

Crompton

Crompton Greaves Consumer Electricals Limited
Registered & Corporate Office: Tower 3, 1st Floor,
East Wing, Equinox Business Park, LBS Marg,
Kurla (West), Mumbai - 400 070.India
T: +91 22 6167 8499 F: +91 22 6167 8383
W: www.crompton.co.in CIN: L31900MH2015PLC262254

Date: July 28, 2022

To, BSE Limited ("BSE") , Corporate Relationship Department, 2 nd Floor, New Trading Ring, P.J. Towers, Dalal Street, Mumbai – 400 001.	To, National Stock Exchange of India Limited ("NSE") , "Exchange Plaza", 5 th Floor, Plot No. C/1, G Block, Bandra- Kurla Complex Bandra (East), Mumbai – 400 051.
BSE Scrip Code: 539876	NSE Symbol: CROMPTON
ISIN: INE299U01018	ISIN: INE299U01018
Our Reference: 70/2022-23	Our Reference: 70/2022-23

Dear Sir/Madam,

Sub: Disclosure under SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015 – Transcript of Earnings Call)

With reference to our earlier intimation regarding the Earnings Call on the Unaudited financial results for the quarter ended June 30, 2022 held on July 25, 2022 kindly find enclosed the transcript of the same.

You are requested to kindly take the above information on your record.

Thanking you,

For Crompton Greaves Consumer Electricals Limited



Pragya Kaul
Company Secretary & Compliance Officer



**“Crompton Greaves Consumer Electricals Limited
Q1 FY2023 Earnings Conference Call”**

July 25, 2022

ANALYST: MS. RENU BAID - IIFL SECURITIES LIMITED

**MANAGEMENT: MR. SHANTANU KHOSLA – MANAGING DIRECTOR -
CROMPTON GREAVES CONSUMER ELECTRICALS
LIMITED**

**MR. MATTHEW JOB – EXECUTIVE DIRECTOR AND CHIEF
EXECUTIVE OFFICER - CROMPTON GREAVES
CONSUMER ELECTRICALS LIMITED**

**MR. YESHWANT REGE – VICE PRESIDENT, STRATEGY
AND FINANCIAL PLANNING - CROMPTON GREAVES
CONSUMER ELECTRICALS LIMITED**

July 25, 2022

Moderator: Ladies and gentlemen, good day and welcome to Crompton Greaves Consumer Electricals Limited, Q1 FY2023 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Renu Baid from IIFL Securities Limited. Thank you and over to you Madame!

Renu Baid: Thank you, Aman. Very good morning, everyone. On behalf of IIFL Securities, I would like to welcome the management of Crompton Consumers for the 1Q FY2023 earnings conference call.

Today, from the management we have with us Mr. Shantanu Khosla, Managing Director; Mr. Mathew Job, Executive Director and CEO; and Mr. Yeshwant Rege, Vice President Strategy and Financial Planning.

Without taking much time, I will now hand over the call to Shantanu for his opening comments. This also is the first quarter where the entire results of Butterfly are consolidated with the financials of Crompton. Over to you, Shantanu! Thank you.

Shantanu Khosla: Thank you, Renu and thank you everyone for dialing in for our quarter call. Firstly, of course, on health and safety, all our employees are safe and sound. I am pleased to report, we have essentially vaccinated all our employees and have initiated booster camps at all our plants and offices. We have conducted supporting sessions focusing on mental health and well-being with the aim of cultivating a positive work environment. So, our focus on first and foremost making sure in the challenging times that our employees and their families plus other stakeholder stay safe and health continues.

Our consolidated revenue for the quarter was Rs.1,863 Crores, registering a growth of 77% year-on-year. EBITDA on a consolidated basis grew 76% at Rs.220 Crores. Standalone revenue for the quarter was Rs.1,608 Crores, registering a growth of Rs.54 Crores, EBITDA was Rs.194 Crores, which was a growth of 58% year-on-year.

Of course, it is important to note as you are all aware that the previous-year base period was a COVID period and therefore was a low base period.

Today, I would like to start with updating you briefly on the Butterfly acquisition. In the last quarter, we completed the open offer process of the acquisition of 26% stake taking our total shareholding to 81%. The tendering period for the open offer commenced on May 23 and concluded on June 03. The new management has fully taken over and the business is transitioning smoothly. Synergies identified as part of the integration plan are under implementation and obviously something which we review regularly through our PMO, and

the initial results are encouraging. Going forward, the focus would be to further expand the business into non-south markets as it will be a key value creator for which we plan to initiate the work as we move forward. The overall performance of Butterfly was encouraging in the first quarter and quite strong. As communicated by the Butterfly management, Q1 witnessed strong growth across all categories and channels as well as the rebound in profitability. Business clocked a value of Rs.253 Crores, which was a growth of 86% versus a year ago, recording all-time high sales for the first quarter.

EBITDA stood at Rs.26 Crores, which grew 3.5 times and EBITDA margin was 10.2% versus 5.3% versus year ago. The management believes that the growth in revenue and margins is being witnessed on lines that we had forecast and expected, and we do see this level of margin as a going level which is sustainable.

The second key event over the quarter was obviously the entry of Crompton into an entirely new segment. Working towards our long-term strategic goal, we entered the built-in kitchen appliances segment with a comprehensive range of chimneys, built-in ovens, built-in microwaves, and dishwashers. The kitchen segment has always been an area of focus for the company. The entry into the built-in appliance segment will further consolidate our position in the kitchen space in addition to driving growth in premiumization of the brand.

We undertook extensive consumer research to identify unmet and underserved requirements of the consumer, and that was the starting point of the design of all our propositions. Based on these insights, we believe we are launching a truly differentiated product range, which will be of high relevance to the consumer. We have already set-up 17 premium exclusive brand outlets called Crompton Signature Studios till date and have a robust marketing plan and have established a strong after-sales network to ensure end-to-end superior experience for the buyers. Built-in kitchen segment is Rs.2,200 Crores approximately, which is growing at 10%. Our objective is to become a top three player in this segment in the coming three years. With the acquisition of Butterfly Gandhimathi Appliances and entry into this built-in segment, we are significantly upping our play in the strategically important and high potential kitchen space.

Moving on to the CGCEL business, in terms of revenue, the growth momentum of March 2022 continued in quarter 1 with strong growth across segments and channels. Revenue for the quarter was up 54% versus last year. ECD grew 52%, net of pumps ECD grew 60%. Our pumps business continues to face some challenges, especially given the pricing that we have been taking to compensate for the inflation. Appliances exhibited industry-leading growth of 98%. The growth momentum was across categories, especially air coolers. If you recall this is the first summer we had after two summers being wiped out due to COVID and we have now put in our delayed program on air coolers into the market, similar to what we have done on geysers a few years ago. And in this first season, it has responded extremely strongly with air coolers demonstrating a volume growth of 209% and the value growth of 218%.

Lighting revenue grew by 61%. The growth momentum continues in B2C LED business, which grew at 82% driven by battens and panels. On battens, the volume growth was 90% and the value growth, 80%. Panels and downlighters volume grew 64% and value at 96%. B2B business grew by 48% as the businesses were actually recovering and picking up. On a rolling 12-month basis, we continue to improve our market share and have improved in fans by 2 percentage points. Over the last two years, Crompton is the only company to have gained market share quarter-on-quarter both in premium category and overall fans category. Just to repeat and remind everyone, when we report market share, we report market share based on third-party retail audit data.

Moving on to profitability. After an unprecedented increase in Q4, the commodity prices started cooling off from the latter half of May. However, we expect the main benefit of this to begin to flow-in in Q2 due to the existing inventory levels, which were already with commodities purchased at higher prices. We have been focusing our efforts as we always have on quarter-on-quarter in improving margins through accelerated cost savings, through Unnati program, premiumization and pricing actions. The structural margin actually improved by about 100 basis points, EBITDA versus year ago. EBITDA margins came in at strong 12% despite aggressively continuing our investments. For example, we doubled our ad spends this quarter to Rs.40 Crores. Additionally, we committed cost towards the initial successful launch of our built-in kitchen appliances segment.

We continue to invest in people and process capability in our innovation team and strengthening investments in our alternative channels. During the quarter, we also completed the open offer process for Butterfly Gandhimathi and associated costs pertaining to the process have also been accounted for. Exit margin coming out of the quarter was back at FY 2022 levels and we expect to sustain this as commodities gradually ease moving forward. We continue our focus on our key strategic investments. We doubled our ads spends in advertising where we executed several campaigns, TV ads, etc. In Q1, we incurred an all-time high Rs.45 Crores of A&P expenses.

On working capital, we invested and maintained high levels of working capital to the tune of Rs.112 Crores on account of business seasonality and as we have talked before, advances for securing materials at favorable rates. We do expect this working capital to return to normal levels in Q2. Our cash position stands at Rs.605 Crores for the period ended June 30. Rs.673 Crores was utilized for the open offer process NCD payment of Rs.150 Crores and repayment of short-term borrowings of Rs.125 Crores. Our balance sheet continues to be strong, and our ratios continue to be healthy.

As mentioned earlier, we are continuing sustainably and consistently to invest in our key strategic choices. On brand excellence, we have made consistent efforts to reach closer to consumers through our wide-ranging activities across various touch points with the aim to strengthen the brand awareness and conversion. Given the importance of the digital platform,

our structured digital strategy is helping us to drive more and more traffic and discoverability of our brands.

In Q1, we executed a strong campaign on SilentPro fans and air coolers with the aim of ensuring presence across different high-impact mediums in order to drive an integrated marketing campaign. Also, we collaborated with well-known influencers on YouTube to communicate the product benefits. In one of its kind, we set up the Crompton cooling pod operating #JaldiCooling to delivery agents with a thought of working towards meaningful innovations that provide comfort and convenience to our Crompton families.

We continue to invest in developing products driven by consumer insights and future technology, ensuring superior quality and performance. Our continued investments in R&D have contributed to increasing our market share. We are constantly investing in process, people, and automated equipment to improve new product development. On go-to-market, our strong presence in alternate channels continues to pay dividends. Contribution of alternate channels to overall sales has increased to 12% versus 9% last year. Rural and L&I business exhibiting strong growth for consecutive quarters, a combined 166% growth versus year ago. Improving reach is another key focus area for the company and we continue to increase this across our categories. On a rolling 12-month basis, fans have improved its reach to stores by 2%, LED panels by 2%, and water heaters by 3%.

Of course, it is important to know that while there has been some pickup in industrial activity, the challenge of inflation and demand remains. We are seeing across the board that there is gradually a continuing impact of this inflation, and we need to watch it closely. Though commodity prices are beginning to ease-off, we judge that it will take some time before this actually translates into inflation easing off and getting a positive impact on demand.

The government's capex push will be a positive for the infrastructure and construction sector going ahead. Healthy growth in bank credit and improvement in capacity utilization levels also point towards gradual improvement in the overall investment scenario. As we move forward and as we see commodities begin to gradually ease, if they do that on a sustained basis, we will continue to evaluate and pass-on benefits of this commodity cost reduction to the consumer to ensure the demand recovers and stays robust.

The Board of Directors in this meeting held on May 22, 2022 approved the quarterly results of the company for the quarter ended June 30, 2022. Total revenue for the quarter were Rs.1,608 Crores, consolidated Rs.1,863 Crores. ECD revenue stood at Rs.1,347 Crores, material margins stood at 30.7%, consolidated 31.4%.

I would like to stop here and address any questions that you may have. Thank you.

Moderator: Thank you very much. Our first question is from the line of Naval from Emkay Global. Please go ahead.

Naval: I have first question on built-in kitchen appliances. So, if you can share some target addressable market if I would have missed in your opening remarks? And second, in terms of distribution, if you can explain how distribution of sales happen for competition in this segment through EBOs, through online and through offline and what is our strategy in terms of next two to three years, how distribution could be different? So basically, I am trying to understand what is the right to win for Crompton over here in terms of product distribution and other aspects.

Shantanu Khosla: Let me take the first one. And I mentioned it in my opening remarks, currently the market size for chimneys and hobs is Rs.2,200 Crores. That is only for chimneys and hobs. This market is growing at 10% and our objective is to get to at least the number three position in this market within three years.

On your second question, let me take one part first and then we will get to the distribution. The key differentiating factor and what we call our right to win is based on meaningful consumer differentiation. So, every one of our products has a meaningful consumer benefit which competition does not offer. So they are not off-the-shelf products, they have been designed based on work we have done in the consumer and in our R&D center and designed on those specs. For example, and this covers across all products. If we look at our built-in oven, built-in oven has got an air curtain in the front. So when you open the door and there is something hot and steaming, the steam does not come out and burn your hands, it is protected and held inside. Our stoves, for example, have a specific feature, which is an automatic cut-off for safety. So these differentiations have all been tested to be consumer meaningful, in concept test, the data is significantly better than like-to-like competition and they have been designed into each and every one of our offerings. So that is right to win number one.

Mathew Job: On go-to-market, obviously there is going to be a variety of channels. Obviously, the EBOs are experienced centers where we are able to showcase our full range of products that is obviously in each of the top entities, that is going to be critical part. But we also have, for example, other channels, one is the kitchen dealers, then there are retail chains and online. And we have a clear strategy for all these different channel types. So we expect that all the channel types that I mentioned - EBOs, kitchen dealers which also have been MBOs, which is multi-brand outlets and E-com, all will play a significant role as we scale-up. And we have differentiated strategy for each of these channels, which will allow us to reach our ambition of getting to the top three in the next three years. Like Shantanu mentioned, the combination that every one of our products offered a significant consumer differentiation versus competition and the fact that we have worked out a strong channel plan, we are very confident that the combination of these along with marketing campaigns and so on and so forth will help us get to the top three position in the next three years.

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

Rahul Gajare: Thanks for the elaborate opening remarks covering most of the areas including value, volume growth. I have got two questions. One, we have seen a sharp jump in the employee cost. I just want to understand what has really gone in over there. Second thing is, with respect to the new built-in kitchen appliances, even given our traditional business has a margin in the range of 13%, 14%, what is your expectation on profitability of this new business. These are the two questions. Thanks.

Shantanu Khosla: The first one is, there are certain, if you will, one-time non-recurring expenses which have come this quarter in the people cost. One of the costs is based on the fact that our variable payout is decided by the Board based on our performance versus competition. This tends to be done obviously after competition results come out and therefore in the end of June some time. So we have provided less than what the Board actually provided. So that is a one-time cost, which has come in. The second thing on people cost you just need to remember is in the COVID period, last year was a COVID period, we had delayed increments and we gave increments in July. This year, we went back obviously to our norm of giving them in April. So, if you want to look at a steady state what it would be for the rest of the year, a number of somewhere between Rs.100 Crores and Rs.105 Crores would be the run rate, which we would be operating on.

The second question, which you had was margins, our expectations on margins on the new appliances business. We would expect gross margins to be in line with our other businesses and obviously in the initial years there would be some investments to build awareness trial and distribution, but as they settle down that could lead to EBITDA margins also in line with the rest of the business and not being dilutive.

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

Charanjit Singh: Sir, my first question is regarding the pump segment. We have seen that the weakness in this market has been for pretty long time, and we are also facing these headwinds in terms of pricing gap versus the competition. So, if you can touch upon the outlook for the pumps market, how our market share has changed and any specific SKUs we plan to launch, so that we can compete with them maybe unorganized segment? That is my first question. Second is also on the lighting. You have talked about B2B, B2G remaining weak. So how is the outlook turning out to be there and what steps we are taking for the lighting overall revival in terms of the growth? And if you look at the profitability also taken a hit in this quarter if you can touch upon that also. Yes, those are my two questions. Thank you.

Mathew Job: On pump, you are right. I think there has been a longer than normal slowdown because even in the past, you would have seen that pumps, as a business always had a period of slowdown once in three years. But this time the difference obviously has been compounded by the fact that there has been significant price increase over the past period. I think if I look at the pumps, the prices have increased nearly 20% to 25% in the last 18 months or so. So that has been the strength and that is not just for Crompton, but for the entire industry. And if you look at the results that most of the pump players have been projecting, there has been slowdown for everyone, okay. That is one. You also know the government has recently increased the GST rate on pumps from 12% to 18%. So obviously that is going to put a little more stress in terms of prices going forward. Our way forward on this is, there are certain categories, very important categories after considerable market research, we have decided that certain portfolio actions will need to be taken in terms of; one, it could be in terms of pricing, but also in terms of introduction of some newer SKUs to be able to manage the price pressure in the market. So a combination of the actions, we feel that will allow us to get back on the growth path in pumps in the next few quarters, that is one. In lighting, B2B trade business has started to pick up. In the earlier year, we used to have significant contribution of ESL. We do not expect that to come back. Our way forward in terms of the lighting growth is one, obviously to get disproportionate growth from B2C. We have been taking a lot of actions in terms of driving or slightly modifying our lighting go-to-market and we are happy to say that in the last two quarters, maybe our reach numbers have started to look up again, that was not the case for almost two years before that. So we see that in the short-term, in the next couple of quarters that will start translating into market share gain also on lighting. In terms of margins, I think the lighting structural margins are fairly intact. In quarter one, you would have seen the lighting EBIT itself has come down a little bit, because of stepped-up advertisement. We nearly spent 1 percentage point incrementally on advertising in the first quarter and there have been some provisions in terms of ECL provisions, primarily because of some slow down in payments from EESL and so on and so forth. So I am very confident that in terms of lighting structural margins, they are pretty much intact. Obviously, like I spoke for pumps, there is also in lighting, the GST rates have been increased from 12% to 18%. So there is some new element which we have to balance, but going forward, I think B2C is going to be the growth engine at least for the next few quarters. Thereafter, we expect the B2B demand to revise based on what Shantanu has mentioned in terms of government infrastructure and capex investments in highways and so on and so forth, but we think that at least in the near term, lighting growth will be driven by B2C and there our margins are strong.

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

Mayur Patel: Most of the questions have been answered, but just, is it fair to assume margin outlook from here looks relatively more benign given the 20%, 25% correction in most of the commodities which we have seen? And after that, if you can comment on the volume side, till-date for the industry, the price hikes have been driving the revenue growth despite flattish to negative

volumes in most of the categories. What is the volume trajectory looking like currently and how do you see that panning out with some commodity correction, is it more elastic on volumes?

Mathew Job:

Even if I look within the quarter, within quarter Q1, the margins have improved. In fact, in March, where we were in March and where we have been in June, I think the structural margins have improved month-on-month. So obviously some of the benefit of commodities started to ease-off, have started to come in maybe towards the later part of the quarter. Of course, now we have been making from assumptions in terms of how the commodity cost will fare going forward and the commodity cost do remain benign. Obviously, we think that we will also have passed part of that to the consumer, but we do believe that in such a case, the pressure on margins that have been there for some time should start to ease going forward. See, even in the quarter, let us look at if I look at the businesses that we have, barring pumps, okay, all the other have had even on three-year CAGR basis, I am not comparing with last year, because last year it was a COVID hit quarter. For example, fans, I mean if I look at the three-year CAGR was roughly 10%, half of which is volume and, I think volume growth is there in Fans. Most of the growth in both lighting and appliance have been volume-led. So the volume growth is extremely strong both on lighting and appliances. The only area where I feel volume growth has been impacted is on pump. And I already answered what we have planned to do to get that back on track.

Moderator:

Thank you. The next question is from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera:

Sir, my first question on the new category of kitchen appliances again, which we have recently entered, can you just highlight in terms of ramp-up probably city-wise which regions probably you will look to ramp-up and how gradual should we expect it to be. Will it be more back ended or we will start seeing some benefits coming from next one two quarters only. And second will be on the market share, if you can highlight in terms of where we are currently in terms of fans, air coolers and geysers.

Mathew Job:

On the new built in kitchen segment, currently, the plan is within the next couple of months to completely rollout into 10 city clusters, which is primarily all the key metros and areas around that. Our estimate of the potential is, 60% of the potential of the market which is Rs.2,200 Crores, 60% is in these 10 city clusters. We have already done seven out of this 10 already in terms of getting into those areas, but the plan in year one, we just launched starting May. So by May, June next year, we will have a presence in the top 300 cities in the country, which would pretty much cover more than 90% of all the potential that is there. Obviously, this is a journey, we are getting in, we are getting distribution, we are activating the marketing campaign, we are putting campaigns in places which will drive consumers to the stores. So obviously it is going to wrap-up over-time, but we are very confident based on the research we have done and the initial response we have received that we should be able to have a

strong performance going forward. Obviously, this is not a one-time activity. This is the first set of products, we have go-to-market. There is wave 2, wave 3, all of which is going to build our market share going forward.

Siddhartha Bera: Got it. And in terms of the priority, we have a target of becoming the top three player in this segment. So just to understand, how do you look at in terms of achieving the market share target versus profitability. Will you prefer to have a slightly stronger push in market share at probably slightly below average margins or do you think margin focus will also be very high when you phase-in growth.

Shantanu Khosla: The focus is on making sure that the gross margins are at target level. Obviously, as we are launching this, we will continue to invest below gross margin, but we will not sacrifice gross margin because that needs to be at target levels. The investments in marketing, the investments in distribution will be as what is required. Once we get to a going level, as we hit our objective of becoming number three, then we will begin focusing on getting the EBITDA margins also to target levels, but not in this investment phase.

Mathew Job: The way we have launched our product, we have priced competitively with respect to the leaders. Competitively does not mean, it is lower, but it is priced, in more cases on par, but remember that these are products which are having superior features versus the biggest competitors. So I think they are well priced and even at those prices, margins are at target level. So we see no reason to price them any lower and you would rather invest the margins that we are making to actually drive consumer traffic into our stores and so on and so forth.

Siddhartha Bera: Got it. Sir, last question on this market share in fans and air coolers and geysers, if you can share.

Mathew Job: Market share in fans is close to 28%, which is at all-time high. I think as Shantanu mentioned in his opening remarks, we are probably the only brand who have gained market share in every quarter in the last four years. So I think it has been all-time high. In fact, we have gained market share faster in the difficult period than everybody else. And on-air coolers, we do not have third-party data, because it is not measured by any third-party, but we are very confident on whatever information that we have that we have delivered industry-leading growth in air coolers in this season.

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

Keyur: Sir, question is growth for each of the categories, I think in the presentation also, you have highlighted that there is some slowdown at the end of June and similar commentary has been heard from many of the consumer facing companies. So any outlook on how the demand is

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shaping up for each of the segments like ECD or Butterfly kitchen appliances. So, if you can throw some light on outlook or a how the exit run rates were?

Shantanu Khosla: See, one, as you look at the impact there was at the back end of June, it is obviously important to remember that in the base period, June had begun to come back to normal. In the base period, it was really April and May, which was for us at least and the industry is severely impacted. So obviously on a state index versus a year ago, there is a big difference as you come into June. The only other way to look at it is if you look at now a three-year CAGR, because we have to go back three years to get pre-COVID base and if you look at a three-year CAGR on a consolidated basis, we are showing about a 10% to 11% growth and on a standalone basis about 7%-ish, 7% to 8% growth across it. So there is some impact which we are seeing in terms of demand slowdown as we move into this back, but it is a little difficult to read because of these base period impacts etc. Suffice to say, inflation is having an impact, I think especially on volumes and as I have mentioned before, this inflation has had an impact of volumes almost through the last three to four quarters at least. Now, hopefully as this inflation begins to settle down and commodity costs, hopefully if they begin to ease, then we fully intend to pass on some of those benefits back to the consumer to keep the volume demand coming back, but we have not yet seen a sharp uptick in volume demand once I ignore this base period. Personally, I think that is still a couple of quarters away because it takes some time for it to come back. So it is not getting worse. If anything, it is getting slightly better trend-wise, but is it the kind of volume growth, which we have traditionally had, not yet.

Moderator: Thank you. The next question is from the line of Sujit Jain from ASK. Please go ahead.

Sujit Jain: One quick question on how we integrate Butterfly Gandhimathi. So where does the two brands overlap currently. Would the two companies be completely integrated in sourcing distribution channel. How will the related party transactions play-out and how will you use manufacturing facilities of Butterfly to produce some of the Crompton lines as well.

Shantanu Khosla: As we have gone into Butterfly and as we have taken control of Butterfly, we have been very clear in the phases of our approach. You see, Butterfly was not a business in trouble. Butterfly was actually proceeding quite healthily. So our first objective in the first quarter has really been to ensure that we understand the business and we maintain the continuity of the business growth and the organization development. Based on the results of the first quarter, we do believe we have been successful with that. Now, as we are moving forward over the next few quarters, we are beginning to work the details of where are all the possible synergies, which address some of the areas which you mentioned. Once we are clear on that plan in detail, and we expect to do that over this coming quarter, we will then identify what is the right legal structure to support and enable this plan. We and the Boards of the two companies have not yet taken any decision on that matter. In the meantime, obviously, they are two independent public listed companies, with two independent Boards. So we continue to work certain related

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party transactions as per required on arm's length basis as and when needed. So everything which you mentioned is possible and everything is under consideration. The good thing right now is actually there is not too much direct overlap. The only area actually from a product segment wise where there is overlap between the current Butterfly business and the current Crompton business is mixers. And in mixers, our Crompton business is quite small. All the other areas of gas stoves, pressure cookers, other kitchen appliances, there is no overlap. So we are not seeing any big risks or issues with overlap. We are continuing to identify clear opportunities. We have identified opportunities in purchase synergies, we have identified opportunities as we have moved on in various cost reduction. So we have initiated a program just like the Crompton Unnati program where we have already identified a reasonable amount of potential cost savings in Butterfly, all of which will lead to helping us; A, improve margin; B, even more importantly generate funds for investing behind further expansion and growth.

Moderator: Thank you. The next question is from the line of Amit Bhide from Morgan Stanley. Please go ahead.

Amit Bhide: Sir, I wanted to understand when you say that you want to be in the top three in the new category, what would be the market share number that you would like to give or in other ways, if you can tell us as to how much would be the share of revenue that this new category would make in the next three years? That is question one. And on the lighting part, when you said in Q1 that there is a recovery in the B2B and B2G segment, so if you have to compare this with the pre-COVID level, can you just give us a broad idea as to how much was the portion of lighting revenue that was coming from this segment in pre-COVID period and what would be the outlook like two quarters three quarters, four quarters, what is the visibility that we have for recovery to that extent in the segment.

Mathew Job: If I look at for the kitchen appliances, in the built-in kitchen appliances I think top three would mean that market share of at least 10%. Shantanu mentioned this business is Rs.2,200 Crores is the market size growing 10%. So you can imagine, at 10% share on that will get us to top three in three years from now. That is one, I think in terms of your lighting question definitely I would say on B2B, especially the trade, which is non-government, I would say the demand is more or less back to the level which we had pre-COVID, but on the government side, because the ESL business is large part of the total B2B is government business and that has completely vanished. Though B2B as a whole I would think will come back to pre-COVID levels if everything stays okay maybe in another couple of quarters, but B2C has been strong even compared to pre-COVID period if I look at B2C LED alone, I mean there has been the volume growth and that is why I said most of the growth that we have had also been primarily volume-led. Yes, but of course going forward one needs to factor-in the fact that the GST increase has gone and so forth, how that plays out we will have to wait and watch.

Moderator: Thank you. The next question is from the line Akshen Thakkar from Fidelity. Please go ahead.

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Akshen Thakkar: Two questions, on Air Coolers, could you please help us understand what the scale of the business today and you mentioned growth, but last two years the base has been really low, so hard to understand how you scale that business. And on the built-in kitchen business, could you just repeat what is the kind of gross margin targets that you are working with on that business. Thanks.

Mathew Job: So air cooler, if I look at the three-year period. Let us forget the last two seasons, which has been impacted by COVID, we have had a 45%, three-year CAGR. So the CAGR for air coolers versus the last normal season we had just three years ago was 45%. So I would think the air cooler numbers while looking 200% over last year is still a strong 45% CAGR over three years ago, that is pretty solid. In terms of kitchen built-in appliances as Shantanu mentioned, the gross margins will be on par with our best categories. So that is also pretty strong. We had nearly close to Rs.100 Crores of business. So 45% CAGR over three years ago.

Moderator: Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: Just two clarifications, one was on Butterfly. You have talked about adding new channel partners. Just wanted to ask or check whether it is all incremental or are we seeing a churn or replacement of existing dealers. Any more color on what the quantum of number of outlets is, where these products reached today. And if you could also share the salience of online channel in the quarter for revenue. And the second was a small clarification on the built-in kitchen side. You talked about EBOs. Any color you want to share on the target number of EBOs you want to have over the next three years and are these all franchisee-led or are these company-operated? Thank you.

Mathew Job: In terms of the Butterfly, I think a lot of the growth in the previous years or maybe 18 months have come from e-commerce. I think Butterfly is over-indexed actually on e-commerce versus the industry average. So our position there is to keep our business on e-com, while we aggressively scale-up the retail business which is an area which has not grown so well in the past. If I look at quarter one, we have added almost 1,000 new outlets in terms of retailers and about 100 direct channel partners in Butterfly. So we do not see any significant churn impact. Like I mentioned we are trying to have a much better combination of sales growth coming from e-com versus general trade. So we actually think that the chances of any significant churn in general trade distribution is quite low and the numbers you see in Q1, 100 direct channel partners and 1000 retailers coming in, I think is pretty strong. So, I do not see any issue there at all. In terms of your question on kitchen appliances, I think EBOs are going to be pretty big in the top 10 cities. Our target in the short term is roughly to have about 40 to 50 EBOs in the next three months or so. And then in the next round of towns I think we have to see what kind of format these EBOs are going to take if they are going to be there. And all the EBOs we are putting together are all franchise-operated, nothing that the company

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does, but we are working in a way that they are sustainable in the short-term. So we are focusing our effort to make sure that they can survive on their own without need of company support and we are very confident. The way we are confident of economics, that will happen in a very short period of time, and we have also looked specifically for partners who have that mindset that does not have to be from day zero, so they are also willing to invest. And especially after they have seen the offering that we have on the table, we have a lot of people asking us for investing in EBO, but we are very confident that this will work well going forward.

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

Bhavin Vithlani: Couple of questions from my side, the sharp increase in the employee cost could you help us understand the reason behind it and if you just break between what is the incremental to the KMP versus the others and if you could help us understand the reason why the CFO left and why he did sold shares just before his resignation announcement came. These are my two questions.

Shantanu Khosla: First, in terms of the employee cost, as I had mentioned earlier, the employee cost has two elements to it, which has sort of help put it in perspective. One is that there was the variable pay factor, which is decided by our Board, especially the factors related to our performance versus competition, which accounts for 50% weightage in the variable pay across the company on the company factor. That gets declared and decided after the year-end because it is done by the Board once we have published results of competition. There was a certain amount of under-provision on that i.e., basically the Board judged our performance to be better than what we had judged it ourselves. The second factor is that in the base period, due to COVID, we had given our annual increments in July. This year, obviously, we went back to our normal cycle and gave that in April. So if you want to look at what is a run rate for coming quarters, probably somewhere between Rs.100 Crores and Rs.105 Crores, would be the right run rate to take. That is the first question.

Second, none of this was due to any incremental waiting, I will assure you to KMP. Our typical process is that invariably me for example, the Board typically gives and approves an increment, which is a few points below the company average increment. So we never rate this towards KMP I can assure you, because it is the employees who deserve the reward for their performance.

Your last question, I can give you Sandeep's telephone number and you can speak to him and ask him what he did, why for, right, because he is the right person to speak about that. Obviously, he has got back to his home company if you will, right. But beyond that is really nothing for me to comment on, but I am happy to give you Sandeep's contact.

- Mathew Job:** The only other thing you mentioned on your ESOP, the share sale obviously the shares lapse if the person till leaves the company because that is where your claimant has options it is natural way, I think you all know that.
- Moderator:** Thank you. The next question is from the line of Gaurav Birmiwal from Credit Suisse. Please go ahead.
- Gaurav Birmiwal:** Can you detail what kind of capex and working capital in your kitchen portfolio?
- Mathew Job:** See, I mean because most of the investments as we mentioned in all these stores are privately owned franchise operators. So we do not see any significant capex that we will have to bring to play, because they are all done by franchises. At the moment, our business is on 100% sourced from outside, so at the moment no capex even on the back end at least in the foreseeable future.
- Shantanu Khosla:** At some point in the future, when this business reaches a going stage, obviously at that point we will look at beginning to localize and make ourselves, the ones are the items that makes sense to work ourselves. But right now in this period, it is completely sourced, so there is no significant capital involvement.
- Moderator:** Thank you. We take the next question is from the line of Aditya Ahluwalia from Invesco. Please go ahead.
- Aditya Ahluwalia:** . So assuming no pricing actions and the current commodity prices, are the margins back to 4Q level or FY 2020 average levels already, assuming no price decline on anything?
- Shantanu Khosla:** As I as well as Mathew mentioned, our exit margins this quarter were pretty much in line with going margins. So obviously, the margin has improved from March to April, April to May and May to June. So exit is in line with our going margin levels.
- Aditya Ahluwalia:** You said the fans volume CAGR has been 5% over the past three years?
- Mathew Job:** Yes, that is correct.
- Aditya Ahluwalia:** And do you think it is fair to assume a similar trajectory going forward given the penetration and given that you are already a very high market share?
- Shantanu Khosla:** No, I think it is again a function of the combination of volume and value because, if you go back pre-COVID, most of the growth was volume-led. So as right now there is a combination, over this period, growth has been a combination of volume and value. So as we look forward, as inflation etc, all eases off and the macro situation is normalized, we once again expect like has traditionally been the case in fans, that all the growth will be volume-led. So we definitely expect a couple of point upticks in volume growth over-time moving forward.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that would be our last question for today. I now hand the conference over to Ms. Renu Baid for closing comments. Thank you and over to you, Madam!

Renu Baid: Thank you, Aman. On behalf of IIFL Securities, I would like to thank the participants in the management for an interactive call. I will also now request Shantanu for any closing comments before we close this call. Thank you, and over to you, Sir!

Shantanu Khosla: Thank you, Renu. Thank you everyone. As always, appreciate the fact that you took the time to join the call. Our objective is always to try and give you as much information and clarity as we can. As always, if due to time we have not been able to cover all the questions, please contact us, we are more than happy to spend as much time as you would like to discuss our business. Thank you so much.

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

(This document has been edited to improve readability)

Contact Details:

Investor Relations:



*Crompton Greaves Consumer Electricals
Limited
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crompton.investorrelations@crompton.co.in

Registered Address:

Tower 3, 1st Floor, East Wing,

Equinox Business Park,

LBS Marg, Kurla (West),

Mumbai, Maharashtra, 400070

Website: www.crompton.co.in

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