



“Crompton Greaves Consumer Electricals Limited
Q2 FY2020 Investor Conference Call”

October 24, 2019

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Moderator: Ladies and gentlemen, good day and welcome to the Crompton Greaves Consumer Limited Q2 FY2020 Investor Concall, hosted by Axis Capital. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aditya Bagul from Axis Capital. Thank you, and over to you Sir!

Aditya Bagul: Good morning, and a warm welcome to the Q2 Conference Call for Crompton Greaves Consumer Electricals. On the call today, we have 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 the floor to Mr. Khosla for his opening remarks and overview for the quarter gone by. Thank you, and over to you, Sir.

Shantanu Khosla: Thank you. Shantanu here in Bombay along with the team. Thank you all for joining us on this call this morning. As usual, I will briefly sort of give a little bit of flavor on top line and then we will keep as much time as we can for questions. So diving straight into it. Overall for the quarter, our total revenue was up 4%, and our total profit after tax was up 44% after, of course, making necessary adjustments for the new tax rates.

Within this, getting into our segment-wise, the ECD segment has continued its strong momentum, registering double-digit growth. All the businesses in the ECD segment have performed well. We have had close to double-digit volume growth on fans, agricultural pumps continue to deliver steady volume growth at 17%. And of course, appliances, which has been a new key focus area for growth over the last few quarters, has continued accelerated growth for really the fourth consecutive quarter, led by geysers with a 38% value growth. Now this performance of ECD is in spite of some challenges we had, largely in September due to the heavy rains and floods, particularly in Eastern India, which did have an impact mainly on our pumps business. So we did lose some business simply because of closures during the month of September because of the floods and very heavy rains.

As I mentioned and I have talked this before, over the last few quarters, we have been focusing on revamping our appliance business. And we started really one winter ago, last winter with geysers, this last summer with coolers focus and then we continued the focus on geysers. Really, this program is all about superior products based on meaningful consumer needs, strengthening our portfolio, investing in both distribution and marketing. We are really happy with the progress, though it is still a relatively smaller part of our business, and we have been clocking about 30% growth rates in this segment every quarter for now on a sustainable basis for the last three, four quarters and this, as mentioned, will be a key to our future growth. We had a number of portfolio initiatives in geysers this winter, things like Solarium Neo, Qube,

Amica have really redefined our entire brand architecture for geysers on a good, better, best platform and this is clearly getting traction and delivering growth. As we move forward now, the next key segment on small appliances. We are going to begin to focus in on the same real model, meaningful consumer needs, strong products, supported by distribution and advertising and investment will be mixer grinders, which is the next large segment.

So next, the ECD business continues to be robust. In fact, not only did we deliver good top line and market share growth, our gross margins on our ECD business versus previous year went up by 240-basis points essentially behind our ongoing long-term strategy of driving down cost, building mix and some amount of price increase.

Moving on to our other segment, which is lighting, where the top line declined in double digits and clearly, that has been challenging for a while. Just to break that down a bit, the first thing is this quarter. A significant amount of the decline was really driven by the EESL business, where we had a very strong quarter in the base period and this quarter, the EESL business has kind of ramping down and is relatively much smaller. If I net out the EESL business, our decline was about 3%. Within this also, if we look at our two different segments, B2B and B2C, as we have talked in the previous call, we see B2B as a key growth area, and we have been making significant investments over the last couple of quarters in revamping our structure, building our capabilities and also building enabling technologies. On the B2B business, we are beginning to see the initial signs of response of this new investment and program and over this quarter, our B2B business grew around 9%. We expect as we keep developing these programs, having a look at our order book moving forward that we should be able to continue to grow this.

The B2C business, of course, as all of you are probably aware, has been exceedingly challenging essentially driven by continued significant price erosion. Roughly speaking, on an average, in this quarter, we experienced an average price erosion of around 15%, which is obviously significant. Now we have continued to drive cost out of the system so that we keep our gross margins more or less whole. But that being said, while we are continuing to get volume growth, for example, volume growth in our batten and panel segments of this LED business was about 35% in the current quarter. Obviously, the challenges in the near and midterm, are the price erosion, which we believe is largely being caused by the intense competitive intensity from both large and small players. We, however, continue to invest behind the business. We are investing in our capabilities. We are investing in our technology. We are making capital investment in improving our productivity in our plants. For example, we are in the process of investing in automation and alliance for LED and importantly, we are continuing to invest in advertising to drive brand awareness.

In the current quarter, our total spending on advertising and sales promotion was Rs.23 Crores, as we are focusing on driving the awareness of new products. For the first half of the

year, our A&P spend has been Rs.68 Crores, close to 3% of our revenues, which is 35% higher than the comparable period last year. We believe that given the strength of our ECD business and our continuing improving margins as a total company, it is important to keep investing in these capabilities and advertising for the long term. As I mentioned, our profit after tax was up 44%. However, even net if you do not consider the tax implications and if you look at just the PBT, PBT, as a total company, was also margins were up by about 70-basis points this quarter versus the previous year. Net overall, ECD continues to be strong and robust across the category. This continuous growth is coming sustainably in appliances. Our margin and profitability structure remain among the best in the industry and continue to improve. We are continuing to invest in lighting, especially the B2B part and advertising. It stays a challenging business as we look forward essentially due to the price erosion. With that I would just like to stop and throw it open for questions.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Indrajeet Bhatia from Macquarie. Please go ahead.

Indrajeet Singh: Thanks a lot for the opportunity. My first question is on, if you look at the overall EBITDA margins, which are kind of flat year-on-year, but we had a very significant gross margin improvement. Could you just throw light on why the other expenditures are up significantly? Because understanding would be the lighting segment has got hit by the price deflation, so that should have ideally shown up in the gross margin itself. So if you could just clarify on that?

Shantanu Khosla: Okay. I will give you a quick snapshot, then I will let Sandeep talk more details. Basically, the difference between the gross margin and the EBITDA and the PBT, if you will, is because we are continuing our programs of investment, investment in capability. Just as an example, we have recently hired a Chief Technology Officer for the company. As I mentioned last quarter, we have invested significantly in an entire new structure for our B2B sales. We are continuing our investment programs in technology. These kind of investments we believe are absolutely the right investments to continue to make and not pull back on. On an operating basis, our gross margin reflects our efficiencies in driving our costs down and that all is healthy. The others are conscious investments. We have been making these investments steadily over the last three, four years and as a net, we believe this will enable us to continue long-term capability and growth while, as you see, we are continuing to build overall profitability margins of the company, where if you look at this over the last three, four years, you will see our PBT percentage has consistently gone up and today, our PBT percentage, which is a key one we are looking at, is actually the highest in the industry.

Indrajeet Singh: Okay. The second question is on the lighting. Is there kind of a roadmap as to bring these margins back to closer to high single digits or maybe even double digits based on our sourcing strategies? Is there a time line that you want to kind of give out on that?

Shantanu Khosla: Again, we are focused on making sure that we drive our costs so that we do not slip significantly at gross margin. So as price erodes, we are working, and we continue to work, as we have done over the last few years, accelerated costs programs to ensure that the gross margins stays plus/minus intact. We will continue to invest in the business below the gross margin line as required based on the competitive pressures. So I do not want to give you a time line on when the EBITDA of the segment will come up. We can talk EBITDA of the total company and gross margin recovery due to the price erosion on lighting and we fully expect that gross margins based on our cost reduction programs will come back to our kind of growing level over the next couple of quarters. But we do not want to do things like cut back on advertising, cut back on investments in our B2B sales infrastructure because we believe the right way is to build this business for the long term and the overall performance of ECD is enabling us to invest in lighting in this competitively challenging period.

Indrajeet Singh: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: Thanks for the opportunity. Again, on lighting, I wanted to ask, does it based on what your last year's EESL on the sales volume in H2 and the visibility that you currently have? Do you see EESL continuing to be a big drag on the top line growth in lighting in the second half? And related to that, on the margins, and when last year, initially, your margins had fallen to 6% in the first half, you had clawed back those margins to 11% at the lighting segment level. So the fall that we have seen last quarter, I think there was a provision also, bad debt, is there something similar this quarter? Or is this purely pricing moving more than what you had expected when the year began?

Shantanu Khosla: It is essentially a significant more price erosion than we had expected and the difference we are seeing in the more recent price erosion is, in the past, price erosion was, in a sense, cost justified. It was supported by active cost reduction projects across the industry. Now we are seeing more price erosion, which at least based on our judgment, is more simply competitive and not cost justified.

Mathew Job: In terms of EESL, you asked this question on EESL, I think, of course, in this quarter, the EESL number that were down quite dramatically from almost Rs.50 Crores to Rs.20 Crores. However, I think, going forward, it is difficult to predict. While we have a strong order book with EESL, when exactly those would actually be executed is not very clear yet. So I we

would not be able to tell you how the EESL business will pan out. All I can tell you is that we have a reasonable order book with the EESL. But depending on when they would actually procure those materials, the numbers would then shape up accordingly.

Arnab Mitra: So the pace of the EESL numbers are also high in the H2 similar to H1? Or is that lower, that would be something you would have with you?

Mathew Job: The order book, which we have for EESL today, at the moment, is stronger than what we had at the beginning of the year. But what we have observed in the first half is even when the orders are available, the pace of procurement actually has been quite low, especially in street lighting. So just having an order book does not mean that the EESL are going to buy in the next quarter. So we would not be able to predict.

Arnab Mitra: Actually, my question was H2 2019, was it weaker than H1 2019 in terms of EESL, or in the sense that at least the base, does it have significantly higher EESL revenue than H1? Or does it have lower EESL revenues in the base year, which is FY2019?

Sandeep Batra: Last year, EESL H1 was Rs.62 Crores, and H2 was Rs.75 Crores kind of similar Rs.62, Rs.75 Crores, yes.

Arnab Mitra: That is helpful. Thanks. That is it from my side. All the best.

Moderator: Thank you. Next question is from the line of Acchal Lohade from JM Financial. Please go ahead.

Acchal Lohade: Thanks for taking my question Sir. You indicated that one of the reasons for gross margin expansion is also price increase. Would you be able to quantify which product and what kind of average price increase we have taken?

Shantanu Khosla: Roughly speaking, that is off the top of my head. The price increase was largely on the fans business and it was roughly about a 2% increase.

Acchal Lohade: Understood and Sir, on the advertisement expense, can you quantify how much was the advertisement expense and ESOP cost? And any one-offs like what we had in the first quarter, any provision or anything of that sort, even in the second quarter?

Shantanu Khosla: The advertising and sales promotion spends in this quarter has been Rs.23 Crores as compared to Rs.9 Crores in the same quarter last year. There are no one-offs of the nature of that were there in the first quarter and ESOP costs were same as it was in the first quarter, which was about Rs.6 Crores.

- Acchal Lohade:** Got it and in terms of the volume growth, can you help us understand what has been the volume growth in case of premium fans and mass premium and also in case of Pumps Agri and domestic?
- Mathew Job:** Overall, fans volume growth was close to double digit in terms of overall fans. In pumps, of course, the much better growth happened in agri pump, where we have close to 17% growth. Residential pump did get impacted, as Shantanu mentioned, in the fag end of the quarter, especially in east because of the flood situation. So that is why the domestic pump volume growth was lower in the quarter than in the previous quarter. That is primarily only because of the flood situation.
- Acchal Lohade:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Vinod Bansal from Franklin Templeton. Please go ahead.
- Vinod Bansal:** Sticking with the lighting business, we are referring to EESL has been a major drag on our sales this year. I suppose you had the same reasons in Q2 2019 as well, where lighting fell 4% Y-o-Y, and we spoke about EESL being a drag. Could you spell out numbers on EESL again this quarter and the Q2 2019 quarter? What was the absolute number of EESL revenues?
- Mathew Job:** Yes, it was Rs.49 Crores was last year, and this time is Rs.19 Crores.
- Vinod Bansal:** And how was your order book September 30, versus last year September?
- Mathew Job:** The order book is strong. As I mentioned, almost Rs.100 Crores of order book, but how much of that will get translated in one quarter or the next two quarters, very difficult to say. But the order book is as strong as it was last year in terms of EESL.
- Vinod Bansal:** What is the reason for the delay in execution, then?
- Mathew Job:** For EESL you are saying?
- Vinod Bansal:** Yes.
- Mathew Job:** I think quite a few of these orders got awarded, I would say, towards the end of the quarter. That is one. Second, I think the fact is that last year, there was the bulk of the orders in Q2 where there was no installation involved and this time, much bigger share of the orders is actually in street line, where there is a much longer period.

- Vinod Bansal:** So it is not exactly a delay from the customer's part in terms of not wanting to procure once they order. It is simply a long decision business now?
- Mathew Job:** Yes. For us, it shifted more to our streetlights.
- Vinod Bansal:** We had Orrisa lighting order, which is supposed to execute by early this year June or something. What is the status there on that particular order?
- Mathew Job:** The execution has just started. So I would say the execution is, of course, while original plans should come in earlier this year because of elections and so on and so forth, there has been delay and then we just started executing towards the fag end of this quarter.
- Vinod Bansal:** Right. If I may just slip one more question on the lighting business itself. I know you spoke about margins, not guiding specifically, I would still like to ask your view on when do you see double-digit? Is it even possible now given the fact that it has been disappointing for four, five quarters in a row? Is there any hope that the next 4 quarters, if at all, we can hit a 10% odd? and does hitting 10% require you to have a stronger double-digit growth in lighting business?
- Shantanu Khosla:** To be honest, over the near-term of the next few quarters, our primary focus is to get market share and revenue growth, while keeping our gross margins intact. The EBITDA number for us over this period is less critical, whether it is a 5% or 6% or it is a 8% or 9% really is strategically less critical for us and what is more critical is with the programs, with B2B, with the innovation, with the advertising investment, get in a challenging market, get the top line growing and get our gross margins to stay.
- Vinod Bansal:** So where does the cost go, does it include the incremental cost?
- Shantanu Khosla:** Cost reduction.
- Vinod Bansal:** No, no. If I may, sorry, you said sales will grow. Gross margin percentage will stay. That means you will have absolute higher gross profit. Where will the EBITDA margins and EBITDA we lost then?
- Shantanu Khosla:** So that should obviously give you some leverage on EBITDA, but the EBITDA number as such is not our focus.
- Vinod Bansal:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Charanjeet Singh from DSP. Please go ahead.

Charanjit Singh: Good morning. Thanks for the opportunity. So on the lighting front, we have been hearing about this pricing erosion consistently for the last three to four quarters and the quantum, which you had in this quarter also has been significant around 15%. So what level of this margin, because we have been having a thought that margin erosion will stop, because it has come to a level where nobody is making money and still, we are seeing this erosion in the B2C segment significantly. So how do you see in the future that it is still some more room in here on the erosion side and the pricing? And how do we see the scale-up in the B2B segment because we are continuously doing investments, do we see that these investments will actually help us improve our margin profile despite the competition being so intense in the segment?

Shantanu Khosla: Okay. Again, I would urge you not to get focused on lighting EBITDA. Look at the company EBITDA, look at the buy category, top line and gross margin. Obviously, we are investing in lighting for the future. This is a huge category with great long-term potential. Also to be clear, five years ago, in lighting, we were making a low single-digit margin as a company. So it is not that we are investing and we are losing money on lighting. The question we are really debating is between a 5%, 6% EBITDA and a 7%, 8% EBITDA, but our point of view is that really the focus we want to operate on is, drive revenue growth in lighting, make sure that you are getting aggressive cost reductions so your gross margins are whole, then make sure you are finding the right investments, such as our B2B investments and the leverage will fall out then on the segment EBITDA as it falls. In terms of the B2B investment and the returns, like I mentioned, while a lot of our competition is actually flat to declining on B2B, we are seeing some results of these interventions. So B2B, actually, in this quarter, did grow, and it grew at high single digits.

Charanjit Singh: Thank you.

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

Bhavin Vithlani: Thank you for the opportunity. Three questions from my side. One, on the fans, you mentioned you have gained market share by 80-basis point, but your growth is 8% and when I look at your peer performance, they have grown around 15% to 16%, so it will be helpful if you can explain. Second question is on...

Shantanu Khosla: Let me just take them one by one, so I do not forget. Let me take the first one. Fans market growth. First, our source of data on market growth is retail pulse, which is third-party consumer offtake data. Second, I would just like to point out that 14% to 15% growth, which I think you are referring to is not competitive fans growth. It is competitive ECD growth. I obviously do not know, except based on my third-party data on what was the fans growth, but everything that we know and believe is that, that fans growth was nowhere near 14% to 15%. The fans growth was probably, and this frankly is obviously our estimate based on retail

pulse and competitive data closer to flat and that 15% was driven by other newer segments. And fans is no longer the largest part of those other segments in the ECD business. So there are some competitors, much smaller, who have reported results, who have also had good fans growth. For example, Orient, driven by premium has had good fans growth. And if you look at the retail pulse data, the 2 companies who are growing share are Orient and us.

Bhavin Vithlani: Okay. Second, on the appliances, we have seen your rate of growth slow on the heater from more than 100%. Are they supply chain issue? And are they getting interest?

Mathew Job: No. 100% growth in the previous quarter was for air coolers. For water heater, in the last few quarters, we have been maintaining growth between 30% and 40% and that continues in the quarter we just reported as well.

Bhavin Vithlani: Because from the channel we understand there were supply chain issues. So I just want to know if these issues are there and are they getting interest?

Shantanu Khosla: There were definitely supply chain issues on geysers. In the previous season, a large amount of those supply chain issues have been addressed going into this season.

Bhavin Vithlani: And any color on when do you plan to launch the juicers or the next round of mixers and iron? and when do we start seeing growth in these categories?

Shantanu Khosla: We are beginning a program on mixers, starting this Diwali, like we began the program on geysers last winter. So this will be an ongoing continuing program, so it is not just sell for one quarter, and that is it. Like overall appliance story, for us, one of the most encouraging thing as a total subsegment, we are showing this kind of growth, obviously, driven by different parts of the subsegment depending on the season. Now consistently over the last three, four quarters to get what we aspire to, which is to begin get on track to be a number two in each subsegment. We need to continue this for about six, seven, eight more quarters at these levels of growth.

Bhavin Vithlani: Sure, thank you.

Moderator: Thank you. Next question is from the line of Srinidhi Karlekar from HSBC. Please go ahead.

Srinidhi Karlekar: Just one question. So the EESL order backlog of Rs.100 Crores, you said. Is it typically a fixed price contract? Or are there some commodity cost pass-through that you have in contracts?

Mathew Job: No, it is all fixed price.

- Srinidhi Karlekar:** That is my only question. Thank you.
- Moderator:** Thank you. Next question is from the line of Niket Shah from Motilal Oswal. Please go ahead.
- Niket Shah:** Thanks for the opportunity. I have one question, primarily on the rating of fans, which goes into implementation next year. Just wanted to get some sense on what is your preliminary thoughts on that in terms of how will the pricing change? Do you need to change the SKUs design and specs? And does this give an opportunity for the unorganized market to come back? Because there are no star rating, so essentially, they can become one star and come back in competition with the organized guys. So some thoughts around that would be very helpful.
- Shantanu Khosla:** Okay. First, we will completely comply with the new regulations. Second, as a market leader in the fans business, who are just about the only company which covers every price segment of the fans business, we actually see it as an opportunity for ourselves to leverage in such a manner that we gain share. Number three, obviously, this will require us to redesign various elements of the fan, work for which is, of course, well underway. And we are pretty clear for nearly all our segments, what is the new design, what are the specs, how it will be made, where it will be made. Most of the work, which we have been doing, frankly, over the last one year on this program, is how do we bring down the premium of a more energy-efficient fan and not just at the premium end of the fan, but also at the mid-tier of the fans or even the lower-tier of the fans. We have had a reasonable amount of success on that. There will be some premium, but we believe the premium will be at a level where it continues to be of value to the consumer, given the extent of energy saving. The last point in terms of unorganized, I do not think this is an opportunity for an unorganized sector, right? Because, again, what this means is you have got to redesign, bring in the technology. It is not necessarily straightforward. So it actually makes it harder for the unorganized sector.
- Niket Shah:** Sure. And in your early testing, have you seen any difference in the air delivery, which comes out because every SKUs has to get retested. So on the air delivery side, have you seen any changes as such?
- Shantanu Khosla:** We have made our designs so that you do not drop the air delivery. That is a given constraint, obviously and that is actually where our expertise and our technology comes into play because we believe we have the best knowledge and design capability, especially on the aspect of air delivery. So that part of the area, we believe that this is going to help us get a competitive edge.
- Niket Shah:** Okay, I will come back.
- Moderator:** Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.

- Renu Baid:** Good morning Sir. I have couple of questions. Just a clarification, the price erosion, which you have mentioned on the LED side, was it 15% on a sequential basis or a Y-o-Y basis?
- Mathew Job:** 15% Y-o-Y.
- Renu Baid:** So last year, if you remember, last year, Q2 all the quarter when we had first seen the sharp correction of nearly similar 15%, 20% on the B2B bulb, the LED bulb side. So on that base of lower realizations, you have seen a further drop of 15%, like am I right or is there more?
- Mathew Job:** Yes that is correct.
- Renu Baid:** Okay and related to this, so this kind of structural erosion that we are seeing year-on-year, you mentioned there are fringe players as well as large players. So in your view, is it largely, since it is not driven by the manufacturing cost structure, you think? Or this disruption is also likely because of increase in our share of more outsourced manufacturing to OEMs who have become too large inside driving this kind of price aggression or cost reductions?
- Shantanu Khosla:** Not really, Renu, because, at different times, it is being driven by different types of players, so all types of players at different times have driven this. What I believe is that this is unsustainable over the midterm and at some point in time, there will be a shakeout like there tends to be in any industry when there is a dramatic transformation, huge growth. Many, many people come in to it and then it stabilizes over time and a lot of the players fall out, and key long-term players remain and we are going through that kind of cycle. Which is why for us, it is so important to win through that cycle and for us, winning is really defined as growing the top line, growing share and making sure that our gross margins do not get eroded, and we are driving costs down to support the pricing required.
- Renu Baid:** Sure, got it.
- Moderator:** Thank you. The next question is from the line of Pulkit Singhal from Goldman Sachs. Please go ahead.
- Pulkit Singhal:** This is Pulkit. Am I audible, sir?
- Sandeep Batra:** Yes.
- Pulkit Singhal:** Okay. So my question is on your advertisement costs, I remember till last year, what typically used to happen was in a quarter when we would see a slowdown, we would significantly lower our advertisement cost. Now this time around clearly, the commentary that irrespective of whatever we are seeing in the market right now, we are going to continue to invest in

brands. I just wanted to understand why the change in thought process and if you could just clarify on this?

Shantanu Khosla: Because we continue to believe that investing and in fact, when we cut advertising in the past, we saw an impact of it over the long term. So we are clear, we must maintain our investment. Again, I would like to remind you that in spite of the challenging times, in spite of the competitive situation in lighting, as a company, in spite of making these investments, our PBT margin continues to move in the right direction and is among the highest in the company. So it does not really make sense for me to make short-term cuts. To drive that PBT margin as a company, even higher, it is more sensible for us to invest and keep investing so that we emerge in an even stronger position from a market share point of view when this hyper competitive situation ends. It would be very different, for example, we were only a lighting company, but we are not only a lighting company. We are a consumer electrical company, with strong, profitable, growing margins.

Pulkit Singhal: Fair point, Sir. So my second question we have been talking about looking at inorganic opportunities. Now given that our balance sheet will look a lot better by now, given the bulk of the debt has already repaid. I just wanted to understand any progress on that front and anything that you can share at this stage?

Shantanu Khosla: We are continuing, as we always have. We have discussions, we have evaluations. The things are moving along on various proposals and options, but we have nothing on that to share. When we are in a position to share, you guys will be the first to know.

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

Mayur Patel: Thanks for taking my question. So you rightly highlighted all the concerns in the lighting market and whatever you are doing in terms of cost reductions and maintaining gross margins. So just want to understand that given there are so many competitive pressures in the market should not we just think of diversifying more away from this challenging business and put more energy towards lighting fixtures or other new segments? Or we should just ride through this rough patch and you think the normalcy would be achieved soon?

Shantanu Khosla: Within Lighting, that is exactly what you are suggesting is what we are doing, which is putting much more investment in segments where we were not focused on earlier. And one of the biggest examples of that is obviously B2B business, where we are building these capabilities, so we can get into segments such as commercial, where we are relatively weak. Street light is an area of stress, but we are putting investments so we can get into connected, streetlights, etc. So driving off the whole B2B segment is really all about what you call fixtures and fittings but even beyond that. So yes, our focus is now much more in lighting than on just bulbs. Even on the B2C part of the business, if you notice, we are getting much stronger growth even in

this current environment not on the bulbs, which is where a lot of the hyper competition tends to be, but on the backends and panels, where the volumes this quarter grew about 35%. So there are lots of segments within lighting, which we are currently investing in to sustain the growth, which we were not investing in or focused to that extent a year, year-and-a-half ago.

Mayur Patel: Sure Sir.

Moderator: Thank you. We will move to the next question, which is from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: Good morning Sir. So now in a scenario where this company is known for bringing out new innovative products to the market and obviously, it takes time to bring out such innovative products to the market. What happens is competition does not take much time to replicate these kind of products. Is there any way you can actually elongate that period where competition would not be able to replicate this immediately? That is one and similarly, is there any way you are tracking the new innovative product that you are launching in terms of the growth numbers?

Shantanu Khosla: The answer to the second question is, obviously, yes. We actually have a scorecard, which we report to our Board of Directors and one of the elements of the scorecard, which we report to the Board of Directors, is percentage of incremental business, which has come from new products. So of course, we track it, and it is a very important thing to track. So because it is not just launch and forget about it, you keep driving this business over multiple quarters and years. On the first one, there are many things you can do and I think the best example is one of our first, which is the anti-dust fans. Obviously, you try and patent protect whatever you can. In India, sometimes, it is not technically possible to protect with the patent. Then what you do is you look for areas such as supplier agreements. For example, in anti-dust, which we have the unique coating we use. But then most important is get in and invest in marketing and distribution. Today, nearly every competitive company launched an anti-dust. However, today, I do not know the number, but I am kind of guessing that out of the anti-dust segment, Crompton is 95% plus. Not just us. I will give you another example from competition. Orient launched the plastic fan, a good product, invested in it. It has been a big driver from what I read about their premium fan growth. Havells launched a plastic fan. Basically does not sell at all, right? So there is a consumer trial investment kind of moat you also build over time. The last answer to your question is it does not last forever. You got to bring the next innovation in call it 12 months later.

Rahul Gajare: Thank you very much.

Moderator: Thank you very much. Next question is from the line of Tanuj Mukhija from Bank of America. Please go ahead.

Tanuj Mukhija: Firstly, can you tell me what is the addressable market share for mixer-grinders? And what is Crompton consumers target in this segment over the next couple of years?

Shantanu Khosla: Our target for each of these just like we set up first for lighting, then for coolers and for geysers is we want to in each subsegment, have a program, which we are confident that over the midterm can make us, at least on track, if not having achieved a number two share position in that segment. It is something, which we achieved on lighting. Because when we started our program on lighting, we were the number 6, 7, 8 and now we are number two or very close number three depending on whose numbers you look at. That is what we are aiming to achieve on coolers, and we are on track. That is what we are aiming to achieve on geysers, and initial quarters are on track. That is what you will be able to do among mixer-grinder. Why this? Very simple reason, if you are number 6, 7 or 8 in any subsegment, you are not creating value. You only create value if you are number 1, 2 or sometimes 3 in the segment.

Tanuj Mukhija: Thank you.

Moderator: Thank you. Next question is from the line of Pradyumna Singhania from Ampersand Capital. Please go ahead.

Pradyumna Singhania: Congratulations on a good set of number, given the competitive environment. So my simple question is that can you share either your three-year or five-year plan? Considering that you are getting de-levered considerably, what kind of investment that you can do so that we can get some kind of visibility of whether you can double your revenue over a five-year period?

Shantanu Khosla: Okay. Our objectives in terms of our goals actually remain exactly the same as we set out four, five years ago. Grow faster than the market, grow margin at least at the same rate as top line and convert most of our profit into cash. These are our forecasts. Now the last thing I will mention is, given the strength of our brand and our balance sheet, our limitations are not really about ability of money to spend. Our limitations are actually to create something, which will go out and win. The number of cases in our industry where people have gone and put money in things, which has never created value. We see that happening in front of us every day. So the challenge is not that I do not have debt so I can raise debt and therefore, I have money to invest. The challenge is do I have a plan and a proposition to become number two in that segment? Which is why we are doing it very focused and sequentially. We started with lighting. We have now moved to cooler, we moved to geysers, and now we are moving to small appliances. Yes, over time, there will be a 5th and the 6th, which we need to add, which we are working on appropriately. But the limitation for us is not a financial ability to invest. Lots of investments, which have essentially gone down the queue for lots of people. Okay.

Pradyumna Singhania: That is all right.

- Moderator:** Thank you. The next question is from the line of Anshuman Deb from ICICI Securities. Please go ahead.
- Anshuman Deb:** Thanks for the opportunity. Sir, I had one question regarding the EESL business, we have heard about the receivables problems in terms of long receivable days in EESL. We also provided for some amount in the last year. Would you throw some light on that thing? In case the order picks up in EESL, do you still have receivable problems? And what is the situation in that area?
- Sandeep Batra:** So currently, we do have a receivable challenge with the EESL, where I think they probably have some short-term mismatch in cash. Other than the fact that because of the provisioning norms, it does result in some amount of P&L hit. That is not really a showstopper for us. We believe that given the financial health of EESL, money will come. That is not something that is going to decide whether we will supply the sales orders or not.
- Anshuman Deb:** Okay. So we might provide and also supply?
- Sandeep Batra:** Yes, that is okay. Yes. Because you are not providing thinking that EESL will become a bad debt. The new accounting standard requires you to provide for every debt basis the ageing of the debt, and we have been following the new accounting standard.
- Anshuman Deb:** Right. And Sir, one follow-up question in lighting, which was regarding the margins. So for example, in Philips, we see that the annual margins in FY2019 was close to double digit and they also paid some royalty to their parent company. So how does this differential in margin work out for us versus Philips? If I have to just see that.
- Mathew Job:** I think it is a question of scale. If you look at the last two quarters, the gross margin today, actually, if we look at the lighting gross margin versus the same period last year, we are fairly better. But obviously, it is also got to do with top line growth, which is why it is very important, as Shantanu mentioned, to get growth back because then everything will fall in place, we have 20% plus gross margin and close to double-digit top line growth. Our bottomline will flow through automatically.
- Anshuman Deb:** Thanks Sir.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today due to time constraints. I now hand the conference over to the management for closing remarks. Over to you.
- Shantanu Khosla:** Thank you. Hopefully, we were able to answer most of your questions. Appreciate you dialing in. As always, we are here to help and clarify. So if any of you got any more questions, just please contact Yeshwant and we are happy to take them on. Thank you.

Sandeep Batra: Thank you.

Moderator: Thank you very much, members of management. Ladies and gentlemen on behalf of Axis Capital that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.

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