"Orient Electric Limited

Q3 FY '24 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day, and welcome to Orient Electric Q3 FY '24 Earnings Conference Call, hosted by ICICI Securities. As a reminder, all participant lines will be in 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 then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you, and over to you, sir.

Aniruddha Joshi: Yes. Thanks, Manuja. On behalf of ICICI Securities, we welcome you all to Q3 FY '24 Results Conference Call of Orient Electric. We have with us senior management represented by Mr. Deepak Khetrapal, Vice Chairman and Managing Director; and Mr. Saibal Sengupta, Chief Financial Officer.

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

Deepak Khetrapal: Thank you, Aniruddha, and thank you, everyone, who has found time to join us on this call and get a little bit more flavor into the results that I'm sure all of you would have seen by the time you have come to attend this call. I think the results have been in the public domain, as has been our media release a little bit on what happened.

I guess, people who were with us on the investors call in the previous quarter, Q2 investors call, would have been at least reassured to know that our Q3 results have been in line with what our briefing to the investors was at the end of Q2 as to how we are looking going forward. And personally my view is that -- I'm not saying that we have great numbers, but we've had what I call satisfactory top line numbers. And the better part is the improvement in our gross margins even when the top line, I would say, has a modest growth.

The investments in our organization to strengthen the organization to take on the larger long-term aspirations have been continued. As a result, despite improved margins, the earnings at EBITDA level or PBT, PAT levels, they continue to lag over the previous year. But as I have stated earlier also, we expect to come through this phase maybe in another 2 quarters, is what my guess is, when these investments that we are making start bringing up the volumes and the operating leverage, for which these investments are the precursors.

And without these investments, I think getting to those kind of aspirational targets would be difficult. So that phase is in its final stages. My guess is, another 2 quarters and we should be out of that phase and all these overheads that we have created will start getting absorbed by the higher sales and volumes and the operating leverage. So that's the broad, I think, statement on that.

If you ask me, definitely, the industry as a whole in the results and even the talk that we have with our peers in the competition in the industry, consumer demand, not just in consumer electricals, but I think across many consumer sectors has been muted in Q3.

And when the demand is low and the consumers are not coming to pick up, it's just that in the hope, I would say, of finding better traction in the market, some players find it more attractive to either cut prices or to give very, let's say, heavy discounting and channel incentives to the channels, so that they buy and they stock up with them at least, the companies can book top line sales.

In an atmosphere like that, obviously, it's very difficult to keep the ambition going forward. But net-net, I think in terms of numbers, we are still, I would say, yes, not happy, but satisfied that we have at least a top line growth. It is a modest and below 2% growth in top line, which is at INR752 crores for Q3.

Within that, ECD actually almost flat, marginal fall below last year same quarter. But the flavor in that is that while the fans business has reported a degrowth of low single digits, it's the robust growth in appliances also, small business, but the robust growth in appliances have helped us in reporting an almost flattish ECD top line. And while it's flattish over last year, but given the seasonal trends every year, on Q-o-Q basis, as would be expected from Q2 to Q3, we have a 47% growth in ECD business.

Lighting and Switchgear, which is not so season impacted and not so seasonal, there we had 8% plus growth. And the Q-o-Q growth in Lighting has been at 6.5% roughly. I'm sure you would have seen those numbers that we've already sent out. The reason I said you would have found our sales, at least in the fans, they are less than last year same quarter. But that I'm saying it will be in line with your expectations because last year -- last quarter in this call, I have very clearly been mentioning that Q3 of FY '23 was so exceptionally large because of the transition from non-starred fans to starred fans that the whole industry had offloaded a lot of material and the channels were filled up with all the non-starred fans in Q3 of the previous year. And we knew that this year Q3 is going to struggle when we compare ourselves to Q3 of last year. That was known to all of us. I think we had -- at least I know I had very clearly spelt it out in my briefing in the previous investors call.

So the corollary or the good news there is that because Q3 last year had a base effect for us which makes us look poorer in Q3 this year, as a corollary of that, Q4 last year happened to be rather poor. And we have explained that there was so much material lying in the channel that Q4 had to be poor. We knew that. And my own expectation of this as we speak is that in Q4, we should be able to more than make up for the, I would say, small degrowth in fans that we had and come out with much better numbers, even making up on the normal growth that we should have had in Q3.

So that's, I would say, the fallout of Q3, Q4 distortion in the previous financial year. And this year, the Q3 has become normalized, and Q4 will become normalized. So at a normal level of Q4, we should have strong robust growth in the fans industry in Q4. And I'm sure we'll try and do better than the industry in Q4 growth. So that's on the growth in fans business.

Our appliances business in Q3 also has done well. And that enabled us to have flattish ECD sales. Within fans, the categories and some of the assortments that we have in our portfolio, they've had better traction. We've actually struggled more perhaps in the base and economy, the cheaper range of fans. But in the premium range and some other specific assortments that we carry with us, we've had very, very strong growth there.

I think the big win, the big story in our, let's say, performance is that the 7 states in which we've gone direct to market, and this is a transition that had started sometime last year, there we continue to get very encouraging returns. I think in quarter 3, we are about 36% Y-o-Y growth. And on a YTD basis, direct-to-market 7 states, we are 68% higher than last year, which is in line with our purpose to move away from the legacy distribution and go direct to the market. That conviction of ours is being played out in the market by our direct approach.

There is a bit of a challenge still that we are having with our legacy distribution channels where the sales continue to be sluggish. But in select markets, very clearly, we have good enough distribution partners who would like to sort of help them to sort of recover the business and make it more robust. And wherever we don't see the potential with our distribution partners, legacy distribution partners, maybe we'll pick up another 3, 4 states in the next financial year to sort of make those transitions to make sure that none of our markets where we are- is serviced or is, let's say, serviced at a suboptimal level. So that's -- on the fans market, I think the optimism keeps growing more and more as we taste success in the DTM markets. And we believe we have a formula to win in many more markets using the same approach, the same strategy that we've adopted.

There is a respectable growth, I would say, in our Lighting and Switchgear business. And this is despite the continuous erosion in selling price, which is happening in lamps and battens. The reason why we have robust growth in our Lighting division is coming mainly from the fact that we've actually made up for, I would say, loss in sales numbers from the standard plain vanilla commodity kind of products into more value-added products.

The high-wattage lamps, the professional luminaires away from CLum and that mix change has been helping us in making up for the numbers that the lamps keep losing for the industry as a whole. The whole industry is losing lamps, that we know.

But obviously, many of the new products that we have and many of the new projects that we managed to bag with us either in B2B or even in a segment where we actually do the complete solution, and I'll come to that later, Facade Lighting, all those things put together have helped us to maintain and grow the top line as well as see very, very good results even in terms of our gross margins improving from that market.

Coming to margins, because I've spoken about margins a few times, I think we've been working on the product and market mix to improve our realization at the one hand. We continue to improve our procurement and our manufacturing efficiencies to find some cost savings and have also had the advantage than the rest of the industry of somewhat benign commodity prices, which is always a good tailwind to have with us when we are trying to struggle with the improvement in margins.

The overall gross margins, you would have seen, they have actually improved year-on-year by 127 basis points, reaching very close to 30%. And despite that, yes, we have some way to go because the EBITDA does fare at INR49 crores, which is at 6.5%, reflecting bearing a drop of nearly 92 basis points again. It's below by 92 basis points -- 0.92.

So that's -- overall, like I said, the margin story is, again, in line with what we had said that the growth, we will keep getting. Gross contribution, gross margin, gross profit, whatever you want to call it, that is improving, and the EBITDA, which again, I will repeat, is being impacted by the high overhead that we've bid to strengthen the organization, they are going to take another 2 quarters before they become fully productive and get converted into high EBITDA and high profitability of every other metric.

Within the margins, as you would have seen, the EBIT margins for Lighting & Switchgear business, that has sequentially expanded by another 98 basis points, which I think is one of the best things that we could have got given the overall situation in the market. And that, again, is a result of the strategic shift that, as I mentioned, we've been making in our product mix and also in our market mix. We are going a lot more to B2B, we are doing a lot more threshold, we're going more into even B2G business, the large projects that we've gone and done. So that's the reason behind we obtaining significant improvements in our gross margins.

On the going forward strategy, in keeping with the trend that is in the market of increased demand for the power-efficient fans, the BLDC fans, all of our efforts are moving towards that direction. One of the challenges that we need to sort of keep in mind is that although the current, I would say, announcements by the government say that BIS will be made mandatory very, very soon. And frankly, we could be prepared with that to have everything done, what we understand now, that the testing that the authorities or the regulators have to get done or we have to go through their testing with our products, we have an impression currently that maybe they are not ready to test everyone's products. There's a huge waiting line there for the products to get tested and to be given the BIS mark.

Because of which I don't think the announced deadline is looking likely on today's date. But if it doesn't happen now, it may happen in another quarter's time or next 2 quarters' time, but that will happen, which I think organized players like us who believe, in any case, to deliver a quality product, it favors us. Because for us, BIS certification should be a cake walk. And lots of other smaller competitors in the market who perhaps do not do the manufacturing with as much quality assurance as we need by the product, I think we should have some advantage over those kind of players in the market. So that's good for us, provided the agencies are in place to start giving us the ISI label that we can start using on the products. So that's imminent, we know that.

And another imminent challenge, we also keep hearing about this extended producer liability, which under environment norms is being imposed on the industry. It goes across the industries. And obviously, there's a lot of, I would just say, confusion, lack of clarity as to how it will apply, how it will be calculated, who will have to bear it, how do we recover. But those are -- I would say, on the horizon, there are a few things which are appearing like a challenge for -- in the extended producer liability, it's all industries. We are not alone in electric appliances.

But on BIS, I think fans and these kind of products, perhaps many of the products have it, our products, many of the products didn't have it. So that will become mandatory and we'll have to cope with that, which is not a problem for us. I feel confident about the quality parameters becoming more demanding in the marketplace, simply because we have a very strong R&D setup of our own, and we are actually currently busy leveraging our R&D to create superior products in-house, including our own I would say, some level of electronics like PCBs and all, which we believe that we should be able to not only produce ourselves, more economical and more robust PCBs, but we should also be able to add some innovative features in our BLDC fans, which perhaps may not be available in the PCBs that we've been buying from the market in large numbers in the past. The whole industry has been doing that. So those are some of the strengths that we'll leverage going forward.

We've also taken some specific initiatives in the last 3, 4 months in terms of improving the aftersales service of our products. But as we speak, we are still in the middle of -- we're starting that as a project, but I think it's finding a huge amount of success where in the 8 cities where winter is pretty severe, we've actually given service of a service call being attended to within 8 hours. And we're delighted to say, many of the service calls we attended within 2 hours. I'm talking about heating products which are critically needed in the cold. So, we're trying to sort of in a way learn from this project that if we have to provide very, very quick aftersales service when the customer needs it, what kind of capabilities and what kind of resources and infrastructure we need to create. So it's a very good learning. But the good news is that -- we actually call this project 8-8-88, that basically meant that in 8 cities, servicing 8 hours over the next 88 days, that was the winter’s day, and it's actually created such a buzz in the market where we're getting very strong feedback from the marketplace regarding an initiative like this.

It's very good to actually see the positive sentiment coming around because we've provided a service, which apparently is a first in the industry of fixing somebody's water heater within 2 hours of the purchase, and we get a call and immediately somebody goes and fixes this product. I know it should have been done long ago, but I think we, as an industry, have never geared up. So we are preparing ourselves by running some of these experiments, you call them, or some of these projects, which is just good news in terms of preparing us for even better targets to take up as we go forward.

The other good news has been on the international business front. All of you do know that we do sell our products, export products in fans and also switchgear and all. We've had a strong, I would say, high teens growth in our international business in this quarter.

Although we do see some challenges with the geopolitical conflict that's going on, especially around the Red Sea and the movement of the ships around certain channels which are more efficient to approach some of our markets. That's a bit of a concern. So let's see how that gets resolved. But as of now, we are reporting a strong growth in Q3 in exports business also. And unless we are set back by the challenge in logistics, especially if we are talking about ocean logistics, I think we should continue with the good growth story in the international markets.

In the appliances business specifically, I would like to call out our very strong performance in heating products in this winter season, and we've got a very, very good volume growth. The festival sales in appliances saw very good traction in e-commerce channels for us. And we also saw -- I would say, one of the tid-bits that I would like to sort of in a way mention to you that we've managed to sell recently as many as, one lakh water heaters over the digital channel itself, which is -- internally, we have taken up some targets, and that brings me to, I told you about 8-8-88 project, but we also had an internal project taken up by our digital division, basically the e-commerce and modern retail and things like that.

And we had a project, we had said INR100 crores in 100 days, which seemed like quite a big leap for us who are still learning about those channels. But I'm happy to say, we missed that INR100 crores mark in 100 days by a whisker, we were almost there. And these kind of projects are actually creating a very different level of self-belief and confidence in our teams that we can actually take up really audacious projects and make an impact in the market.

The concerns remain around the price erosion that continues in the Lighting division. And despite the strong double-digit volume growth, we can't find, in terms of rupee terms, the growth in the value, which is a matter of concern, but like I mentioned earlier, these headwinds we can fight only through finding some diversification away from the products which are losing value. They're not losing margins or profitability, they're just losing the sales value. It's coming out of the savings and costs which are coming out of technological shifts that are being made in lamps.

I did mention -- and our, let's say, B2B or Professional Luminaries, as we call them, there also we've seen a double-digit growth in rupee terms, in value terms. And a significant part of that has been coming to us through the thrust that we see from the government side and lots of sales have been done on the B2G segment that we run quite efficiently in our company.

And with the continued execution of some of the large projects, we are very confident that more and more qualifications that we are earning to back these projects -- some of the notable projects that we have either completed or are very close to completion, they include I would say, I will call out maybe a city like Srinagar Smart City project that we completed, we are almost in the final stages of coming out of that project.

We've done Yavatmal Landscape and facade there, Amritsar Municipal Corporation. In industrial, we've done Bharat Aluminium. And so there's lots of these projects, I don't want to give out the whole list, but some fairly prestigious significant projects in a real professional environment, we've been able to deliver. And as you know, this business snowballs. Because as you do more projects, you get more qualification and more and more people and consultants and influencers are willing to give us a chance. So that seems to be on a roll.

In terms of, I would say, traction on -- as I did mention about e-commerce growth, I spoke about INR100 crores in 100 days, I spoke about selling more than 100,000 water heaters on e-commerce. Overall, that segment for us continues to give us very, very strong growth. And we've, I think, found success, which is perhaps more than even what we anticipated to start with. We had the ambition, but we were a little bit unsure of our confidence. But thankfully, our team there is doing a fabulous job and continuing to record, what should I say, close to 100% growth year-on-year. And even on a Q-o-Q basis, we find very, very strong double-digit growth continuing to be in this digital, in which we were perhaps behind the curve, but we've caught up well. And I think this growth will continue and the aspiration going forward with that channel are very, very strong.

Same thing, same program, besides digital, in the large format retail business that, again, we have not found enough space in the large stores. Slowly, gradually, with the new products and with the new, I would say, assurance of support to the stores and also on quality and service, we are finding more and more large stores giving us an opportunity to be available with them.

Our cost savings program, our efficiency program, procurement becoming more competitive, all those things continue and we consolidate all those savings under our project Sanchay, on which we've been reporting on every quarter basis. And I think in this year, so far, we've managed to save around INR40 crores- INR45 crores in terms of purely through cost-saving initiatives.

That's on the numbers side. I think two of the topics I know almost every one of you would be curious about and let me address that upfront. One is where are we on our Hyderabad project commissioning, right? And as we keep mentioning, we invested, most of the money has already been invested. So we see the structures are ready. If you recall, we were being held back by lack of visas, which we needed for some Chinese engineers who had to come and commission the plant.

Plant equipment was here, everything was here, but we were not able to get the technician to bring them in and commission them. And I think I did mention to you in the last investor call that we were personally approaching the consulates in the respective cities in China, from where we had to apply the visas for these technicians. We had very small partial success. Quite honestly, we needed 13 technicians here, out of which the visas have been issued so far only to 3 technicians who have been here for a few weeks now. Not quite what we needed, but at least a start has been made. And as a result of that, currently, we are in the process of, let's say, as far as the TPW fans are concerned, which basically means a table pedestal wall fans, or in one word, non-ceiling fans, on those lines, we've been able to make significant progress.

And actually, right now, the testing of the equipment and the fine tuning is going on. And there is a lot of optimism that at least the TPW line that we have in Hyderabad, they will start producing commercially viable fans, if not by the end of this financial year, very, very early in April we should be in the market with the TPW fans from Hyderabad plant.

Ceiling fans, there is a little bit -- still there is a struggle there. We are putting up capacity there and state-of-the-art. The technician from one of our vendors, we've not been able to find. We are still trying to find some way if we don't get the vendors from China. We're requesting the vendors. They apparently have some either business part of accounts and technicians in Korea, and we'll try and get them from Korea and come in. But it's been slightly behind what we needed it to be.

But there is progress, though not enough progress, and that's what I thought I'll at least highlight that it's not -- there has been a significant move forward even with just three engineers and putting our own resources together. Our own people who are part of our teams currently, they work diligently and very hard with just 3 engineers to get us the progress that we have. Even on the ceiling fans, we have made progress in terms of connecting and assembling. But commercial production of ceiling fans has not progressed as much as our TPW fans have progressed.

So that is one update on the Hyderabad plant commissioning, and I'm hoping that we should have better news very soon even in the balance visas. And the moment that happens -- and it's on my mind that maybe we will host one of the investors meet at our Hyderabad plant on commissioning.

So let's see, I'm keeping that plan ready with me. Let's see when we are ready and announce the date for a meet there, so that you can people come in and see the kind of investments we've made in the Hyderabad plant.

And last, before I open it for questions, because that question is going to come perhaps the first one and let me address it right away. In terms of where are we in terms of hiring our new elected CEO to take charge at Orient Electric. The last time it was mentioned, the progress was sincerely on, and I'm happy to report that we have made very strong progress, and we are in the final stages and my own, as of now, the estimate is, it should not be longer than 2 weeks in which we would have actually firmed up the candidate. We've, very short list of candidates who we think can fill the position and there's a very close, I would say, competence level between the short list that we have. And the , final screening, the interview are actually now done at the level of the promoters. And very soon, we should be able to finalize and sign up the candidate in possibly two weeks' time, which would then mean whatever it takes in terms of roughly three months. So I'm saying now in February, let's assume that mid-February, later, 3rd week of February, the person gets signed up, and we should then expect by May the person to be on Board, taking charge of this company. So that's on the managing directors search process.

You might have also seen we released a small intimation over a month ago -- a few weeks actually that we had unfortunately lost the person who was driving our Lighting business, the Head of our Lighting SBU. The search for that position again is progressing well, but it's still going to take a few more weeks before we are able to pick up the candidate who we think has the credentials to take our Lighting business where it deserves to be. So those are the 2 organizational, I would say, updates, which I thought I'll share with you upfront, so that you have some assurance that we may have had our problems, that we are very close to getting out of those problems and resuming life with full thrust on in the market.

So those are my, let's say, key things to all of you, and I open the lines for the questions that I'll address gladly. Thank you.

Moderator: The first question is from the line of Rahul Agarwal from InCred Equities.

Rahul Agarwal: Very encouraging to see the results and the detailed commentary. Question is more a bit longer term. Deepak ji, basically looking at fourth quarter and next year, you've already given a lot of data points on what's happening with the quarter on segments. But I will just divide this question in 2 parts, ECD and Lighting. So ECD, fiscal '23, we saw like 0% growth, fiscal '24 looks like a 10% Y-o-Y and obviously getting better.

With the demand assumed to be recovering next year from consumption, the new plant coming up on stream, plus exports, assuming that things should settle down there as well, and appliances doing well, does that mean ECD should get back to 14%, 15% CAGR in terms of revenue growth over the next 3 years?

Deepak Khetrapal:: Absolutely. Goes without saying. Perhaps even more. Our ambition is even higher than that. We need to sweat our asset to investing nearly INR200 crores in a new facility. Unless we manage to grow at that rate, we'll be murdered for not making the new investment work for us.

Rahul Agarwal:: Sure. Okay. Get it. And Lighting, we had a good last year. I think YTD is 6%, but that is because of price erosions happening. Has the erosion stopped? That is one question. And second is, can we expect volume growth equal to value growth, let's say, 15% next year for Lighting?

Deepak Khetrapal:: Lighting is a more difficult one to answer, Rahul, quite honestly, because while we could look for volume growth for sure, as far as, I would say, the non-typical B2C products that we have, lamps and battens, in that, I would be able to say that the volume growth and value growth will come together. The gap may -- because right now we're not seeing any further opportunity for costs falling for the prices to fall, right?

So to that extent, the erosion may not be as steep as we experienced in the recent past. But are the prices likely to start going up, that doesn't look likely. But the gap would be far smaller between volume growth and value growth for next year, that is the current scenario unless a new surprise comes in the market and the costs go down further, at which stage the consumers keep gaining and we don't get the top line.

So it's a little ticklish one, but to the extent that we are taking initiatives to grow bigger in the Professional Lighting side, I think that part we are a lot more confident with our team's capabilities and what we have set up in the last 2, 3 years. Again, major investments have gone into Professional Lighting side from our side. The team which is going and getting lots of our products specified or approved by very large buyers. So that continues to happen. Our order book is already looking very good on the Professional side.

Overall, my summary would be, would it match the value and the volumes? Perhaps not, but the gap will be far shorter. I mean, today, we're talking about double-digit volume growth, giving us a negative value growth. Now that's a huge gap, right? That would narrow down for sure.

Rahul Agarwal: Right. So let's say, if I assume price erosion stops, I mean, that should reflect 13%, 14% volume, right, just theoretically?

Deepak Khetrapal: Correct. Correct, correct. Yes.

Rahul Agarwal: Okay. Perfect. And lastly, on margins, 5.5% YTD, obviously, we're investing. Long-term average is about 9%. How far are we from this? You've obviously mentioned 2 quarters. So I'm not talking about next 2 quarters. I'm talking about like 3 years. Are we headed towards that, including whatever OpEx we'll have from the new plant and whatever changes we are doing on the DTM side, net-net, on a consol basis, should we head towards 9% in 2 years?

Deepak Khetrapal: I think you're giving us too long a rope. 9% in 2 years. I think, as I mentioned, we should be able to get very close to that within the new financial year starting, within the first year, and next year, most positively, it should be more than 9%. Absolutely. We should be back in double digit. I mean this question has been asked about being in double digits, and double digit starts at 10 not at 9. I'm very conscious about that.

Rahul Agarwal: Perfect. That really helps. One smaller question on DTM, and then I'll come back in the queue. When you talk about growth, we're not able to understand the base. Does this also mean that sales are back to the pre DTM levels? Is that correct?

Deepak Khetrapal: In fact, higher than pre-DTM levels.

Moderator: The next question is from the line of Swati Jhunjhunwala from BOB Capital.

Swati Jhunjhunwala: I missed the first part, so this might be repetitive, but can you just talk a little about the fan business, like how much did it grow or degrow, and were margins lower or higher? And secondly, on the capex. So is there any further capex that you're planning in FY '25?

Deepak Khetrapal: Again, fans -- it's unfortunate that you missed it. No, fans, I have reported that we have a low single-digit degrowth in fans. ECD as a whole has been flattish, but there was a small degrowth in fans, largely coming out of the fact that last year Q3 was exceptionally large because there was a transition from non-starred fans to starred fans. So the entire industry had reported huge sales in Q3 and very poor sales in Q4. This year, Q3 has got to normal, which is -- I mean, 4% below last year doesn't mean anything, Traditionally, if you see historically, we are fine. And because Q4 became very poor in the last financial year, this year we should have a much stronger Q4. So that's on fans business. I think margin-wise, due to change in product mix and due to our procurement savings largely and some efficiency savings, we are improving the margins that we're continuing.

Swati Jhunjhunwala: Got it. And secondly, on the capex. So is there any further capex after the Hyderabad plant?

Deepak Khetrapal: No, I think capex -- in terms of large capex of putting up new plants, new capacities will not be there. But the plan definitely is to also make our Faridabad plant a little more modern than what it is there. It is a plant which was set up in the 50s, right? A lot of things need to be done there. My own guess is that capex ballpark would be what, INR20-odd crores perhaps, not more than that.

But that should give us a lot more -- because as the product quality that comes from Hyderabad starts looking a lot better, we can't have Faridabad products not matching up in quality and consumer experience. So we definitely need to upgrade some of the facilities of Faridabad, and that investment we'll make. But it's, like I said, in small sums. I mean, given the cash generation and cash on hand, I don't think that should even be causing any amount of concern.

Moderator: The next question is from the line of Akshay Thakur from Pico Capital Limited.

Akshay Thakur: My question is more on your export strategy across different product categories. So which are the major countries you are currently exporting to and have a good base in? And how do you see those geographies and any additional geographies evolving in future?

Deepak Khetrapal: Well, currently, our focus, to be very honest, has largely been in the markets which are in the West Asia and Africa, typically, and most of the Indian exports of engineered goods go there, and we are no exception. So Middle East -- and we have our international office in the city of Dubai, and from there, we cover almost every country in West Asia. And we are also trying to sort of penetrate further towards the Eastern Europe side. That effort is on. I don't think we found enough success yet.

Going forward, one of the things that I'd just like to remind every participant here. Internationally, the markets which are much larger for exports are actually the TPW fans, not ceiling fans. That's a fact. And we at Orient Electric and I think India as a country as a whole was never competitive in TPW fans. We're largely a ceiling fan country. Our Hyderabad facility with state-of-the-art TPW lines, I'm sure, will leverage to address a lot many more markets which only buy TPW fans and don't buy the ceiling fans, which so far we've been exporting.

So the new opportunity that we are creating for Hyderabad facility to start exporting a new category of fans, which we've not been able to do so far from our existing plants. So the strategy is new product lines, which enable us to go to markets which need that product. That's the main thrust area. And our international office, which is located away from India, they travel a lot more across the world and keep finding customers for us.

Akshay Thakur: One more question. So we're very happy to see an Indian company in global markets. So 5 years down the line, what is the export revenue share that we are targeting in our sales mix? And is the focus for exports only on TPW fans or any other categories also? And on the margins front on the TPW fans coming from Hyderabad factory, are they any enhanced as compared to the domestic market?

Deepak Khetrapal: Well, lots of questions in 1 question that you're putting together. I don't know what other people in the queue will do. See, as I mentioned to you, TPW is a new export category. It's not that we're going to give up on our existing products. Existing products in the market, they are going, they will keep going and will keep growing. TPW will allow us to address a new market segment which we've not been able to address so far, okay?

Margins, on that, definitely, in export market, you know how difficult it is to compete in a product line where a country like China has taken strong hold all over the place, right? So let's start getting into the market. Let's start understanding what the markets need first thing on the product lines and features. And thankfully, the setup that we have created is a setup which should give us a competitive product internationally, including some countries like China, right?

As of now, I would say margins, we've to wait and watch. We are not going to sort of dump the entire capacity and take lower pricing at a very, very low margin or at a loss. But it's a learning curve that we'll get on at least when the TPW fan export market is concerned. We've never been in that market, please understand that.

On the product lines which look most promising to us, definitely ceiling fans to the markets which consume ceiling fans. TPW fans, where rest of the fans work. Our big potential that we see is also in our Switchgear business, where the quality that we manufacture with the European technology that we had with us, that's a very, very good technology, and we already are exporting switchgear to international markets, including to the technology providers who had sold that technology to us. So we are able to make more competitive product there and export.

Lighting is an area which we've been trying to grow. We haven't found enough traction. On appliances, it's a function of almost every country has their own approval processes, which are neither easy nor cheap. So, the efforts are on to expand with our other product categories also, but it's a fraction of how much we want to invest in each market in terms of getting the approvals from the local and, for example, in India also, you know the approval system that are there. Any electrical product we can't bring from another country and just start using or selling in India. There are local approvals needed. Same process applies to every country, not so much in fans or switchgear, but more in appliances side. So it's a journey that we are starting on. I would not want to give any number for the next 5 years. Let's wait for at least 2, 3 quarters of Hyderabad operations, then we talk about it.

Moderator: Thank you very much. The next question is from the line of Sonal Menisha from Prescient Capital. Please go ahead.

Sonal Menisha: So I first of all wanted to understand, sir, the working capital that you have around the Lighting business, and more so around the project business. Any color around working capital improving, working capital being stressed around that business that will help understand that business a little bit more details, specifically around the project business. And second question was around the switchgear and the wire business. How large roughly are these businesses, if you could just throw a ballpark number?

Deepak Khetrapal: Look, in terms of working capital, all of us know that when you get in the projects business, their terms are such that the payments come in at various levels of completing the project. So I wouldn't use the term that working capital is stretched or stressed, it's the nature of the business, and that we factor in, in the time we accept the orders. We try and make sure that the cash flows that get stuck with them for the duration of warranty or whatever, that we are not leaving cash behind with them from our -- at least the cost that we need to recover.

But would it always have more number of days outstanding in projects? Yes, that's the nature of the business. We have no choice. But fortunately for us, that kind of business for our company as a whole is a small fraction, right? We are not huge in that business. And to that extent, even if there's a stretch in working capital for the project, at the company level, it does not pose a risk. Our larger businesses are fairly efficient in terms of turning around the working capital. I'm sure you've seen that in the past as well.

If last year our inventories were low, our receivables had gone high because of the typical Q3 closing last year of non-rated fans. This year, our inventories are not gone to the market. Now they will go in this particular quarter, because that's the typical season for the fan, in which case our inventories are higher, the receivables become low. So it's the rhythm of the business.

And we are not going to bet our company on the projects business getting, let's say, hundreds of crores and things like that in a company our size. No, we are still learning. We're still progressing. And we are making sure that we can take on the projects. We don't sort of end up doing more harm to us than good. So that we are being very, very careful and selective about.

Sonal Menisha: Understand that, sir. Okay. And any subjective color or any rough ballparks around how large is your switchgear and wire business as we speak right now? Any challenges you're facing in the wire business?

Deepak Khetrapal: Wire business is absolutely new right now. So our ambitions there also -- I think, I have mentioned in my earlier briefings as well, in wires, we have no ambition to become a very major cables and wires player. I'll have to be honest about it. We've gone into wires because many of the electricians and technicians, when they started using our switchgear and switches, typically, in the market there is tradition that that people want to use the wires of the same brand and they used to ask us where are your wires. And these are home wires. These are not commercial wires.

So we would want to sort of use wires business as our, I would say, offering a complete bundle of products to the influencers who want it that way, right? And they are small businesses. They are not big, and that's why we have sort of -- we've not even made a separate business, separate division. It's part of our Lighting business. And same thing is switches and switchgear.

That business to our mind has a lot more potential because we're starting that business with a product which is superior compared to the rest of the market, and that's why we as 1 product in which we hit the market with the premium product, it was switchgear. We have large ambitions around that, but not at the lower quality platform, where bulk of the Indian market is still on the lower quality, lower price. So in that, we have a lot more strength, but I think the markets will take time to get to that level.

We're trying to see how do we make it more competitive. But that, again, continues to be part of the Lighting division. At some point in time, if we have a strategic shift on what we want to do with the switchgear business given its overall potential, when that plan is finalized, we will share that with the shareholders. It currently continues to be a much smaller business within the Lighting fold.

And we are wanting to make sure that we develop the business the right way. It means quality parameters, either switchgear or switches, should be higher. If they are more expensive, so be it. Many consumers reject our product because of higher price. We're saying fine, you go and buy a cheaper product, but we have only this. So to that extent, the ramp-up process would be slower than what we can achieve by lower quality and lower-priced products.

Sonal Menisha: Understand that, sir. If I may just ask a follow-up question. What part of your total manufacturing do you do in-house or whatever the sales do we do in-house, if there's a ballpark there?

Deepak Khetrapal: Saibal, do you have that number ready? It actually varies across all the clients. Fans are very largely in-house. Lighting perhaps is more, I would say, 50-50. Overall company level, Saibal, do we have a number of what's the outsourced number versus...

Sonal Menisha: No, I think the bifurcation is fine as of now. That's how it is.

Moderator: The next question is from the line of Manan Madlani from KamayaKya Wealth Management.

Manan Madlani: So my question is related to go-to-market strategy. So how is the strategy going for that market? Because I -- correct me if I'm wrong, so we did 68% Y-o-Y growth via that strategy. So what panned out for us? And how is the strategy going forward for the same?

Deepak Khetrapal: See, I've already explained, we started in a very small way. By now, in 7 states, we've gone direct. And the rest of the states, we are still with the legacy distributions, right? Given the success that we've had, now we have a very clear model of what we need to do to succeed more in states where we are not going as fast as we can. So it's a mixed strategy. Like I mentioned, 3, maybe 4 states, we are going to be taking in the next financial year, again, to go direct because we already identified those states as areas in which we have a weak presence and we can strengthen it by going direct.

In the other larger states where we think there is room for growth, we are finding that our distribution partners are also coming around to the fact that if they use the method that we've used in going direct, if they start using it, they can get us a growth that we are seeking, right?

So it's not -- I'm repeating again from the previous 2 meetings also. There is no policy decision to not work with distribution. No. We will keep moving in a phased manner depending on how it's meeting our objectives. So wherever objective has not been met, we are not afraid of going direct now. But if our partners are willing to work with us, invest with us, learn along with us, and improve the markets for us, we're happy. End of the day, our product should be available at all the -- right product in the route counter in every market is the strategy to succeed.

In that there are gaps and we are working on that either directly or through distribution, but we will remove that gap of the right product not being visible at the right counter at the retail level. That's the purpose of distribution.

Manan Madlani: And the last question would be, if you have to quantify the benefit of this strategy. So how much percentage did we save?

Deepak Khetrapal: Look, obviously, as you know, accounts is more and more bookkeeping than straightaway margins. In bookkeeping, what happens is, whatever margins we give to the distribution partners, that is deducted from the sales, right? And that margin obviously is going directly, that margin is not being given to distribution. That is with us. But against that, we need to invest in putting up our own sales force in place, our own, let's say, logistics networks over the counter, the many more counters to service compared to one master distributor for one state.

So there are some costs that we are incurring in-house and that's part of the reason why our fixed costs are looking higher and margins are looking -- but partly it's been compensated into places also. Exact percentage, I wouldn't like to spell out. But definitely, there are improvements in margins because we're not giving that margin that we used to give included in my sales revenue. At the same time, I'm incurring costs which that distribution partner used to incur, which is going in my fixed cost today.

So net-net, there is a game there, but we also know the challenge of trying to go pan-India. A company like ours, who has never done direct-to-market strategy earlier, suddenly if I take on pan-India and suddenly I want to succeed all over the place, it's too much for us to bite at this stage. So we are still working with, out of the legacy distribution, a significant number of them. We see the potential of they turning around and bringing us the business that we need.

Moderator: The next question is from the line of Rahul Agarwal from InCred Equity.

Rahul Agarwal: Thank you for the follow-up.

Deepak Khetrapal: I think you are going to have the first question and the final question, which seems okay.

Rahul Agarwal: Sir, I had a few of them, very small ones. EPR, what is the financial implication of this on Orient Electric?

Deepak Khetrapal: Rough calculations, it could be around, I think, INR15-odd crores, if it hits us full in the face.

Rahul Agarwal: So that's the provision we need to make for the current year is what it means?

Deepak Khetrapal: We're still seeking clarification because in many industries it has been imposed and somewhere it's been -- because there's no clarity there on many of the things. Even at the end of the people who are imposing it, so based on the current listing, whether you're making provision within this financial year or not, we'll go with the rest of the industry. We are not going to be acting alone in this.

Rahul Agarwal: Yes, sure. I mean one of our peers obviously has also started providing for the EPR from this quarter. What I wanted to get from you is what is the stand you have taken as a company on the EPR provisioning. So firstly, this is like a recurring expenditure, right? So for fiscal '24, I should assume a INR15 crores provision, and then next year, we'll talk maybe next quarter. Is that a fair assumption right now?

Deepak Khetrapal: That is the assumption you are making. I'm not confirming that. But you are free to make an assumption. I would say, the basic thing, again, let's see what -- how does any industry work. If there is a cost which the industry has never been told about, how does it recover from the market? So at the end of the day, whatever cost you add to it, you have to recover from the markets. They start imposing these kinds of costs and it becomes mandatory to start loading it to the market. Obviously, we're going to recover the cost from the market. We aren't going to pay from our own pocket. We are not consuming the product. We're not using the product. We're giving it the consumers who are using it. They should be paying for it, no? Why should the producer be penalized for the benefits that a consumer enjoys. So there is a very strong ideological issues there. You are taking last 10 years' production of a certain item and say, incur this cost on it, which was never told to us. Where does the industry go to recover it? It's such an unfair, I would say, decision that gets taken. And we're really fighting about it. Unfortunately, like you said, some of the people, maybe they have cash, and so they're not as worried about the implications on the dynamics and basic fundamentals of the business. We are taking a little more studied approach. We're still examining it closely whether this year the provision will become necessary or not. We are still examining. We've still 2 months' time. We are working with some consultants who are guiding us. We'll take and then confirm to you. But in the meantime, if you want to make an assumption, completely up to you.

Rahul Agarwal: Got it. And on the Kolkata plant, I mean, obviously, that was more in sync with when Hyderabad comes up, we'll plan to shift some production there. What is happening on that? Any status update?

Deepak Khetrapal: The day I commission, I'll tell you what I'm doing. First, my focus is on activating Hyderabad, and then we'll talk about Kolkata.

Rahul Agarwal: Okay. And like worry was essentially whether we lose -- for a brief period, do we lose any revenue there next year or how does that work?

Deepak Khetrapal: Not at all. Not at all. Now there's no way we'll do anything which sort of makes our revenue drop because the right product is not in the market. That we'll never do.

Rahul Agarwal: Okay. And lastly, what is the fan sales volume growth for 9 months? Is that number available?

Deepak Khetrapal: Saibal is there in the call with me. Volume growth, he is asking for, Saibal, if you have it?

Saibal Sengupta: Rahul, honestly speaking, we do not give so much of granular details. Please excuse us. I think we have given you good enough information where this is coming from, because please try to understand, there's a lot of dependency as far as the mix is concerned. And also in terms of Q3, this is the loading season which goes on, the channel filling happens. So there's a lot of mix involvement which happens between Q3 and Q4. So it's not a proper way to look at it, it's an all India -- sorry, an annualized kind of a thing that we need to look into. If you want to discuss anything further, we can have it offline.

Deepak Khetrapal: And Saibal, I'd just like to add to your this thing, as a thumb rule, again, using our common sense more than the data that we are saying we'll not share, the fact of the matter is the non-rated products typically were cheaper products compared to the products being sold, which are with rating, right? Is that a fair assumption? The moment that has been imposed, obviously, the more -- so there is, I would say, the value loss that we see perhaps has -- the volume gain would be there and value loss reflecting actually less than the gain in volumes. Because these are more expensive products compared to -- I'm just using my common sense here without having the data in front of me.

Rahul Agarwal: Yes, I get it. Well, I'm more interested to understand, is the fan industry for the 9 months has actually at all grown? And have you gained market share or not?

Deepak Khetrapal: No, no. Again, the point that Saibal made is very valid, Rahul. Please understand. What he has told you is that last year third quarter was a distortion in volumes. Till we go through quarter 4, it's unfair to take a call only based on Q3. Because this was the quarter of transition. At the end of the year, we'll try and share the data on volume with you. It would be a wrong point in time to evaluate that.

Moderator: The last question...

Deepak Khetrapal: We're done with the time, I believe. I'll have to close because Monday morning is Orient Cement Board meeting. I need to prepare for that as well.

Moderator: As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Deepak Khetrapal: Well, thank you for handing it back to me. But the only thing I have to communicate is, again, my gratitude, my thanks to all of you who show such clean interest in our operations and how we are doing and keep challenging us with questions which give us more ideas to ponder over. So thank you very much for your support and for being with us. And we'll keep making sure that we don't let you down with the kind of initiatives and strategy that we're implementing. Thank you very much. Thanks.

Saibal Sengupta: Thank you, everybody. Thanks a lot.

Deepak Khetrapal: Thank you. Bye-bye.

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

(This document has been edited for readability purpose)

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