



“Crompton Greaves Consumer Electricals Limited
Q2 FY2018 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Crompton Greaves Consumer Electricals Limited Q2 FY2018 Earnings Conference Call, hosted by SBICAP Securities 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 the conference call, please signal an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhineet Anand of SBICAP Securities. Thank you and over to you Sir!

Abhineet Anand: Thanks Inba. Welcome to 2Q FY2018 post result conference call of Crompton Greaves Consumer Electricals. The management is being represented by 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 will hand over to the management now.

Shantanu Khosla: Thank you. Good morning. This is Shantanu here with Mathew, Sandeep, and Yeshwant. I appreciate all of you joining the call today. I know today is a busy day for most of you. Let me just start with a couple of things and then we will go into answering any questions you may have.

First I just want to clarify how we have handled and how we are addressing from an accounting point of view this whole excise subsumed into GST for comparative basis. Just to be clear what we have done is or what has happened is excise is obviously now part of GST for both our manufactured goods and our contracted goods. In the past what we have done is we have provided in our notes to the accounts a restatement of the revenue for the corresponding quarter in the previous year, so we can make a meaningful comparison with this quarter's performance.

The other thing that happens because of the restatement of excise into GST is the excise element gets taken out of the cost, so we have also provided restated cost, which is lower than earlier reported for the corresponding period in the previous year. We are doing this entry to provide a transparent perspective, so you can better see how the business is doing. We will continue to provide this perspective over the next few quarters till the GST implementation anniversaries.

With that moving on to some comments on the business, we had our board meeting yesterday and the Board of Directors approved our quarterly results. Our total income was Rs.960 Crores, which was adjusted revenue growth of 16%. Additionally, the profit also performed strongly. The profit was up 23.3%.

I just like to remind you all that this includes the non-cash ESOP charge. If we look at the profit growth from an operational point of view without the non-cash ESOP charge, the profit was up 39.8%.

Our business was driven by growth in both categories. Let me first talk about our ECD business, which grew at 11%. Here we have seen wonderful progress on our fans business driven by our chosen strategy of focusing and driving the premium segment behind consumer meaningful

innovations like anti-dust. Our latest retail audit share, which is up to August of this year shows that our fans market share on a retail consumption basis over July and August is up three to four points versus a year ago completely driven by growth in the premium segment. This has enabled our fans and total ECD business to continue to grow in spite of the fact that the retail audit consumption data indicates that the fans market actually has been declining for the past eight or nine months ever since demonetization in November.

Historically this market used to grow at about 7% to 8%, but currently the market is declining. We believe that this decline is essentially driven due to external factors starting with demonetization and then the implementation and the transition to GST, which has led to a decline in new home starts, etc., which we know is linked to the total fans growth. That being said we have gained significant share behind our strategy and go to market executions, which have continued to drive availability.

Our second key segment is lighting where as you are aware our focus for the past few quarters in fact more than that has really been to leverage the opportunity of LED and to lead that transition. Our lighting business performance continues to be really strong and the lighting business has grown on an adjusted basis 25% over previous year while continuing to grow margins.

LED now represents about 70% of our lighting business and we see this salience only growing. We also track retail audit share on LED bulbs and that continues to steadily grow. In fact our market share on LED bulbs has closed to doubled over the past 12 months and we have seen strong growths in the most recent months of July and August.

Next, we also are continuing to focus and driving efficiencies and cost saving projects, which are helping us to invest in the business while continuing to make progress on our margins. Our strategy on go to market is also continuing to drive success and is one of the key elements behind we believe the continuing growth and market share gains. Our availability and distribution continues to grow across all core categories.

Finally, just a few comments on the GST transition, the transition is clearly progressing through the quarter. In the early period of July, there was still significant confusion in the trade. We however have ensured our systems were ready. We trained our key customers. We helped them go through the process of change and we are seeing that as we come to the end of the quarter operations are coming and beginning to get largely normalized though there is still some progress, which we expect to continue happening over the October, November, and December quarter.

We are quite pleased with our performance in this quarter especially given the challenging environmental conditions especially given that one our leading categories fans currently, which we see as relatively temporary has been experiencing a market decline. We continue to believe that the key five choices, which we made a couple of years ago, remain the right areas to focus on to continue to drive our business forward.

With that really that is my summary overall and with that we are open to any questions or clarifications you may have.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Our first question is from the line of Venugopal Garre from Bernstein. Please go ahead.

Venugopal Garre: Congratulations on a very good quarter. I wanted to sort of check with regards how the quarter panned out was it extremely uneven where a lot of growth actually ended up coming in the last month of the quarter and if that is the case essentially is to a large extent the GST issue is behind us or in terms of overall intensity of issue is behind us and within that wanted to also understand what has been your sort of channel actions in the previous quarter with respect to things like price adjustments that you have done for various products, etc., so that is my first question?

Shantanu Khosla: We actually grew in every month; however, you were right in saying that there was a gradual trend of improvement. It is not a situation where the first two months were a complete disaster and everything came in September. We grew every month, but there was definitely a gradual improvement. Second, I believe that we still have transition challenges to manage in GST. It is not at all yet completely behind us. Part of that is also linked to the fact that the actual process of filing returns, etc., by our key partners still has to happen, so definitely we will continue to see some impacts and we hope it will gradually improve may be becoming finally stable by January, February or March.

That being said I think our strategic choices and focus for example a much stronger focus on driving retail distribution and coverage, a much stronger focus on getting meaningful consumer initiatives out onto the shelves of stores those kind of actions have helped to some extent reduce the volatility of the GST recovery. In terms of specific actions, which we took really with the trade beyond doing the right things for the business we as you are aware actually taken some actions in the last quarter, which was to ensure that reassure them that we would protect them if they had any losses in this transition from tax claimability point of view. We also ran significant amounts of training programs with our trades, so most of that was done really pre-GST i.e., pre-July 1, 2017. Post July 1, 2017, we have adjusted our prices marginally, but that is really adjustment, which have been made to net off and become neutral if you will in the GST environment because as you are aware fans has been classified as a luxury good right though we do not really believe it is a luxury good and therefore carries a 28%, but the pricing action in this quarter was marginal and specific to adjust to the net-net situation post GST and we have not really had too much of an issue with the trade or the consumer in executing those.

Venugopal Garre: Sir am I allowed a second question?

Shantanu Khosla: I think it is fairer if you just get back in the queue.

Venugopal Garre: Sure. Thanks a lot Sir.

- Moderator:** Thank you. We will take the next question from the line of Amar Kalkundrikar from HDFC Mutual Fund. Please go ahead.
- Amar Kalkundrikar:** Thank you for the opportunity. Sir this 16% revenue growth that you have mentioned as comparable growth is what the actual consumption spend growth is and secondly if you can also shed some light what is the secondary growth was in your estimate for second quarter? Thank you.
- Shantanu Khosla:** Just to clarify the 16% is not consumption growth. The 16% is like-to-like revenue growth. What we have done in our adjustments to make it comparable to you is as follows: for our contracted goods, excise used to show up in our purchase price and then this excise was recovered in our pricing; now this excise having got subsumed into GST. The excise is no longer showing up in our purchase price nor is it showing up in our net revenue as it used to do earlier. So we have made the adjustment of this excise component in our revenue on the previous year to make it apples-to-apples and we have also made the adjustment in cost to make it apples-to-apples. Simply put the excise moves out from cost and net revenue in the new GST environment. So it has got nothing to do with consumption. It is simply a like-to-like accounting adjustment to compare net revenue.
- Amar Kalkundrikar:** What would the consumption growth have been Sir?
- Shantanu Khosla:** If I take fans right in fans over July and August and we only have data up till August. The market share has gone up by let us call three to four points, which is roughly about 15%. The market size has come down by about 4%, so the consumption growth in the retail sales would be 12% to 13% doing the math.
- Amar Kalkundrikar:** That is the most secondary one, but from your let us say total invoice growth your dealers that would be also in the similar region?
- Shantanu Khosla:** Yes it would be relatively close to 16% may be a point or so could be bringing back some amount of inventory, but most of it is behind consumption growth and largely all the revenue growth is driven by underlying volume growth.
- Amar Kalkundrikar:** Thank you. I will come back in the queue.
- Moderator:** Thank you. We will take the next question from the line of Aditya Bhartia from Investec. Please go ahead.
- Aditya Bhartia:** Good morning Sir. Sir just to clarify you mentioned that most of the primary sales growth that we have seen for the industry is similar to secondary sales that we are seeing at the retail channel level as well that is to say that as such there is no major benefit of restocking that we have seen in this quarter?

Shantanu Khosla: There could be some, but I think and obviously there is really no hard data available for anyone to be very precise on it, but if you want my best judgment, I think going into the first quarter post demonetization, I think there was some amount of inventory build in the trade across the industry. In the GST quarter, I think all the excess inventory and more was reduced by the trade largely in June. I think in July, August and September some amount of that inventory has got built back, but I also believe that the trade is now operating at a lower inventory level than what it was doing if I go back two or three quarters and I do believe that GST provides supply chain efficiencies to everyone as it settles down, so it is possible that the entire system could run at a slightly lower inventory level. So there has been some restocking, but not back to the same levels, as it was earlier. I think we have continue to operate a lower level of inventory and looking forward, I think ultimately primary sales will be in line with secondary, which will be in line with consumption.

Aditya Bharti: Sure Sir. Sir when we look at this quarter and we say that like for like revenue growth would have been around 16%, do we also get data from maybe retail audit as to what revenue growth could have been at the retail channel level for Crompton products?

Shantanu Khosla: I just asked the question I already answered and I did those just previously and I did the sums in my head, so I am not going to be 100% accurate, but I think we came up with a number on fans may be around 12% to 13% for Crompton while for the market about a 4% decline.

Aditya Bharti: Sir one trend that we have seen this quarter is that almost all companies in the electrical business appeared to be reporting very strong margin improvement. I understand this is partially on account of excise adjustment, but is there any other reason also, which may be contributing to it?

Shantanu Khosla: Normally it is not appropriate for me to comment on other companies, but I think the difference between us and some other companies in the industry is over the previous two or three quarters other players showed margin decline and they are now beginning to recover from that decline. I think given our consistency of our programs and as we talked before the heavy focus on ongoing cost reduction program and a heavy focus on driving premiumization, we never went through margin decline and recovery. We are just sort of continuously on a consistent basis working on improving our margins largely so we can reinvest in growth on a going basis and Aditya I am sorry to interrupt, but I think that is only fair to move on to someone else.

Aditya Bharti: Thanks a lot Sir.

Moderator: Thank you. We will take our next question from the line of Indrajeet Singh from Macquarie. Please go ahead.

Indrajeet Singh: Thanks for the opportunity and I will stick to only one question. Can you talk a little bit about your organic plans in terms of new products and what is the sense of urgency to kind of introduce new products or existing categories? Thanks that is it.

- Shantanu Khosla:** Well I cannot talk much about the first obviously for competitive reasons. Let me leave it at yes bringing in organic in our existing categories, bringing in meaningful consumer innovation is a key leg of our growth strategy. I guess the most recent most successful one is our anti-dust fans, which has been anyway you look at it a huge innovation and a runaway success driving a lot of our fans business growth. We are continuing to work on this, but we want to be clear that we work on big sustainable new ideas as opposed to lots of small ones. In terms of on new urgencies there is a high sense of urgency. We have a fully staffed resource kind of working; however, we will not get into a new sector just to get into a new sector. I think it is also very important that we have the confidence and the data that we have a high probability of making a sustainable success of the entry and for us as we have defined success means the entry can reasonably quickly in the midterm become at least a number two or a close number two in the market profitably. So we are working it high degree of urgency, but having a proposition that succeeds I personally believe is significantly more important than just launching things given the very high failure rate of new initiatives in this industry.
- Indrajeet Singh:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Renu Baid from IIFL. Please go ahead. Renu your line is unmated please go ahead with your question.
- Renu Baid:** Congratulations for the strong set of results Sir. I just want to clarify one thing the adjusted sales comparable to 16% YOY segment wise you have mentioned lighting was 25% and fans was 20% to 30%. Am I right for that? ECD 12% to 13% and lighting 25%?
- Shantanu Khosla:** Let me clarify again. In terms of adjusted revenue by segment, lighting was 25% and ECD was 11% our two reported segments. When we were calculating 12% that is to clarify that was in response to a question on what is the consumer offtake growth on fans the retail fans, so we did a little bit of rough back calculation just to give an indication on the fly in the call and it is not our revenue growth.
- Renu Baid:** Got it. Thank you for the clarification Sir. Just one question from my end the entire shift from organized to unorganized in your sense the way you have interacted with your channel partners and across regions are you seeing that taking off in a meaningful manner or you think it will still take some time and it might not play out the way it was expected?
- Mathew Job:** At least in the quarters the quarter we are talking about we did not see any significant shift from unorganized to organize. We still have to wait and watch to see how this entire thing plays out, but at least in the quarter that has passed we did not see any significant shift.
- Renu Baid:** So essentially growth was from the whole business that we are into in the market?
- Mathew Job:** Yes absolutely.
- Renu Baid:** Thank you so much Sir. That is all.

Moderator: Thank you. Our next question is from the line of Rohit Kadam from Credit Suisse. Please go ahead.

Arnab Mitra: This is Arnab from Credit Suisse. Just one question on the lighting business, so your growth has been very strong there now as I understand there is a retail segment and there is a B2B segment there is EESL, so within these three segments, which is the one, which is driving growth and you have talked about this market share gain if you could highlight within each of these three is there any specific initiatives, which are now accelerating that move in the market share?

Shantanu Khosla: I will just answer your second question, first again simple clarification. The market share, which I talked, about which we get from a third party called Retail Pulse, which has retail order very similar to Nielsen in our category only tracks consumer retail LED bulbs. So the other segments are not tracked in that consumer market share. Just for clarification on market share. I leave it to Matthew to just address the question, your first question that is growth on lighting segments.

Matthew Job: So, the growth has been of course the percent across both B2B, B2C and in EESL, but of course in the quarter under question is almost growth was in B2C. The growth in the B2C was an excess of 30%.

Arnab Mitra: Sure and just related question I ask for that is there any specific initiatives, which have specifically helped that segment other than would it be mainly the distribution drive, which you have mentioned in the past also?

Matthew Job: On B2C, it is obviously our focused distribution and expansion efforts and quality of merchandising in store. It is the ongoing advertising, which has continues to build awareness and equity for Crompton in lighting. It is also continued innovation in a number of new items we have launched. For example, even in the B2C segment in terms of panels, batten i.e., the LED tube light we have introduced more innovative, more effective products at a good value, so it is a combination of all of that has driven B2C and it is those kind of things that we see in future continuing to drive B2C.

Arnab Mitra: Thanks and all the best.

Moderator: Thank you. Next question is from the line of Harshit Kapadia from Elara Capital. Please go ahead.

Harshit Kapadia: Thank you for taking my question and congratulation for good set of results. If you can just highlight since the order that you have received from EESL in the first half is equivalent to what we have received in the full year, so going forward as the EESL revenue kicks in will your margin of 12.6% be sustainable or will that be at a lower stage going forward that is the first question, then if you can just give us split on the lighting business revenue in terms of LED and non-LED, that would be helpful Sir?

- Matthew Job:** In terms of EESL, even if the quarter that has just gone by we had a significant EESL in the overall mix and going forward we do not expect the EESL contribution to the mix to increase so we did not see that there will be any adverse effects on the margins because of EESL revenues going forward. So in LED I think as Shantanu mentioned before the LED contribution the total lighting sales of 70% and that will continue to increase overtime.
- Harshit Kapadia:** How much of this will be fixtures and LED light?
- Matthew Job:** Fixture was about 60% of the total.
- Harshit Kapadia:** Thank you.
- Moderator:** Thank you. Next question is from the line of Amar Kalkundrikar from HDFC Mutual Fund. Please go ahead.
- Amar Kalkundrikar:** Thanks for the followup opportunity. Can you share the market shares that you get from secondary audit in fans if possible at sub-segment level?
- Shantanu Khosla:** For Crompton or for total.
- Amar Kalkundrikar:** Market shares for Crompton?
- Shantanu Khosla:** The only reason I am thinking is I do not know what our obligation is to the data provider, so if you could do me a favour we will check that up and get we will get back because the data is actually collected and owned by the third party so I will check what our obligations are in terms of, letting people know the data and then you can get back to Yeshwant in a day or two, and if we are able to we will provide it, but that is the only reason.
- Amar Kalkundrikar:** Are you doing this panel audit done only for your category that is fans and lamps or across electrical goods category?
- Shantanu Khosla:** Well the organization is called Retail Pulse based in Delhi. They have been running a panel very similar to Nielsen across most consumer electricals and even some white goods for quite a few years because we wanted to make our entire business more consumer focused, we engaged with them almost two years ago. We ourselves are obviously on the regular subscribers to our categories, but I know that they track and they provide other companies data on other categories in this space also.
- Amar Kalkundrikar:** I was just curious to know if there are any other major categories, which are also declining at offtake levels for last whatever?
- Shantanu Khosla:** Like LED clearly is not, CFL clearly is and fans has been, so those are the categories which currently we track.

- Amar Kalkundrikar:** Thank you.
- Moderator:** Thank you. Next question is from the line of Chirag Shah from CLSA. Please go ahead.
- Chirag Shah:** Thank you for taking my question and congrats on good set of number Sir. Just a quick question around the progress on our new distribution model. I know that in the lighting business we have moved to the new distribution model pan India, but what is the progress on the other segments like fans and pumps please?
- Mathew Job:** I think as we mentioned in some of the earlier calls the lighting pilot was first done in southern region starting 18 months back and now we are in the process of rolling that out to the other regions and we are following a similar approach also for the other categories, so we are doing now pilots in different regions for fans and in pumps and appliances and post the completion of the pilot which we estimate would take another four to five months and once we have got the learning from there we will then of course start to implement the rollouts across the country.
- Chirag Shah:** As far as lightings is concerned can you quantify the benefit that we have got from the new model?
- Matthew Job:** Of course we have seen that in the territories that we have implemented the go to market programs, the growth has been significantly higher than the other market, so there is absolutely no doubt about the proof of concept, exactly how much is difficult to quantify because there are many different portals that play, but obviously there is significant upside which we have seen wherever we have implemented this programs.
- Chirag Shah:** In terms of the channel inventory coming down?
- Shantanu Khosla:** Channel inventory coming down, but in terms of our business, our revenue growth in terms of availability of our products in different stores we have seen a significant uptick.
- Chirag Shah:** I understand Sir. One last question if I may please squeeze in, can you just also speak a little bit more on the agricultural pumps opportunity and where are we in terms of the rollout in terms of the distribution network please?
- Shantanu Khosla:** We are expanding and building the capability to distribute and also create more touch points through things like brand programs, rural farmer meets and things like that, we are doing it state by state based on where we have built the capability and opportunity. It has been progressing quite well. We have seen; however, that there has been a little bit of a slow down due to the nature of the monsoons in the agricultural pumps business for us, but we believe that that is only seasonality linked and come back.
- Chirag Shah:** Thank you very much.
- Moderator:** Thank you. Next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Sir, thanks for taking my question. Just two clarifications, one on this premium fan segment, now that the your share has been consistently increasing would you be able to give us some sense as to what would be margin difference between the premium fans and the mid end fans that you have? Secondly on the promotional spends you have seem to mentioned in your press release that there was a disciplined approach, so any sense on what was the ad spend for quarter versus what it was in the past couple of quarters?

Shantanu Khosla: First I am sorry, I cannot tell you that our margins are kind of where they need to be, but for simply competitive reasons, I do not think we can share the margins, broken down into that detail of subcategory. On marketing support, yes during this quarter we cut back on marketing support because of the uncertainty; however, we have now gone back and we expect the next couple of quarters to be at original planned level. The two reasons we cut back in this quarter, one was obviously because of the uncertainty and none of us really knew how the GST would play. Second frankly for us this quarter is not really a big season quarter. So in any case our advertising tends to be lower. It tends to be much higher in absolutes during the season. However, given the gap we have come back and we are on very much advertising now for example we are sponsoring the New Zealand, India Cricket Tour, so it is back and we will continue at the right appropriate competitive levels.

Gunjan Prithyani: Sir, would you be able to share the amount spent on this in Q2?

Shantanu Khosla: On mass advertising on television we did not spend in this quarter.

Gunjan Prithyani: Sir, just one followup on lighting just wanted to get your sense that given this there were tax rate reductions under the GST regime for LED, now is that there was a lot of bunching up of demand in Q2 because the channel last quarter may not be stocking too much in anticipation of these price reductions coming through?

Shantanu Khosla: Just one clarification, on LED there was no change in the tax since pre and post GST. It always was that a lower slab of VAT and excise even prior to GST.

Gunjan Prithyani: All right, thank you so much.

Moderator: Thank you. We will take the next question from the line of Rohit Kadam from Credit Suisse. Please go ahead.

Arnab: Thanks for the followup opportunity. This is Arnab here, just one question is on the EESL and fans, so have you seen step up in the government activity on EESL on fans and in specific cities where distribution is happening is it leading to a depression in your growth in those cities, so I am just trying to understand how it is affecting the retail market?

Mathew Job: In terms of EESL, the fans activity has been pretty much the same level that was in the previous quarter. We have not seen any significant change either up or down.

- Shantanu Khosla:** I think EESL themselves have publicly communicated that fans and pumps will not be a focus of their program moving forward and they have themselves publicly communicated that the fans program was far, far less successful than what happened with lighting and to some extent versus what their expectation was and we believe and we have talked this earlier before they got into it the fans is more complicated and is not likely to be as breakthrough for EESL as lighting was because you need to install it, the opportunity for price reduction is much less, etc., etc., and I do believe what EESL communicated is the future focus is electric cars.
- Arnab:** Thanks that is all.
- Moderator:** Thank you. Next question is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.
- Naveen Trivedi:** Good morning to everyone. Sir my question is on, what is our fans market share now, are we close to like 27% now and if you can share your marked share in the premium fan segment?
- Shantanu Khosla:** Our market share if you look at ceiling fans i.e., do not take into account, industrial fans, exhausts fans, etc., but the ceiling, which is the biggest chunk of the market is about 27%. In terms of premium we do not look at our share of premium fans among premium fans. We look at our share of premium fans among total fans, because we take that is the opportunity. It is not a matter of only share from another premium fan brand, but more importantly it is upgrading people to better quality superior performing fans. Our share in total fans you remember retail audit share is what I am reporting I am sorry I am just saying that again and again is now around 8% and 8.5%.
- Naveen Trivedi:** How big is the premium fan in terms of total?
- Mathew Job:** For us it is about 18%. 18% of our total sales of fan is premium fans.
- Shantanu Khosla:** If you recall when we started on the journey and first articulated our choice is few guys we were about 7%.
- Naveen Trivedi:** I remember and I think even in the last call also you said that among the two, three players in the premium segment, I think your growth is relatively higher than others.
- Shantanu Khosla:** We believe so yes.
- Naveen Trivedi:** Thank you so much. That is all from my side.
- Moderator:** Thank you. Our next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Thank you for the opportunity Sir! I wanted to understand if you could elaborate a bit on the cost side when you talked about, if I look at the cost they have broadly remained flat despite the

growth, would you be able to elaborate a bit on the cost, the various heads under which you are able to control the cost?

Sandeep Batra: I think one point that we mentioned earlier was that we recalibrated our advertising spend in this quarter, so compared to 10 odd Crores that we would have spent in Q2 of last year on advertising, this quarter the spend was close to zero, so that was one aspect why costs other than material costs have remained in control. The second reason is because of GST implementation many costs that were part of which were below material cost for example things like may be octroi we were paying on our finished products or the service tax credit that we were not able to take in the pre GST, all that has now become available and has been netted off in material cost. So there is some amount of reclassification on the amount of costs, some we have consciously not incurred and that is the reason why the cost line appears the way you see it.

Achal Lohade: Understood, just one data point question with respect to the ESOP charge for the quarter and the EESL revenue book?

Sandeep Batra: The ESOP charge is around 14 Crores for the quarter, which is what it has been in the previous quarter and that is the charge that will remain for the next two quarters and EESL sales were about 53 Crores in this quarter.

Achal Lohade: How much was that in the second quarter last year Sir?

Sandeep Batra: Last year was 38.

Achal Lohade: That is all from my side Sir! Thank you, wish you all the best.

Moderator: Thank you. Next question is from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.

Kamlesh Kotak: Good morning gentlemen. Sir just wanted to understand how the pumps market across residential and agriculture has been performing for us and second thing do we have presence in the solar and SS pumps also and I understand there is a good traction from the government side, so are we presenting that segments?

Mathew Job: We answered before we are market leaders in residential pumps and that segment continues to perform strongly. In terms of market position, we are of course much smaller in agro pumps. We have been making steady progress, however, as Shantanu mentioned in the last couple of quarters we have seen that the market has been quite severely affected first by the demonetisation thereafter by the way the monsoons have panned out across the country, so that is how we see that it moves in agri and domestic pumps.

Kamlesh Kotak: Sir, about solar and SS pumps we are having that presence?

- Shantanu Khosla:** We have in our range a strong portfolio of SS pumps; however, in the solar part we have not yet or we are not playing in the solar panel area where what we are doing is providing pumps for applications, which use solar pumps as well, but we do not today sell the solar panel and the accessories.
- Kamlesh Kotak:** We have six categories across appliances, so which of these categories we see is having some better traction vis-à-vis overall sectors?
- Matthew Job:** See in the last quarter our growth in appliances has been very strongly led by water heaters or geysers of course because it also season nearing it is also a time when we getting into the selling season so Q2 tends to be the time when geyser starts to pick up and we have seen strong traction there.
- Kamlesh Kotak:** Any other categories within that Sir?
- Shantanu Khosla:** The smaller appliances we are relatively small, but the growth is strong in irons, toasters, mixers the growth is strong.
- Kamlesh Kotak:** Thank you very much Sir!
- Moderator:** Thank you. Next question is from the line of Ankit Babel of Subhkam Ventures. Please go ahead.
- Ankit Babel:** Sir, my question is on the ESOP charges. This quarter the ESOP charge was 14 Crores and if I exclude that your employee cost was 56 Crores, which is a growth of 14%, which is a normal growth and you mentioned that the ESOP charge will continue for the next two quarters, just wanted to understand will there be any ESOP charge in FY2019 also?
- Sandeep Batra:** Yes, the ESOP charge will carry on for the life of the ESOP, but in line with the way that charge is accounted it is largely frontloaded, so this year the total cost is about 56 Crores spread equally over the four quarters, next year the charge will be substantially lower.
- Ankit Babel:** Just for my understanding so suppose in next year Q2 now the normal employee cost for this quarter was 56 Crores excluding ESOP, if I take a 15% nominal growth next year, which comes to around like 7, 8 Crores so on that there will be an ESOP so in absolute terms your 70 Crores might remain 70 Crores is my understanding right here?
- Sandeep Batra:** That would depend upon what salary increase we give in April next year, but yes there will be a benefit of lower ESOP charge next year and there will be an increase that we do effective whenever we do our annual salary cycle.
- Ankit Babel:** Sir, you are saying that this year is 56 Crores, what will be next year is not fixed yet?
- Sandeep Batra:** No, not yet.

- Ankit Babel:** But it will be substantially lower?
- Sandeep Batra:** ESOP charge will be substantially lower.
- Ankit Babel:** ESOP charges okay. Thank you so much Sir! That was my question.
- Moderator:** Thank you. Next question is from the line of Mehul Mehta from Sharekhan. Please go ahead.
- Mehul Mehta:** Good morning gentlemen. One is regard to submission of our bid for Kenstar acquisition expression of interest in September end, so by when are we expecting outcome of the same is there any timeline?
- Shantanu Khosla:** Yes, there is a timeline, but I am sorry, I cannot really comment any further on that, but obviously there is a timeline.
- Mehul Mehta:** So you would not be able to disclose that?
- Shantanu Khosla:** It is not appropriate for me to make really any comment either way on that.
- Mehul Mehta:** Thank you.
- Moderator:** Thank you. Next question is from the line of Bhargav Buddhadev of Ambit Capital. Please go ahead.
- Bhargav Buddhadev:** Thank you very much Sir for the opportunity. Sir just one question, so from a long-term perspective do you believe that there will be an accelerated formulization in the real estate sector with increased transparency under RERA and arrangement of input credit under GST and this in turn showed actually benefit a lot of electrical companies?
- Shantanu Khosla:** Personal opinion I am not a real estate expert, but personal opinion like I have maintained in the long-term and I do not know what the long-term is. More houses are going to be built in India and more houses are going to be built in India at an accelerating rate. I do not think there is any debate in my mind over that. Second housing starts are highly correlated to the fan market growth, that we know for a fact as we faced back in history and therefore as I always maintained the macros for this industry are all in the right direction because it is not only about housing starts it is about increase in urbanization, it is about increase in electrification, it is about drives to have more power efficient products, so all of this means that has got to be, I mean for examples I think the government recently declared huge new additional investment in highways where the highways have to be lift, so all infrastructure comes with lighting. So the macros I continue to believe are extremely positive things like GST when they settle down will only help adjust this current transition, which is and GDP slow down, etc., which is potentially impacting the fans market in this period, but of course it will come back.
- Bhargav Buddhadev:** Sure Sir! Thank you very much.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to Mr. Abhineet Anand for closing comments. Over to you Sir!

Abhineet Anand: Thanks everyone for attending the call and I would like to thank to management of Crompton to give SBICAPS this opportunity to host the call.

Shantanu Khosla: Thank you for all joining in. If you have any further questions or anymore details do not hesitate to connect with Yeshwant. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf SBICAP Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.