class 5, Class 6 towns. The relative salience in rural is still low. So that is a future opportunity for growth but we have got I think a lot to do and a lot of opportunities till become there.

Chanchal Khandelwal: By low you mean 20%, 25% of the entire sales would be rural or would be your higher number here?

Shantanu Khosla: I would suspect lower.

Chanchal Khandelwal: Okay and also on the electricity availability, so is that electricity availability increasing in the Tier 5, Tier 6 cities that is helping growth in the consumer durable space?

Shantanu Khosla: Yes, obviously but it is not just you know electricity availability, it is also simply more urbanization is happening you know these kind of macro trends, kuchcha houses becoming pucca houses and all that kind of stuff as a macro trend is positive for this industry in general. But these are macro trends they are not quarter-to-quarter trends. The second thing I think in this industry which we need to keep in mind with regard to electricity it is not only the physical availability it is also the quality of electricity. Voltage fluctuations, level of voltage etc how long the power is there, all these kind of things have an impact on this industry. But the macro trends as we see it in the long term definitely it should be in the direction of indicators which are positive in the long term for this entire industry.

Chanchal Khandelwal: Just one last one, on the premium fans which grew 60% for you. What is the total market size of the premium fans and how much of the premium fan is Crompton today?

Mathew Job: Our estimate is about anywhere between close to 10% to 15% of the market would be premium fans, 10% is our estimate.

Chanchal Khandelwal: And your share in that premium fan would be how much?

Mathew Job: We will not be able to share exact market share based out for the premium fans as total fans as Shantanu mentioned earlier. Our contribution to the fans business from premium fans is roughly 10% to 11%.

Moderator: The next question is from the line of Snigdha Sharma from Axis Capital. Please go ahead.

Snigdha Sharma: Just really quickly I understand that we have had a good growth in fans. Any sense of what the industry growth has been here?

Shantanu Khosla: Well, obviously we have seen as already declared numbers from Havells, which shows good growth in fans. V-Guard also shows good growth in fans but it is relatively small. What we do not yet know formally what is the growth because

results have been declared of companies like Usha, etc. I would suspect that in general this has been a better quarter than the previous quarters for the total category in fans just looking at our numbers and Havells numbers, though I would suspect that probably Havells and us both grew share in fans this quarter. I do not think the market growth would have been the same, but probably higher than has been in the last few quarters maybe linked to the fact that it was a very strong summer and it was quite a sharp summer.

Snigdha Sharma: And secondly other than the product mix skew towards fans, our margins improved like you mentioned partly on account of cost optimization and efficiencies. Can we maybe elaborate a little bit on some of the things that we are doing here?

Shantanu Khosla: Okay some of the things that we are doing, okay. One is obviously we have put in place a very strong and systematic cost reduction program. We are seeing benefits simply because now we are focused and looking at the business and our vendor base in totality and not independently as core business units. And that is generating cost reduction opportunities. It is a high priority for us as the management of the company to be eliminating that waste if you will from the system. Second, we are strategically thriving premiumization and that premiumization obviously is leading to a healthier mix across the Board in most of our categories, right.

So on cost reduction it is not really rocket science, it is putting down the programs we have got a list of here are the key cost reductions programs, there is the initiative, there is an owner, we are monitoring etc and getting those efficiencies. And we see the possibility is moving forward and that is really what is enabling us to fund the investments which we believe needs to be made to drive long term sustainable growth.

Moderator: Thank you. The next question is from the line of Mayur Patel from DSP Blackrock. Please go ahead.

Mayur Patel: But just one thing if I recollect reading your Annual Report, so you had quite a long series of new products launched during FY16 in lighting you have launched Hawk, you have fans there are couple of this sensing room temperature kind of products, pumps there are a couple of new products. So just wanted to check for this year is there similar kind of focus would be there in fans, pumps and lighting or you would have a rigorous new product launch in the consumer durable segment also?

Shantanu Khosla: We plan if anything to step up our pace of innovation. The important thing is not only step up the pace but try and identify unmet consumer needs and drive innovations which are bigger. Both in our core businesses initially but like I said earlier, we are also for the medium and long term looking at adjacent businesses. But the immediate near term focus is on core businesses because we see a strong opportunity there.

Mayur Patel: Okay sir just one more thing when we like Mr. Batra spoke about reducing acceptances when you have cash flexibility. So is it fair to see that the acceptances related cost also gets booked in the financial cost and this should come down when you use cash to reduce acceptances, is it fair to say that?

Sandeep Batra: Not always, because you know if the acceptances have been arranged by the vendor in some manner that cost is included in his material cost. So obviously cost will come down. Now exact line where it will show will depend on who is the initiator and arranger of that acceptances. If it is a vendor, then it will be part of material cost.

Shantanu Khosla: See the principle at the end of the day is quite simple. We will use our cash to invest in growing the business to be an enabler for us to reduce cost and to give to the shareholders to increase the value they get from investing in our business. This is what we will use our cash for in principle.

Mayur Patel: Sure sir, this is perfect. I was just trying to just for our projection purpose whether to pencil in that benefit in our EBITDA margin improvement or the reduction in the finance cost?

Shantanu Khosla: Yes, No worries.

Mayur Patel: So anyway I will take this offline.

Shantanu Khosla: I think Sandeep knew exactly why you are asking the question. But again just if you need any more details then speak to Yeshwant and whatever we know, whatever we have and can we are happy to transparently share.

Moderator: The next question is from the line of Aditya Bharatia from Investec. Please go ahead.

Aditya Bharatia: Sir, just want to get your perspective. Are you viewing EESL as an opportunity or as a threat especially in the fans business?

Shantanu Khosla: I think we are viewing EESL as an opportunity. If you go back and you look at the lighting experience, which is I think the best analogy to draw. What happened was that the government helped provide the scale which enabled manufacturers to reduce the cost to provide a superior product to the consumer. Now of course there is a transition period while this happens. But the fact of the matter is that an LED bulb which was sold by various people anywhere between Rs. 300 and Rs. 400 a year ago, is today sold at Rs. 100 to Rs. 150.

And by and large people are not making lower margin today. So things will take their time, we will all move along the path but I think it is a huge opportunity because at the end of the day it is going to get more power saving fans into the hands of the consumers. Now we will work through tender-by-tender like Mathew said in a sensible manner, we will work with EESL in a sensible manner. So we ultimately reach a point where costs are lower for energy savings fans, more consumers have the benefit of energy saving fans and this work through a public private partnership. So I personally in the medium term see it as an opportunity though the step-by-step has to be worked out just like we did in the industry not just as in lighting.

Moderator: Thank you. The next question is from the line of Sachin Trivedi from UTI Asset Management. Please go ahead.

Sachin Trivedi: Just one I appreciate the effort that the company has taken in terms to improve the efficiency but if any color if you can give on the fan as a category what kind of growth that you see in the segment in the medium to long term and also your same comments on the pump segment?

Shantanu Khosla: Okay let me start with fans. If I look at historical trends and if you forget this quarter for a minute, the fans business has grown the category has probably grown at about 8%. It is kind of in some quarters higher, some quarters lower, but if I look at the last three four-year trend. Now our stated objective is to grow faster than the market. If we go to achieve that as a company we must grow faster than the market on a sustained basis in fans, right. So something meaningfully above 8% is what our goals, which require us to grow in fans. In pumps it is similar we would again expect ourselves to grow faster than the market. And as we have said our opportunities for incremental growth on fans is in premium where our market share is relatively small and I see agro segment which will help us drive that growth in pumps.

Moderator: Thank you. Next question is from the line of Charanjeet Singh from B&K Securities. Please go ahead.

Charanjeet Singh: Sir, actually in the last call you had mentioned that we are trying to evolve the model for consumer appliances where we want to see what are the kind of right market approach go to market approach for this segment. So has there been a thought process which is evolved on the consumer appliances in terms of what is the right market approach?

Shantanu Khosla: Yes, we have been working that Charanjeet and obviously it is an important area to work. So it is a little if you will premature for me to share outcome of that work because it is kind of still in progress but suffice to say that consumer appliances remain one of our discontinuous growth areas. As we have called out in our original strategy it is a more complex area simply given where we are and our starting point or position. But in the midterm we clearly aspire to develop a program which will be a combination of branding, innovative propositions and go to market which will enable that. We have got some test going, we are doing learning that is the kind of the state we are in it.

Charanjeet Singh: Okay sir and the other question will be on the EESL procurement of fans. Sir, if we interpolate with you know what happened with the LED category and we saw the pricing declining at a very sharp pace and vendors would have to tweak their supply chains accordingly and manage the cost well during this transition. So how do you see that happening in the fans category because being fans is one of the largest proportion of our revenues, it would have a significant impact for us?

Shantanu Khosla: Again this is all speculative but I see it directionally has happening like lighting. But the reason is for example an LED bulb used to cost Rs. 400 and a CFL bulb used to be below Rs. 100. I do not think we are talking about those kind of price or cost differences, right. So I think the whole process would be much smoother and over much more time and gradually. Personally that is what I believe and I think that will make a transition a longer term transition than lighting.

Moderator: Thank you. The next question is from the line of Praveen Sahay from Edelweiss. please go ahead.

Praveen Sahay: My question is on the premium fan side. As I had seen the growth in the premium side is quite healthy and strong so is that the entire market is and also shifting the fan market? What is on premium fan, or we are just gaining more of the market share in the premium side?

Mathew Job: I think our estimates are that the premium part of the market is definitely growing faster than the average. But the fact also is we believe that there are set of actions we have put in place to drive premiumization, is also allowing us to gain

share in the premium segment. So both are happening. There is a shift towards the premium in the market as a whole but we are definitely getting share in the premium segment.

Moderator: Thank you. Ladies and gentlemen, due to paucity of time that was the last question. I would now like to hand the conference over to the management for their closing comments.

Shantanu Khosla: Thank you for all your engagements and thank you for the questions. Hopefully we were able to give you flavor of something behind the numbers and our thinking. Like I said Yeshwant and his team are fully available to take any further detailed questions. We continue I mean we are a new company just to remind everyone we are three quarters old in our existence. So it is a journey we are on. But we as an organization would like to stay as transparent as we can and share our thinking and the color behind these numbers on the going basis because the more you know about our business the better we believe it is.

So thank you all very much and I look forward to speaking to you at the end of this quarter. Thank you.

Moderator: Thank you very much, members of the management. Ladies and gentlemen, on behalf of India Infoline Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.