November 14, 2022

To,

BSE Limited Department of Corporate Services Phiroze Jeejeebhoy Towers Dalal Street Mumbai 400 001	:	**Code No. 500031**
National Stock Exchange of India Limited Listing Department Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai 400 051	:	**BAJAJELEC - Series: EQ**

Dear Sir/Madam,

Sub.: Submission of the Transcript of the Q2FY23 Earnings Conference Call of Bajaj Electricals Limited (the "Company")

Further to our letters dated October 31, 2022, and November 8, 2022, and pursuant to the provisions of Regulation 30 (read with clause 15 of Para A, Part A, Schedule III) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended (**"SEBI Listing Regulations"**), we enclose herewith the transcript of Q2FY23 Earnings Conference Call (i.e., Post Earnings/Quarterly Call), as organised by ICICI Securities Limited on Tuesday, November 8, 2022, at 4:30 P.M. (IST), whereat the unaudited financial results of the Company for the second quarter and half year ended September 30, 2022, were discussed.

We request you to take the above on record and the same be treated as compliance under the applicable provisions of the SEBI Listing Regulations.

Thanking you,

Yours Faithfully,
For Bajaj Electricals Limited

AJAY SURESH NAGLE

Digitally signed by AJAY SURESH NAGLE
Date: 2022.11.14 12:20:04 +05'30'

Ajay Nagle
Company Secretary and Head of Department

Encl.: As above.

"Bajaj Electricals Limited
Q2 FY '23 Earnings Conference Call"
November 08, 2022

MANAGEMENT: **MR. ANUJ PODDAR – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – BAJAJ ELECTRICALS LIMITED**
MR. EC PRASAD – CHIEF FINANCIAL OFFICER – BAJAJ ELECTRICALS LIMITED

MODERATOR: **MR. ANIRUDDHA JOSHI:– ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Bajaj Electricals Q2 FY '23 Conference Call hosted by ICICI Securities. 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 star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand over the conference to Mr. Aniruddha. Thank you and over to you.

Aniruddha Joshi: Yes, thanks, Mike. On behalf of ICICI Securities, we welcome you all to Q2 FY '23 Results Conference Call of Bajaj Electricals Limited. We have with us senior management represented by Mr. Anuj Poddar, Managing Director and CEO, and Mr. EC Prasad, CFO.

Now I hand over the call to the management for their initial comments, and then we will open the floor for question-and-answer session. Thanks, and over to you, Anuj, sir.

Anuj Poddar: I'll just make a few headline comments then pass it back to all of you for questions. Clearly, from a demand environment and from an economic position, it has been a tough quarter. Given the situation of the external environment, we believe we've delivered a decent performance with which we are satisfied.

I'll just call a few data points. We've had a slight degrowth on our top line. If I look at a three year CAGR trend, particularly for consumer business, we had a 14.3% growth. If I look at the three segments, by the way the headline calls out right now, we restructured the segmental reporting as announced earlier. So now we have three segments, the consumer products segment, the lighting solutions segment and the EPC segment.

The consumer product segment is what I first spoke about, we have a CAGR of 14.3%. The lighting solutions segment is the highlight for this quarter. That's intentionally carved out as a separate BU to create more focus and growth for us in that segment.

The first sign, the performance that you're seeing there is the margin expansion and growth in EBIT. Going forward, we are very bullish on that business, driving growth and performance for us. And third is on the EPC front too. In EPC after many quarters of losses, last quarter was a moderate breakeven and this quarter we've delivered profitable EBIT.

Lastly, on the cash flow front, we remain positive. Headline there again for you is that actually this quarter we've had very low collections from EPC. Despite that we've added constant cash from operations. We have had significant cash collections from EPC post 30th September, which I'll be happy to talk about during the call.

So having said this, on an overall basis, we are reasonably pleased with our performance relative to industry. And more importantly, strategically we continue to focus on our direction that we are taking as a company, including premiumization initiatives, stepping up our product offerings and a brand repositioning which we've done very recently. And I'll be happy to talk about that.

With that back to you. Thank you.

Moderator: [Operator Instructions] We have the first question on the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: Sir, just couple of questions. So historically we've have been talking about market share gains and filling up our presence into larger cities and lowering our dependence on rural markets or probably smaller cities and towns. However, when we look at the numbers, probably even like most of the peers have reported that numbers, probably we should have ideally done better on the consumer side. So probably can you highlight because especially in your first quarter con call also at that point of time, the demand was far better in rural markets. So probably where we slipped actually versus what you guys were internally expecting?

Anuj Poddar: So, if I may be candid, I don't think we've slipped. The rural economy, Tier 2, middle class, even in urban, the non-premium segment is witnessing weak demand. That is a common comment you'll see across our industry and other sectors or other industries also. Clearly Bajaj is not a premium brand today and therefore our contribution from non-premium is much higher and from rural is much higher. Given both of these, the non-premium and rural is seeing weaker demand, it is natural that its impact to us or the headwinds for us are higher. So, if you factor that in, I don't think we've done badly.

Number two, there are anecdotal data points we look at different cards, for example, fans, if you look at, our fans degrowth is about 7%. If you look at industry, most of industry has seen the growth in Q2 for the reasons of conversion to mandatory star rating regime, etc. But within that, the qualitative data points what we are tracking is product mix, for example, in fans our contribution from premium fans was about 6% of our revenues in the past, which is up to about 19%. We've seen that traction in the marketplace in counter share, etc. in segments or categories accounted where we are not available. Similarly, on mixers, we look at certain cities, we've seen that expansion.

So when you look at various primary research reports that we track, we are seeing positive momentum on market shares on this journey towards premiumization and on our counter shares across urban India. But the way that math adds up, given the softness and the weightages that we have, that's the only impact that you've seen. But we are not really seeing that at a qualitative level.

Manoj Gori: So based on this, should we assume that probably whatever quarters we have gone by, Q1, Q2 and probably next couple of quarters as well this should be considered as a very soft base or a favorable base for next year. And accordingly, the growth next year should be extremely strong. Probably the efforts that we are taking at the company level and also the favorable this like at some point of time entry level demand should pick up?

Anuj Poddar: Yes, so again, three things I would make. One is in the shorter term, which is starting Q3, margin should improve, because this quarter even on margin is seeing the impact of some of our legacy higher cost inventory. So first pick up that you'll see in margins start in Q3. I think Q4 onwards margin will be further bullish when demand in consumer situation improves.

We should start seeing more growth in general. And more than that, next fiscal, as results of all the various things that we're doing, including the production expansion, penetration into premium segments, etc., that should add further delta to our cycle. All of these are three tailwinds that we see in our favor.

Manoj Gori: Right. So should we take, like if you look at the consumer product segment where margins actually have contracted by roughly around 300 basis points, so probably from 3Q onwards we can expect some improvement over there on Y-o-Y basis and obviously on sequential basis. And accordingly, margins should move northwards from the current level?

Anuj Poddar: Yes, so margins will move northward to that point that you mentioned that our margins have contracted 300 basis points. If we compare that to our peers, our contraction is least I would say, okay? That's because we managed to hopefully navigate that slightly better. Though on absolute, say, it may catch up but the gap has become narrow versus competition.

So that's both a mix of not focusing our costs better, but also starting to realize slightly better So therefore, I think going forward, where I see margin expansion has been for us is for certain FLM expansion, FLM is gross margin. So as the cost structures become better of our goods, we do see those margins come down, clearly a northward movement in that.

Manoj Gori: Sir, last question -- I may have missed, first one, just to understand on the fan side, like how things are shaping up with regards to the change in energy norms. So probably what would be the overall impact on Bajaj Electricals given that we have lower exposure on the mass premium and on the premium side? So what would be the overall thought process and strategy for next probably 12 to 15 months if you can highlight?

Anuj Poddar: So firstly, I think the next, this quarter, which is Q3 and next quarter, Q4, we will see a lot of volatility in the fans industry because of this conversion to star rating regime. While it is rolled out and notified from first July, '22, it will be enforced strictly from first of January '23 in terms of no more sales, I think any of us branded manufacturers from first of January '23. To that extent, you will see a certain strategy, movement of all the non-star-rated fans getting liquidated or sold by 31st December.

And to that extent, some of the impact in the trade channel which you've seen in Q2 also will continue in Q3. Different players will respond differently or react differently. So there is certain amount of destocking happening in the channels etc. And there will be some amount of discounting as that goes on to 31st December. We'll see how each player deals with that, including ourselves. We are going to be very dynamic on that front. From first of January when the star rating kicks in, there will be a certain price enhancement.

So the star-rated fans will come at a slight higher cost. I do think that while all of us will move to star-rated fans selling on primary sales basis, for another six months thereafter the market will see both of these continue. There will be non-star-rated fans that are existing in the marketplace that price-sensitive or certain consumers will continue to buy, and there will be a large chunk of consumers that will gradually move on to star-rated fans and be willing to pay that premium. In that layout, I think you will continue to see some volatility and distortion into how the fans market behaves in the coming summer season. But your question of 12 to 18 months, I think all of this should start stabilizing by around June '23.

And there on, I think you will see greater consolidation in favor of the top five, six organized players, including Bajaj. We are very much prepared for the shift to star-rated fans. Our products are ready and this is also along with our journey of premiumization. So you are seeing that happen across, like I already mentioned in my opening comments, our contribution of premium fans is enhanced.

We will continue to see a greater value gain for us, market share gain for us, and an increase in ASPs and therefore margin expansion for us in the fans category. So all of these three or four metrics will improve for us.

Moderator: [Operator Instructions] We have the next question from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: My first question was, would it be possible to upgrade the consumer products in terms of volume and pricing, what has been the volume decline and the price increase or decline if you could for the consumer products?

Anuj Poddar: So Achal, we can't give that out. But if you see total consumer ex-lighting is about 2.5% decline. So clearly the volume decline is more because this is after factoring in price increase. And that's the general commentary we're saying, that volume decline across consumer sectors has been like you said.

Achal Lohade: Second question was with respect to what is the extent of cost reductions we have seen until now? How much has cost passed on or as you speak. So how do we look at that? Because if the cost is getting reduced, which is getting passed on, it can impact the revenue growth and therefore volumes are -- you are able to offset that through volume increase. If you could give some clarity on the same?

Anuj Poddar: So my personal view is, firstly, the cost reduction is fairly healthy. So all of us have benefited or will benefit from that as our inventory churns out across commodities, except for oil, which is in paper which is not that much lower, but most of our core metals, etc., is lower. In Q2, I believe all of us could have had slightly higher margins, but there are one or two players that took some pricing decisions to reduce price and pass on that cost reduction, which I'm not sure was the right decision to take, okay?

And the reason is because I don't think that has, in this environment is not seeing demand elasticity, where you've taken a cost reduction that has not translated to volume growth. Therefore, I think there will be a lesson in that. Hopefully, in Q3, etc., we will not now pass on further price reductions. At least Bajaj will not be passing on further price reductions, etc.

We would rather protect margins in a situation where price reduction is not leading to volume growth. So I think that's the balance that we have to strike, but we will be slightly more cautious on passing on any price reductions at this point in time. I don't think industry also has -- like most of the Quarterly results that you see across the industry, I don't think industry also has the wherewithal to reduce prices. So I think that will be a healthier direction for all of us to follow.

Moderator: Thank you. We have the next question from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: I just have 1 question right now. So we understand that the entry-level products have seen the worst intensity of demand due to inflation. And apparently, the mid and the premium range have not done so badly apparently. I see your market reaches have actually seen a sharper 25% drop. So I just want to understand what has really transpired in this specific category. And your thought process on this entire market placement that you intend to do? So that's my first question.

Anuj Poddar: So Rahul, I'll try and explain that. You're correct on asking this question. You have to understand also leader brands were long-tail brands, okay? So if I take -- if you're a overall large brand who has a more premium position and premium range of offerings, those are the ones that are secure in this market, because they are yet the once in a weak market environment that are getting stocked and then getting purchased.

Morphy Richards is a premium brand with a more niche brand, and therefore a relatively longer tail brand. So that's not the one that typically is the first point of stocking for retailers, etc. That's a generic answer I will give it to you.

Number two, more strategically for us in Morphy, like I've explained in the past, we've just signed in the recent past, a 15-year license renewal deal that runs into 2037. Till this point of time, Morphy was a more tactical approach for us as far as product offerings, product development was concerned. We were not really creating a strategic product road map and developing our products that are catered specifically for the Indian market.

With this deal in place, we are now on a journey where we are creating a very tailored self-developed Morphy product road map that you will see play out over the next two years out. So from one year out to about two, three years out you'll see that play out. As that starts happening, I think we'll have a far more targeted range of products under the Morphy brand that are yet premium, but customized for the Indian consumer and distinct from the Bajaj brand. As that happens, along with that, we're going to have a far more targeted Morphy brand strategy. Some of that you've seen play out right now. We've got a first new identity campaign of Morphy Richards that's Happiness Engineered. We've included one slide on that in the Investor Deck.

So that's just setting the stage for us to look at the Morphy brand very differently strategically, both at the product and at the brand level. So that journey for Morphy will be different. Today, Morphy is caught between both the things. It does not have a strategic footprint or road map or direction for it, and is a niche, premium but niche part that does not get the benefit of this current environment.

Rahul Gajare: And is it right to expect that Morphy Richards will cut across all the categories that Bajaj is catering to? Is that something that…

Anuj Poddar: No, so there will be, without revealing it all, it will not be all, but Bajaj will cater to more categories, but there is a higher overlap today going forward, the overlap will reduce over the next two, three years as we come out with this product roadmap that we are working on. So there will be some unique categories in Morphy's that do not exist today either from Morphy or Bajaj.

Rahul Gajare: The last question I got…

Anuj Poddar: I'll give quick examples, and I think we've shown the garment steamer in the Investor Deck, that is there, coffee maker. These are currently two really exclusive categories to Morphy. But just to give you an example of categories that Morphy will more focus on and grow out, which Bajaj may or may not do.

Rahul Gajare: The last question, I just wanted to touch upon the lighting business. I see that you've done well on the lighting business, there is limited decline. And I think very good improvement on the operating performance. Are there any one time benefits which are sitting over here or these are the kind of margins that you would expect in the lighting business?

Anuj Poddar: So what has been the lighting business, it is a separate BU now that consolidates the consumer lighting and the professional lighting. The consumer lighting actually has degrown in Q2, but I'm not worried about that because that's part of the transition where we're changing the sales team, go-to-market, creating fresh distribution partnerships, etc.

So there's a little pullback because of that. I think that should normalize by December. Post that, you'll see strong growth in the consumer lighting business also, both on the back of new products, some of which we've show-cased and on this whole restructuring of the distribution stabilizing and falling in place. So once consumer lighting also kicks into growth, you'll see even faster growth. Right now -- the numbers right now, despite the degrowth of consumer, but back side of professional lighting growth, that's in the top line of lighting.

On the margins, etcetera, we expect margin expansion both in consumers and professional lighting and therefore overall basis also we will see healthy margin. Our ratio currently is a mix of professionals to consumers, slightly more professionals. Therefore, the blend is slightly lower. As I think professional will continue to expand margins, but as consumer lighting grows over the next one, two years, that will kick in with healthy double digits. So from here on, our margins in that should keep growing also. So just to summarize, you will see top line growth from Q4, I would say, in lighting business.

Along with that, as the mix gradually changes towards consumer, you will see margin expansion in both. And with the mix becoming favorable, you will see more exponential margin growth in overall lighting. I just want to add a statement, that's one core reason why we carved out lighting as a separate BU, to bring lot more focus and growth in that segment. And it will be a value driver for us going forward.

Moderator: [Operator Instructions] We have the next question from the line of Arun Agarwal from Kotak Securities.

Arun Agarwal: Sir, could you just also touch upon how the appliances demand is panning out at this point in time? And also if you could just help us how your festive season this time has been as compared to last year?

Anuj Poddar: Appliance demand is a mixed bag, like I said in earlier commentary, Q2 was a tough quarter. I think Q3, because of the festive part, has started off well. But I think on both sides of the festive, I think, is relatively slightly a little mixed bag that we've seen. I'm yet hopeful that you will start seeing improvement in demand situation from here onwards.

One of the best data points that I have seen recently is the CMIE jobs data, I think this morning that I read that they've come out yesterday. And that's important because a lot of the demand right now, like I've been saying is being run by the premium, which is the upward affluent class that is not impacted, but it's important for middle class salary job segment to kick in on the consumer demand side. With jobs data looking good, I think middle class segment should kick in, so I think that will be a big boost to demand going forward. Lastly, is the rural boost. So I think demand situation should look good going forward. The tailwind to that will also be the margin expansion.

Arun Agarwal: All right. My second question, sir, is on the EPC collection you touched upon at the start of the comments. So if could you just help out how they have kind of post October? And what would be your capex plan this year?

Anuj Poddar: Yes. So EPC collection in Q2 was very low, while there's been some reduction in receivables as we put out, collection was very low. So our current performance is despite that. But post that, in the month of October, we've collected further close to INR 100 crores on the EPC side, with a healthy collection, and that's both brought down our receivables and enhanced our cash flow also. And finally, on capex, I think we continue to maintain current trajectory of capex. There's no big ticket capex. There is capex towards IT systems, moulds, tools, dies, certain capacity expansion will de-bottlenecking at our existing plans, but not any big ticket capex in the immediate, near future.

Moderator: Thank you. We have the next question from the line of Dhruv Jain from AMBIT Capital.

Dhruv Jain: So I had a question on margins. So in your opening remarks you touched upon utilization and how and also you've done some changes in the private front. So last four quarters, we've seen a margin sequentially going off and we know that in this year we've seen a lot of volatility in the industry. But say in FY '24 or FY '25, how are you looking at margins in the consumer business? Any thoughts there because you've given a very clear road map on the revenue side. So how should we think about the margins?

Anuj Poddar: So Dhruv, our margins will continue to expand. Traditionally we always said we should have 1 percentage point expansion in margins.. If commodities stay benign, if there's no sharp volatility or adverse volatility in commodities, I think we should comfortably beat that 1 percentage point margin expansion over the next two years in FY’25, because there will be certain normal expansion through our internal initiatives and a certain catch-up expansion because of the commodities cooling off, etc. So I think without putting a hard number there to read between what I'm saying, we should see healthy margin expansion FY'25 for us.

Dhruv Jain: Sure, sir. And if you could just talk about the brand change that you are looking to do? How should we think about it? And is there any significant change in the go-to market strategy right there? Thanks.

Anuj Poddar: So firstly the brand, and I've alluded to it in the past call, that we have been working on our overall brand architecture for the company in each of the brands. And the latest brand campaign that is Bajaj "Built for Life" is not a regular brand campaign, etc. It's a fundamental recreation of the new Bajaj that we are building out for the next many years to come. It's far more younger, far more aspirational, far more focused, far more sharply targeted and far more premium look, feel, attitude, etc., to that. And that runs across the gamut of creative, TVC, the digital campaign, the print campaign, etc.

Why it's taking time, why we are doing this? It's not just a brand campaign, our products will talk this language. So if you look at the products, etc., they're all reflecting the new Bajaj, which is far more better designed setting, better performance and engineering, etc., there's a lot of that has gone into that. For the next many quarters that you'll see, all our products will now mirror all the products under the Bajaj brand will now reflect this new brand identity and in terms of the consumer promise.

As we do that, I think that's going hand-in-hand with our journey towards premiumization. So I think the emotional connect of the brand with the urban affluent premium consumer will be much better with this new brand positioning. And the product both aesthetically and the performance engineering gone through these products. And you will see that roll out category-by-category, starting with water heaters. You'll see the water heaters campaign rollout in the next few days to a couple of weeks. And this will all build from this platform of Bajaj, Built for Life, give you a younger, more aspirational Bajaj.

As we start doing that, that's why we're confident both on our top line growth and margins as. This is only Bajaj that we're talking about. When we're talking overall brand architecture, we will be an organization, a house of multiple brands. The second brand that you will see that we positioned, which is the first flavor of that is the Morphy Richards one that like I spoke earlier, over the next two years, we'll have a product road map that will play out for Morphy Richards also. The third brand, I think some of that action you should see by end of next year, we will be on Nirlep, how we reposition Nirlep in the product offering that will come out under Nirlep. And from there on, we'll build on that. So the next two years, three years, we'll see significant action from us on brand and product side.

Moderator: Thank you. We have the next question from the line of Chirag Lodaya from ValueQuest. Please go ahead.

Chirag Lodaya: Sir, my first question was on demerger status, if you can just help us understand what is the status?

Anuj Poddar: Yes. So, Chirag, demerger is taking time. We are waiting approvals. We expect SEBI approval to come very soon. Once that's in, then we will be filing for NCLT. Our initial target towards our expectation or hope was that we will get it in the OND quarter. Now it looks more likely that we should have it by March 2023. That's our best estimate at this point of time.

Chirag Lodaya: Right. So if you get it by March, so by Q2 next year, demerger can happen?

Anuj Poddar: Yes, it can happen immediately right after that.. So effective date will remain 1st April 2022. The appointed date, which is when does it actually happen will be immediately after we get approval. So it could be as early as 1st April '23. I'm sorry. My team corrects me. So read my point and the effective date is the other way round.

Chirag Lodaya: And sir, second question was on consumer lighting. So you mentioned that by Q4 we should expect growth to kick in, consumer lighting business. If you can just help us understand what kind of product introductions we are doing, what kind of range expansion we have done and what kind of trajectory we could expect some intel?

Anuj Poddar: Consumer lighting traditionally, we had lost our space in terms of the LED transition. And then we had largely become a lamps player, etc.. We have not created value-added products, which we've been doing in the last two-three quarters, which is adding more battens, adding more panels, down lights, etc., and also upgrading or adding more value-added lamps. Again, we've showcased a few examples of that in our Investor Deck across this, how we are rolling out more value-added products and targeted products in consumer lighting. I do think we have some more catch-up to do on the product front and consumer lighting. Even post this, post Q2 and Q3 also we rolled out some new products as recently as last week. I think the journey of rolling out new products in consumer lighting, will continue over the next two, three, four quarters. And as that keeps happening, I think our growth in consumer lighting will outpace the market or industry, and our margins will continue to expand.

On the go-to-market front also, that's the reason we carved out the business effective July, more as the preparation for all of these product launches that we're doing. Our teams took time to create the sales team and go-to-market team for consumer lighting. I think we're 85% there. Therefore, the go-to-market in terms of on the ground in the field, I think by December that should be fully stabilized. So you will see an improvement in Q3 over Q2 on our go-to-market and revenues on consumer lighting. But you'll see the full benefits of that from Q4 on the go-to-market. And as we continue expanding products, the benefits of product and range expansion will continue thereafter.

Chirag Lodaya: Very clear, sir. Just extending this, what is driving confidence on margins? Because earlier expectation was from maybe high single-digit kind of margins in lighting, but we have significantly surpassed that number. So if you can just give what are the drivers which are putting this margin of 10%?

Anuj Poddar: So two things, one is consumer lighting as we're upgrading our products and getting better traction on that, there is a little better confidence in that. But the bigger confidence where the change in mindset has happened is in professional lighting. Traditionally, professional lighting till two years ago we were losing money. FY '22, we just about broke even. My guess was we will deliver 4%-5% margin in professional lighting, but we have been innovating on professional lighting also on products. And despite it being a tender-based business, which is typically low on margins, I think it's because of innovation, technology, superior proposition that we have managed to actually track the margin slightly better than that.

That said, I would put a little caveat to professional lighting margins because of the B2B tender-based business. For that to get to double digits will always be difficult. As long as we maintain a healthy single-digit on professional lighting and top it up with consumer lighting growth and traction being faster. So hopefully, that blended margins from being the high single digit, we should start inching closer double-digit margin on an aggregate basis too.

Chirag Lodaya: Got it. Very clear. Thank you and all the best.

Anuj Poddar: I'll just add to that, to give an example on my previous point on professional lighting, we've given one slide as an example of the stadium lighting that we've done. We've really innovated on that today. Today we do believe we have the best product technologically and from our financial cost proposition on stadium lighting. And that is something where we are able to deliver at better price point or cost point to the customer, but actually with a higher margin to ourselves. So if we can crack more such sweet spots. We are doing that across smart street lighting. We intend to do that across indoor commercial lighting, etc. As we target industry verticals, hopefully we'll try and get the balance right on this too.

Moderator: Thank you. We have the next question from the line of Nikhil Kale from Axis Capital. Please go ahead.

Nikhil Kale: The first was a housekeeping question. If I look at your other expenditure, including such on a Q-o-Q basis we've seen a decline, right, 8% kind of a decline, whereas sales are broadly flat. So is there anything to call out here?

Anuj Poddar: Let me just check. One second. I think that's ad spend, so last quarter was about 3.7%. This quarter it's 2.3% if I remember correct.

Nikhil Kale: Okay. Largely ad expense. So from an annual basis, what could be -- what kind of numbers are we looking at? I mean sustainably should we be somewhere around 3% or so on an annual basis?

Anuj Poddar: On ad spend, you mean?

Nikhil Kale: Yes.

Anuj Poddar: So 2.3% is low. Typically we've always guided that we'll be 4-plus percent. It will vary quarter-on-quarter. Q3 will see a jump up also for us. You will see a jump up in Q3 because we've done the brand relaunch. So as we do that, that is something we've done and gets the launch campaign on. So Q3 and Q4, you will see a jump up in ad spends, both because of brand launch in Q3. And Q4 typically is at the cusp of summer. So you do have the fans and cooler campaign that kicks in.

Nikhil Kale: And then the second question is more on your comment. I think earlier in the call you mentioned that going forward your stance would be not able to pass on price reduction in case you are not seeing any improvement in the volume side. But I'm just coming from, I mean, the current situation that you're looking at increase especially on the fan side, which will be a key product category for us. As you rightly mentioned, you could see a lot of volatility, you could see varying strategies taken by clear. So in that context, in the context that we are able, still not completely sure of how the demand kind of picks up. Do you think that maybe for some time more you could continue to see volatility in margin and the margin improvement could be slightly pushed out?

Anuj Poddar: So two parts to your question, one is on fans. I do expect some volatility on sales volumes and margins on fans, but that will be little more tactical and dynamic on response to market conditions and competition out there. I would think, like I said, , from the lessons of Q2, we will all learn that price is not the way to compete. There are many other ways to compete. But we will have to be tactical in that segment. That said, my comment on prices are more at a broader level across product categories across, and we do not see the need to take price cuts, and we will maintain that at least for most other categories.

And fan business is a smaller category for us here. Despite all of this, even if there's a fan price war of some sort, etc., we do think margins will improve despite that because of the cooling of commodity and the benefits on inventory. So I think that is secured for us. We don't see any risk to margin expansion.

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

Achal Lohade: What I wanted to check was, if you could help us with the spend specifically for the first quarter and the second quarter FY '23 in like-to-like for the last year?

Anuj Poddar: Yes, sure. So our spends in Q1 was INR 36 crores. And spends in Q2 is INR 23 crores. In last year, Q2 was also 23 crores.

Achal Lohade: The second question I had, with respect to the EPC margin, how do we look at this now, if it's not very much comfortably in positive territory, but the margin in this quarter we saw it closer to 8%, 9%. So how do we look at the margin from full year around we have to…

Anuj Poddar: Analytically look at very different consumer. There will not be linearity in that, and margins at 8%, 9% it is on a very low revenue base, etc.. I think the business has bottomed out. We are now going to get into a build space for EPC. So most of the legacy projects operationally closed, all the legacy problems are done. From here on the revenues and the margins of the EPC business will depend on the total business order book size.

If you look at the order book side also, I think March was about INR 800 crores, which are excluding illumination, which is now up to about INR 1,350 crores because we've got a fair number of orders in the power transmission business. I think directionally, over the next two-three years, we are aiming to build a consistent revenue run rate or order book size annually about INR 1,500 crores, INR 2,000, INR 2,500 crores. And I think that is achievable from what we have built out now.

The issue we'll have over the next one quarter or two quarters because we just secured some of these orders, the next one quarters or two quarters, the revenue will not kick in. It will kick in by, let's say, February '23, March '23 and into Q1 of next fiscal. Till that point of time, you may see a certain softness on margins because we do not, we need the revenues to kick in to contribute to margin there. So there will be some lumpiness, low revenues and profitability in Q3, Q4, but bounced back healthily from Q1 next year.

The important point, all these new orders that we're getting, order book that we're building now, we are very confident from our -- how we bid for it, the cost and price strategies, etc.. There will be healthy margin orders. Coming back to your original question, I do think these orders and these projects will deliver you 8% to 10% margins. But on a higher basis, and therefore, on a total absolute number, this will look very healthy from Q1 next year. And it also means that there won't be any further capital allocation to EPC business given the revenue…

Anuj Poddar: So we don't expect because also while margins have been carefully calibrated in this bidding, but also working capital and payment terms, etc., that has been very carefully calculated in all of these things. So plus minus INR 100 crores is fine, but this will not go to a very high INR 1,000 crores kind of a capital employed business.

Achal Lohade: Got it. And just one more question, if I may. If you could talk about is there any change in thought process with respect to the TOC, the way we were, we have been selling. Is there any change in thought process? Is it more tactical? Is it more structural medium-term change we've seen?

Anuj Poddar: So I think there are many layers to that, okay? I think TOC as a concept in terms of mainly inventory replenishment ROI for our distributors and stocking levels, that hygiene we will maintain. Where we are starting to become more flexible and tactical in certain product categories or certain market subsegments, etc., require certain different approaches. And where we find this constraining us, we are being a little more flexible on that. Two examples that I will give you, one is lighting business. Lighting business, even on consumer side was not conducive for TOC, was hampering us, and therefore we've revisited TOC and relaxed some of those norms, and we will see the growth benefit of that. We saw some of that in Q4 FY '22. And as well, I said, as I don't go to market changes, we will see the benefits of lighting outside of a TOC approach.

The second thing we are start seeing that is in the fans business, as the change happens to regime of start-rated etc.. These are points where these normal rules don't apply. So you have to be far more tactical in go-to-market, we will take those calls. So the guiding principle for us finally will be what is better for business and what will drive growth for us. We will not be constrained by anything on that front.

Where we will not let go the benefits of TOC, the penetration method has given some reach that has given us. So that is benefit that are there, that are secured and we'll continue to have the benefits of that in terms of our model of direct piece countered. But other tactical elements of that, we'll be flexible on that. So net-net, what we're saying, we see the benefits of that, secured that, but where there is a tactical go-to-market on certain categories, on certain urban centers, that will not let TOC come in the way offset.

Moderator: Thank you. We have the next question from the line of Anirudh. Please go ahead.

Aniruddha Joshi: Sir, two questions. Sir, now Mahindra Logistics almost, I guess, two years are over. So if you can indicate the actual benefits received by the company in absolute terms. I mean, given that you indicate the free term benefit that the company would have enjoyed or any additional benefit in terms of that qualitative benefit that you would like to share? Point one. And secondly, sir, if you can indicate the market share across categories for the company at the end of September? Yes, that's it.

Anuj Poddar: I'll keep my comment very brief. I don't think we've realized the full benefits on the logistics front. I'll keep my comments limited to that. But we are working on that. We will keep working on that. So hopefully in the coming one or two quarters we'll have more specifics to share with you on that front, yes. I'm sorry, the second part of the question, you mentioned something about categories? I didn’t catch that.

Aniruddha Joshi: Market shares of key categories at that…

Anuj Poddar: While we don't publish market shares, we do believe we've gained market share, continue to gain market shares. In fans in particular I've called that out in the past. We have been gaining market share, particularly premium fans which is important for us. In appliances too, when we look at the sub-segmental level, geographically, we are gaining share because of the mix, power mix of urban versus Tier 1, 2 towns versus rural. It optically seems that we're not close a couple of players. But if you look at a three year CAGR, that's why I called that out. Our consumer business has grown at 14.3% on a three year basis. To compare that with competition, overall on an aggregate basis, we have been gaining share.

Moderator: Thank you. We have the next question from the line of Amit Kumar from Determined Investments. Please go ahead.

Amit Kumar: Just really one question. You talked about in the EPC business, now you will be looking at new business. So this will be primarily focused on India. Are you looking at any sort of international market share and well how does this sort of play out?

Anuj Poddar: So this will be a mix. It will be predominantly India, but there's certain amount that we are doing in Africa we've done over the last one year or two years. We've had a good experience in Africa, primarily East Africa, where good experience both in terms of project execution closure, ourselves with our team and with the subcontractors, we've got a good experience there and we got a good fix on that.

Secondly, even in terms of payment realization, etc., we've had a positive experience in some of these geographies. And third, in terms of profitability, these projects have been close profitably and on profit for us. That gives us the confidence to bid a little more for that. So we are doing that in the international markets, but predominantly in the same regions where we had a good experience, and we have some teams on the ground and our ability to execute that.

That said, beyond the point, we do not want to scale that up. We want to keep that at a certain finite absolute value. So that's our strategy. But we believe that will be value-accretive to us. The only other element we may look at in international market is pure supply. So pure supply, we think we can supply to wider geographies, even though we are not going to execute on all geographies. That is something we're starting to explore. We have not yet formed up a specific time on that.

But supplies, we believe are risk-free compared to project execution. Coming back to India, I think India will remain probably 80% or 90% of our total business contribution for the EPC business. Within India also, we are being very strategic in terms of projects that we accept, either in client or particular states that we work with or the terms of the project and the bidding that we enter into.

Amit Kumar: Just one small follow-up. When you mean supplies, you're talking about LEDs, you're talking about which segment?

Anuj Poddar: I was answering in the context of EPC. So it's poles or some of those things, towers, etc., so supply there is a risk-free contract. I don't have to worry about geography so much. I get paid and I supply. And the execution in the international market, and I need to be more confident that I have the execution ability on ground and the quality of subcontractors and how long it will take. So therefore, in execution, we are going to be very focused and limited. And supplies, this is a more speculative comment. We are open to exploring that, but we'll see what options come our way.

Moderator: [Operator Instructions] We have the next question from the line Rakesh Roy from Indsec Securities & Finance. Please go ahead.

Rakesh Roy: I have only one question, sir. Sir, one question is regarding, sir, when we say that the fan business is impacted by, sir, new norms, sir? This is implemented from 1st February. So how much stock we have at dealer level because it's not happened, what happened to -- we have to write-back or what happens, sir?

Anuj Poddar: No, sir, our stock, I would say, is not something out of control. It's at very much manageable levels. We do have a plan from now till December also. How we're going to deal with that so I'm not overly concerned about that. But at our end and as well as in the chain, yes.

Rakesh Roy: Okay, sir. And after the normal implemented, how much price hike compared to normal fan, sir, generally, sir.

Anuj Poddar: On a like-for-like category of fan segment, I think the price hike could be anywhere between 15% to 20%, yes.

Moderator: [Operator Instructions]. We have the next question from the line of Jiten Doshi from ENAM AMC. Please go ahead.

Jiten Doshi: Hi, Anuj. Many congratulations for a good turnaround in the EPC. My question is just simple that in the entire program that you were talking about achieving over three years, you believe there is sufficient progress made despite the headwinds right now? And where do you think you have the journey?

Anuj Poddar: So Jiten, my thank you for joining and for your questions. And thank you for your words. We believe in that line, in the headline for us in this quarter also. I think the headwinds are there, the economy is tough. But if you look at our actions and our direction and follow through on each of these, that continues unabated, okay? And I just called some of those out again. The EPC turnaround which we've been talking about for the longest time, both not just internal receivables but on bottom line, and now the way the order book is shaping up, that is trending very well. It makes us very confident. That whether in this company post demerger, separate company, the outlook for that business is very healthy. We're very confident about that, number one.

Number two, if you look at the other structural changes that we've done and spoken about, the lighting business carved out as a separate focus, the team changes that we're making there. We're starting to see the results of that right now. We've seen that on bottom line. And like I said, top line, in fact, this is despite some of the changes, we are very confident that we'll see top line growth also in the lighting business in the coming few quarters and couple of years. There, again, in fact let me headline, I didn't say that earlier. We were probably a No. 7 player in FY '19 and moved to No. 5. Now we're No. 3 player. We're clearly gaining market share and ranking. We will keep making those strides.

Lastly coming to the consumer business, that is of course the largest most complex part of our business. But all these changes that we've been making, most recent being the brand and the product push. Hopefully, you've seen some of the campaign around that if we start seeing that, that will give you a little flavor of the aggression we've planned for the next two years, three years. Like I always say, we are just starting out last two years, three years, have been really a lot of focus on cleaning up legacy corporate structure, these restructuring issues, etc.. The next two years, three years are completely focused on operational excellence and aggression. In all of this that you've seen on the product and brand front is just the start of that. In next two years, three years, you will see the benefits of that. We are very confident about that.

Jiten Doshi: So you are absolutely on track as far as your long-term goal is concerned?

Anuj Poddar: Absolutely, yes.

Jiten Doshi: Right. And to compare yourself with the best-in-class, which is the margins that were experienced by the top player.

Anuj Poddar: Yes, absolutely.

Jiten Doshi: Fantastic. You're doing a great job. Keep it up. Many congratulations, and all the very best to you, Anuj.

Moderator: Thank you. We have the next question from the line of Manoj Gori from Equirus Securities.

Manoj Gori: Sir, just a follow-up question. Like you just mentioned about the price hikes will require 15% to 20%. But when we understand, when we go through the commentary from some of the peer, so few players have been talking about 5% to 8%, you guys have been talking about around 8%. Can you throw some light, like what exactly gives this change within commentary, especially the organized space on the fan category?

Anuj Poddar: So sir, I'm not clear, if you're talking price hike or the cost differential between star-rated and non-star-rated fans. The 5% to 8%, I don't think anybody will say the cost differential is only that much. So cost differential on a like-for-like similar specification product that is star-rated will be between 15% to 20%. And the way to right now…

Manoj Gori: So my question is for the price hikes, yes.

Anuj Poddar: So that's what I'm trying to differentiate. The price hikes, I'm not talking 15%, 20%. In fact, my view is you will not see price hikes in our industry over the next coming few months. The 15% to 20% that I referred to is the cost impact and the implication or impact of this move to star ratings for fans in particular. There that will -- nobody can escape that. That is the price differential between a high star-rated fan versus legacy non-energy-efficient fans. There again there will be tactical moves where not everybody will gravitate. When I say everybody, consumer will gravitate to 10%, 15%, 20% more. So you will have fans of various technical specifications that will not give you the maximum energy efficiency and will compromise on -- be able to manage lower prices.

But on a like-for-like, to give you that is what my answer was, that is a 15%, 20% delta on the technical cost of delivering a fan. Was I able to clarify? Price hike is a different aspect. This is a cost impact of a conversion to star rating. And your premium fan today which is non-star-rated, if you buy the same premium fan, the price cost impact will be 15% to 20%. But you could provide that person a slightly, what should I say, stripped-down, slightly lesser premium fan and therefore so 15%, 20% cost impact to that person he may settle for a 8%, 10% incremental price with slightly lesser decorated feature, but higher on the star rating. So there's many blends that will happen.

Manoj Gori: Right. So it should be somewhere around 5% to 10% for the industry, from player-to-player there would be some difference.

Anuj Poddar: So there will be many things that play, forces at play. I do think, and that's my earlier commentary, till June '23 you will see a lot of volatility in all of these areas. Consumers also, the government we may move to star rated on 1st January, not all consumers will shift to that. So there will be stock of non-star-rated fans in the marketplace and consumers will continue to buy. But in the medium to long term, that shift will be 100%. In the short term, it will be a blended market.

Moderator: Thank you. That was the last question. I would now hand it over to the management for closing comments.

Anuj Poddar: So actually my closing comments were meant to be on strategically we are very firm on where we are going. Directionally, we are delivering on all of these things. From an action point, we are, as we say, constantly taking those actions and meeting those, or should I say matching up to the direction that we are promising. I did elaborate on some of that in my response to Jiten bhai, so therefore I'm not repeating that. But I would just wrap it up by saying that in a tough environment, we remain very focused on execution and on delivering our performance. And we are confident about continuing to do that. Thank you very much.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.