

L-1/869/SRB

September 3, 2016

To,  
BSE Limited  
Phiroze Jeejeebhoy Towers  
Dalal Street, Mumbai 400 001

: Code No. 500031

National Stock Exchange of India Ltd.  
Exchange Plaza, Bandra Kurla Complex  
Bandra (East), Mumbai 400 051

: Symbol: BAJAJELEC

Dear Sirs,

**Sub: Transcript of Post Results Conference Call held on 22 August 2016**


**Re.: Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015**

Further to our letter No.L-1/SE/AMP dated 22 August 2016, we enclose herewith transcript of the Post Results Conference Call held by the Company with the Investors, on Monday, 22 August 2016, on the financial results for the quarter ended 30 June 2016, which was hosted by Edelweiss Securities Ltd.

Kindly put this on the Notice Board of the exchange for the information of the investors and general public.

Thanking you,

Yours faithfully,  
For Bajaj Electricals Limited



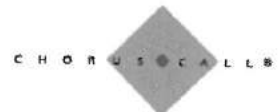
Shekhar Bajaj  
Chairman & Managing Director

Encl.: as above.



## “Bajaj Electricals Limited Q1 FY-17 Earnings Conference Call”

**August 22, 2016**



**MANAGEMENT:** **MR. SHEKHAR BAJAJ – CHAIRMAN & MD, BAJAJ  
ELECTRICALS LIMITED  
MR. ANANT PURANDARE – CFO, BAJAJ ELECTRICALS  
LIMITED**

**MODERATORS:** **MR. AMIT MAHAWAR – EDELWEISS SECURITIES LIMITED**

**Moderator:** Ladies and gentlemen good day and welcome to the Bajaj Electricals Q1 FY17 Earnings Conference Call hosted by Edelweiss 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 the operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Amit Mahawar. Thank you and over to you sir.

**Amit Mahawar:** Thank you Lizann. Good day everyone and a warm welcome to all of you participating in Quarter 1 fiscal 17 earnings call for Bajaj Electricals Limited. From the management we have with us Mr. Shekhar Bajaj – Chairman and Managing Director and Mr. A.M. Purandare – CFO along with other members of the senior management team. I will now hand over the call to Mr. Shekhar Bajaj for his opening remarks, after which we will have the floor open for Q&A. Over to you Sir.

**Shekhar Bajaj:** Thank you very much Amit and good afternoon to all of you. After the quarterly results unfortunately we had fixed up another AGM of another group company where I am the chairman and therefore we could not have our usual conference call at 4 PM on the same day of the result. But that's why we've delayed it and I was out of India after that. But in future hopefully this type of overlapping will be avoided so that the results can be analyzed immediately after the results as usual at 4 o'clock so in future hopefully this won't happen.

Now coming to our quarterly results; overall you must be pleased to see that against Rs. 34 crores last year Operating Profit before tax has gone up to 36 crores. EBIT has remained at the same level at Rs. 56 crores. Now what we have done is that we have divided basically into B2B and B2C so EPC is nothing but B2B and all consumer products including lighting is now B2C because we realized that lighting really goes well with appliances and fans rather than with the luminaires. If you look at it for the coming year that is in the current year we can look at each of those two segments are around 2500 crores, each so we are possibly looking at a number of about 5000 crores against 4600 crores last year and therefore each of the group can look towards 2500 so let us see which one does more than 2500 so both the groups can now work together to try and see who gets better numbers.

Coming to the first quarter result; if we look at our EPC, EPC has improved the profitability by about 7 crores while consumer product groups has reduced by 7

crores but in terms of our capital employed and the working capital, we have improved by 2 crores by way of reduction in interest cost, that is why 34 has become 36 crores. If we look at it and go into little more detail, this quarter why we delayed our results was that we had to convert into IndAS and that was taking lot of time because it looks easy but it's quite complicated. But when we look at it and compare it with the earlier system of accounting, there is a difference of almost 5 crores which is shown better in the EPC business because of IndAS. So actually it is the numbers because the provisions that are required to be made towards AS7 is reduced by that level. However there is a 5 crores additional charge that has been done from the HR point of view from the employee point of view earlier which was also mentioned in the previous quarter that instead of 20 crores is the incentive which we were making a provision and debiting it in the second quarter every year, we are now spreading it over the four quarters. So 5 crores of additional provision has been made towards incentive provision of annual 20 crores, so in the second quarter you suddenly find that instead of 20 crores provision will be making only 5 crores provision and therefore second quarter compared to the previous second quarter will show a substantial improvement which we'd got to do because we have spread out over the four quarters. And therefore on one side we got a 5 crores which we got additional because of the IndAS way of accounting while another 5 crores we have taken the additional burden of employee cost because of the new way we have decided to split the amount of incentive. In addition to that there is a 2 crores additional provision we have made towards the retention bonus. We have said that at the end of the period after two years if you continue to be in the company role then you will be getting a certain amount of incentive so we worked out the possible liability taken into account how many people normally are leaving the company and keeping that in mind we have taken the present value and on that basis that comes to about 2 crores per quarter so that 2 crores is additional there. So actually 7 crores is the additional employee cost burden that we have taken in the first quarter because of these two reasons and 5 crores the additional amount which we have got in EPC because of this additional amount that we had to not provide for because of the new IndAS rule and therefore net if I look at it, 2 crores is the additional operating profit compared to the previous year that means 36 crores would actually have been 38 crores if we look at like to like.

As far as roll out of the RREP is concerned, it is going extremely well. We are hoping that by end of the year, that means by 31<sup>st</sup> of March, 2017 we would have

covered almost 100 districts. We have decided that we are going to cover by end of next year, we will cover 200 districts of that 99 is actually what they are saying but I will say 100 districts we will cover by 31<sup>st</sup> March, 2017. That will make us 40% to 50% of our total business will be through the RREP method.

Now what we have seen which is very important is that though consumer durables it shows a negative in terms of the net margin, our first level margin at every businesses whether it is Morphy Richards, where it is KAP or DAP appliances or it is fans, everywhere our margin has improved from maybe 0.5% going up to 2%-3% so that is the improvement in the first level margin in all our consumer products so that's the good news. That once we are able to get our things going and as soon as we start improving our sales turnover then the overhead gets distributed over larger volume and therefore to that extent, our overheads will come down. We are expecting the second quarter there should be some zero or some positive growth in consumer products and then third quarter we will be much better and fourth quarter should be the best. So all the four quarters overall we are looking at a positive consumer product. At this moment we are (-) 7% below that we make it up and will be positive. Though internally our people think it will be more than just zero-zero, it should be something positive. But to play conservative I would say that we will not be negative in these consumer products. As far as EPC is concerned, we got enough orders in hand and therefore we can clearly look at the EPC and luminaires together should be looking at anything from 15% to 20% growth and with that we are still hoping that we will somehow will cross our 5000 crores which is our cut-off for the current year, 5000 crores is what we need to do, so this is what is our direction. Interests are very much in the control; capital employed is very much under control. We are further reducing our working capital and we are hoping that by end of the year our capital employed will further go down, for two reasons, one is of course with better collection and second is because I am making better positive profitability. To that extent that cash flow comes in and to that extent my borrowings go down and therefore my capital employed is also come down. So with these words I think I would like to again thank you for joining this conference call and now I am open to answer any questions. Thank you very much.

**Moderator:**

Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Renu Baid from IIFL. Please go ahead.

**Renu Baid:**

First wanted to understand, in the comments also you have mentioned that gross margins overall for the business have improved and that continues to be encouraging. But overall if you look, take a two year view what is the outlook with respect to the margin improvement, do we continue to see 200 to 400 basis points kind of improvement in gross margins or probably bulk of the improvement has already seen what we were looking at the numbers?

**Shekhar Bajaj:**

What really is happening is that gross margins whatever additional discounts which we were giving as a special deal, at the end of the month or end of the quarter or we were really pushing to achieve that extra sale, that we are not doing so to that extent in the marketplace there is a stability. Also we are finding that in terms of our cost because the supply chain has all been centralized and therefore supply-chain is also looking at improving our purchases in terms of bulk purchase, looking the costing in detail and looking a new vendor and also seeing that we improve our quality. So overall, all the three logistics also we have done a lot of work getting reverse auctions, so therefore on logistics we are hoping to save some money in terms of our supply chain, in terms of purchases we are reducing and in our margins by not giving an additional discounts, so all the three areas anything from 1% to 2% increase will take place. We are not looking at trying to further improve our margins, rather increase my sales because I have already had high overheads and therefore sales growth is more important not to further try to increase margins. Wherever costs can be ready use like for example at this moment personally I feel the GST which I did not talk about is something which will not come in though government can keep saying April, personally I think it will come in April 2018. I think 2018 it should come in full swing and therefore to that extent lot of compression will take place in terms of number of warehouses that may be required. All those aspects therefore there will be certain amount of cost reduction which will take place. Also when we introduce all the four businesses together, the lighting, appliances and fans both appliances both KAP and DAP, those four businesses which I mentioned in the last conference call that we have merged that from 1<sup>st</sup> of April. But now I can say with confidence that it is stabilized very well. We had conferences, we met lot of people and asked them that those who are only doing lighting what is your comfort level to doing appliances and fans or the people who are doing appliances how comfortable are you in lighting. All of them unanimously said we are very comfortable, dealers are very happy. Instead of 3-4 people going and visiting the same dealer, one person goes he is able to take care, also it takes care of the seasonal factor. Because

throughout the year the salesperson is going and all the time enough business to do with the dealer, if it is summer, he got fans and cooler, if it is winter he got the water heater and room heater. So the dealer is continuously motivated and one person goes in his keeping himself busy. So overall we think the percentage of fixed cost, once this RREP gets completely spread then will be fully 200 districts which will cover almost 90% of my turnover will be through RREP by 31<sup>st</sup> March, 2018 or maybe a couple of months earlier.

**Renu Baid:**

Second question would be little more on the growth in the consumer business. I understand we have now regrouped the entire B2C into the consumer bracket. But within that will it be possible for you to share how is the performance of appliances and the consumer lighting space vis-à-vis the market?

**Shekhar Bajaj:**

As far as lighting is concerned it is showing substantial negative, for two reasons. One is of course obviously as we've not taken any new EESL orders in the recent time with the type of pricing that is taking place is just not making sense because it doesn't give me any profit. So the top line you may get but it doesn't give you the bottom line and the risks are there because you have to give guarantees. We don't know after two or three years which something can sale, there can be a liability which can be coming so therefore to that extent if it doesn't make any margin we rather not have that top-line just for the sake of it. So lighting clearly showing a negative growth because compared to last year, this year we have said we almost got no order at all. So therefore to that extent lighting is negative. As far as fan is concerned, both appliances and fans are flat. One of the things which when we went to the marketplace and discussed and talk to also our sales people, we just now had a meeting there, all the top performers we have met in Prague. That's why we just came back three days back so when we talk to them they all said that secondary sales is not getting that badly impacted. What is not shown is that you are only showing primary sales that they are not dumping that extra material in the market and therefore to that extent there could be a 3%-4%-5% growth which is taking place at the secondary level which we are going to only come to know now for that November will be a very critical month for us because by November Maharashtra and Tamil Nadu will be 100%--what we have taken, we won't do all India at same time we are doing state wise—so Maharashtra and Tamil Nadu by end of October we are hoping that it will be completely on RREP. So with the result that in November we will really see the growth because when we say Bombay was actually a wholesale market which was going to Kolhapurs and Sholapurs and Ichalkaranjis. Now we are

saying that everything is now complete. Everywhere distribution is in place. So therefore then you really in November or maybe December we will come to know that now if we say there is a growth of 20% then it is real growth or its (-5%) that means that after RREP roll-out also if Maharashtra still shows negative that means after the full rollout also if negative then it's a very serious matter. So November will be a good time and December of course would be very clear. The December whether we are having a positive growth, negative growth or no growth that would be very important. So we will be finishing Tamil Nadu and Maharashtra at the end of October-November so therefore we will be able to make a clear cut direction that how we are going. But expectation is this second quarter we should be flat, third quarter of we should have around 5% growth or 10% and the last quarter should be (+10%) so therefore total further year we are saying against (-7%) in the first quarter, we should be positive for a year as far as consumer product is concerned.

**Renu Baid:** One thing if you can add for fans you had also received the ESL order for bulk sales so when are we expecting deliveries for those supplies to commence and complete?

**Shekhar Bajaj:** We got only one order of 30,000 fans which was last year we got it and we completed it. I don't think anything we have got recently from EESL as far as fan is concerned, fans we have got no new orders.

**Renu Baid:** That order is out of our books completed and done?

**Shekhar Bajaj:** Yes that was only 30,000 fans, no big deal.

**Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

**Achal Lohade:** You said fans is flat Y-o-Y but if we look at the other companies reporting fans growth in double-digit and we were told that the industry is grown at a similar pace for the quarter because of the strong summer season. Just wanted to get a color, is it purely because of the RREP in your view or is there anything to be concerned about in terms of market share?

**Shekhar Bajaj:** Personally I think it is got to do with RREP only as I mentioned few minutes back that only the truth will be known in November December because when we don't have a growth, the sales person always have their story ready then because the



wholesale market where it was going or we have not appointed the distribution set-up in up country and therefore to that extent we are losing out that sale. So once we are completely rolled out in Maharashtra and Tamil Nadu by end of October-November then in December we can say with confidence that now you don't have any story, now if your growth is not coming as per industry or better, that means we are losing out or market share. So by December you can next of at least we will have a next conference call we will be having a better situation.

**Achal Lohade:** I just wanted to check in terms of the impact of IndAS on the debtors provisioning side specifically for the EPC business.

**Anant Purandare:** Debtors provisioning is not impacting. The IndAS impact is only on the cash-flows which will get postponed because of retention money in EPC business. It is not impacting provisioning which is as per our Board guideline, we follow that for provision.

**Achal Lohade:** Any thoughts on the margins because now it's a revised segmentation. What would be a good number to kind of assume for FY17-18 for the consumer in the EPC business?

**Shekhar Bajaj:** I mentioned to you that as far as the first level margins are concerned, there is 0.5% to 2% improvement taking place in the consumer business and the EPC business, out of three of its sub-segment, in case of luminaires it's slightly better, in the other two, it's much better. But part of it is because of IndAS that 5 crores additional provisions which we would have made compared to previous year we did not have to make so because of that the margin which have been shown in the EPC segment shows the improvement of 7 crores of that, 5 crores is because of this, so you can take 2 crores as improvement. The margins are clearly better. Now what happens is we have taken a view that after the project is over because we have seen that there are too many times that we say that everything is fine, but when the year comes to an end or the project comes to an end, there are some claims and all, which comes. We say we plan on the basis of 10% and so if it is showing 12% we don't make 12%, we keep it at 10% remaining we are making it a provision after the project is over and we find that 2% is not required, because we got all the money and everything then that 2% get reversed and that particular provision is reversed. And therefore and every quarter lot of these provisions as soon as the project gets completed gets reversed. So that's a built-in provision which is there to take in our other contingency which may come up

so this EPC business is always a little dicey so you have to keep a certain amount of additional provisions there some new claim, new penalty or anything can come, some penalty may come which we think are not going to come may come and some other things are there. So we have got in the provisions that are there as a safety factor that net you should not expect in the coming years also that there will be a net negative for any year one particular quarter they can be, but overall for the year we have enough provisions to take care of any claim that maybe coming in the EPC business.

**Achal Lohade:** Basically what I wanted to check given the revised disclosure in terms of the luminaires been part of the EPC business, would it be fair to assume a similar 6%-7% kind of a margin range at EBIT level for EPC business?

**Shekhar Bajaj:** I think so, just as I said in our business, if we look at it, almost 0.5% is because at 5 crores if you look at it that 5 crores is almost 1.0% is about ,, so 6% to 7% is absolutely in order, there is no problem at all. Because current year obviously the first quarter is weak quarter. if you look at it. If we look at our year we are looking at 5000 crores, we have done about less than 1000 crores so if we look at on a straight line method it becomes 4000 crores by end of the year. But we are looking 5000 crores so on that 1000 crores which we are talking about, that is where the benefit to the company will come back every quarter we do more than 1000 crores, our fixed cost is almost flat, our working capital if you look at our interest cost is almost 23-25 crores per quarter. So that remains almost same and therefore in that additional sale will give us extra contribution without any extra overhead because we are not adding any people for doing their extra business. so because first quarter is the weakest quarter the fixed cost percentage was the highest and first quarter it's always the lowest so therefore you see suddenly your margins improve by 3%-4%. Actually the margins are not going to improve by 3%-4% it is because the fixed cost which would have been in the first quarter 13% it may be only 8% or 9% in the last quarter and therefore it shows a 3%-4% improvement because of that reason alone.

**Achal Lohade:** You mentioned 50 to 200 bps improvement that is to do with the gross margin. What I was wondering about the EBIT level margins for the new consumer products segment?

**Shekhar Bajaj:** I told you that it is got to do with our top-line because as far as our margins are concerned that is something where we can decide, this is my purchase price, this is my selling price, this is my margin so therefore that is under my control, what is my

selling price, as far as my turnover is concerned my fixed cost is already there. I am going to spend, as I mentioned as an example, that against 100 if my fixed cost was 10, now the 10 becomes 13 because I have added people for RREP, etc., and my sales from 100 remains 100 then 10 becomes 13, so my first quarter is only 1000 crores and let us consider that the fourth quarter should be about 1500 crores, so now you imagine that my fixed cost which remains almost same at the end of the year fourth quarter if it is 13% in first quarter it will be about 8% or 9% in the fourth quarter, so that's why the percentage which we are talking about depends on what is your turnover. So we are looking at the 1500 crores in the fourth quarter against the 1000 crore which is happened the first quarter so obviously my fixed cost is 13% will go down to maybe 8% or 9% so the 3-4% increment will take place.

**Achal Lohade:** About the capital employed, earlier we used to talk about the EPC we will kind of try to restrict the capital employed up to about 700 crores odd.

**Shekhar Bajaj:** Correct.

**Achal Lohade:** Now I understand Luminaires is also a part of EPC but if I see the difference between the fourth quarter or in the past also around 700 crores range, now it is 1020 crores for the business. So two possibilities I am trying to understand which one of that is correct. Number one, if the EPC business has seen increase in the capital employed? And number two, the difference is purely because of the Luminaires?

**A. M. Purandare:** Difference is not because of Luminaires, this is because of presentation on the basis of IndAS requirement. As you know we were showing all acceptances as the creditors. Now the IndAS says since this arrangement is through bankers it has to be shown as a loan not as the creditors. In our earlier presentation we used to net it off as creditors. Now we are showing it as a loan and this is gross of that. So that is the main difference, it is not because of Luminaires that is the big difference.

**Shekhar Bajaj:** Let me explain to you that if we compare like-to-like, against this 102 if we take on the same basis last year it would be 937 crores, so 937 has become 1020.

**Achal Lohade:** So acceptances were around 300 crores, would that be a fair assumption?

- Shekhar Bajaj:** Absolutely correct. So it's gone up by about 10%. The first quarter is always a problem. You see every quarter the overall collections are improving, so you will see the improvement coming.
- Moderator:** Thank you. Our next question is from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.
- Bhargav Buddhadev:** Can I know what has been the cash generation for the quarter and how was it same quarter last year, CFO?
- A. M. Purandare:** The one thing is that our borrowing has come down, so that itself shows that there is a cash generation from the operations.
- Bhargav Buddhadev:** Can I get the figure?
- A. M. Purandare:** Actually it is not ready with me but obviously I can give it to you.
- Shekhar Bajaj:** See, one thing is very clear unless our treasury person has done a really great job in terms of reducing our cost of borrowing, otherwise our total amount of interest cost has gone down by over 2.5 crores for the quarter means that our borrowing has gone down obviously, that's very clear. Unless the interest cost has gone down so substantial that the borrowing has remained same but because the interest cost reduction there is a reduction but 2.5 crores is a lower instead of last year 25 crores odd now it is 22 crore, that is our interest cost. Interest cost is a proof that our borrowing has gone down, that's all.
- Bhargav Buddhadev:** Secondly, clearly the company is now moving towards a pull based demand with the TOC implementation. So just wanted to ask you in terms of what is Bajaj doing in order to revamp their product portfolio. Is there any rising focus on R&D spends, any recruitment on this front, if you can just qualitatively spend a couple of minutes on this?
- Shekhar Bajaj:** It's very clear, two things are very critical, you can have great distribution, but if you don't have a good product range your distribution is good for nothing. So therefore revamping the product portfolios will, first is we have done a lot product rationalization. We have now for all the consumer products business 2400 SKUs have been brought down to 800 SKUs, so that's a major reduction. Of course, those which is a transitional period where those material will be still decided to get out, still

if some of them are obviously in stock will take us 2-3 months, 4 months to get rid of it. Finally, that's the only 800 SKUs because one other which came up when we merged these businesses the poor salesperson says, 'I was earlier managing 400 SKUs, now you give me 1600 SKUs, I will go crazy'. So now we are saying, 'Don't worry, we are reducing it down to only 800 SKUs instead of that so you don't need to worry', and our objective is 800 is too many so we reduce the SKUs to maybe 400-500 over a period but we said lets go from 2400 to 800, next phase we say 600 but then one thing is very clear Anant Bajaj, he said, 'I am putting a freeze that this 800 you can't increase, you want to replace it we will agree'. We will reduce something and increase but 800 is now frozen as far as non-EPC business is concerned we will not have more than 800 SKUs and to that extent also inventories will come down, managing inventory also becomes easier from a customer care point of view also to consumer to be able to service the number of SKUs were going crazy and therefore it was being difficult. So all those things are happening, so two things I have mentioned, one is that you need to have new products, you see in the next few months lot of new products are coming into the market place, you see the R&D center, Anant mentioned in our meeting also we are hoping that the formal thing will be ready by end of September-October so next two months it will happen. But the R&D center will be what we are talking on long-term, short term is with our existing products whatever new products which have been introduced so that development activity R&D, I am looking at Anant's thinking about future, he has something wow. While D&D which is there, development is something which has to be happening every day so that you will see new products coming so that is one aspect which needs very strong focus and that is going to be there. Second, which is also very critical when you do this RREP, it becomes very important that you can keep creating a lot of new outlets and you can fill up that with material but if the material does not move out, it remains in the shelf then you are in trouble because then most of the people say, 'You told me it's a great product, great demand, I kept your products but it's not moving'. So therefore creating a consumer pull is the most critical work. RREP has one other thing required is availability which we have done a great job so 92% of the consumers whatever anybody sells, the replenishment has become very strong so therefore no dealer is complaining about the replenishment which is your availability. The area which is important is the demand to be created and therefore whether it is starting with.... we decided we will concentrate on non-cricket,. So starting with Kabaddi we were the first. When nobody else was thinking of Kabaddi we went in there. Then of course it was a hit, so everybody wants to come into Kabaddi. Then

we said okay, let us be the first to get into Wimbledon, so we went into Wimbledon. Now we have done the Rio and next is badminton which we have already – so we have already covered. So therefore now the demand and viewership of the sports channels have gone up substantially especially after Sindhu silver win, now everybody wants to going to watch badminton also I can guarantee you that. So we in anticipation instead of waiting for it becoming popular and then getting into it we have tied up with Star Sports in a very big way for a long period and to cover all the non-cricket sports. We encourage Indian sports also. Kabaddi and all are Indian sports, which we as an Indian company would like to encourage Indian sports.

**Anant Purandare:** Also your earlier question regarding cash flow from operations, March'16 we had borrowings of around Rs. 967 crores including acceptances, which has reduced to Rs. 885 crores., This is a reduction of about Rs. 80 crores which is on account of profit from operations and reduction in working capital.

**Participant:** So Rs. 967 crores has come down to Rs. 885 crores, total loans outstanding.

**Anant Purandare:** Yes.

**Participant:** And sir basically on the ENP front if I look at FY16 there has been a significant order inflow decline in the ENP business. So is it that there is some fundamental change in which Bajaj is basically bidding for projects, if you can just briefly explain on these points sir.

**Shekhar Bajaj:** No, this is very clear, which I have been saying for the last 4 years whoever has been following it, that EPC business is not our core business, we are there to make money and therefore if we do not make a certain minimum level of margin we will keep quoting and if we find that we keep losing orders, it is okay. So we are more interested in taking orders, where we make money on one site. Second is I want to do a proper execution. What happens is you take orders and you are running around like – after this project, that project you cannot complete it therefore you delay the project and therefore there is a cost overrun. There is LD clause, all of those. So we are saying let us take limited business, proper margins and let us complete it in time, hand it over, take our money and be happy. So at this moment we have enough orders, 2500 crores is not a bad order book and highmast, which are orders of small duration, which are about Rs. 150 crores. You keep getting orders and you keep supplying it in 3 months, 6 months to complete it. So the long term orders are

basically power distribution and TLT. We have recently got a few orders but otherwise TLT we were finding it because KECs and Kalpataru, all of them have enough capacities, orders of everybody has come down because everybody has capacity which is unutilized so everybody is playing the price game. So we are not wanting to play the price game. We said, it does not matter, if we do not get the order, does not matter. If the factory is running 3 shifts, will run 2 shifts, what is the problem. That is the stand we have taken plus we are also saying though we are looking at 35% but not more than 40% of our turnover will be EPC business. That is very clear. EPC means pure EPC, not including Luminaires. That means the pure EPC business in any case we can get a Rs. 10,000 crore order and then you keep getting into problem in terms of execution, we are not interested in that. So once we find that we have sufficient orders, we can say okay now instead of X% we will work at X+%. So if orders do not come, it is okay. We had enough orders so I was very worried that the Rs. 3500 crores order are we going to execute in time? I do not want to have any problem.

**Participant:** The reason I was asking is that given the order inflow decline, will Bajaj not be desperate to win orders that are to be declined?

**Shekhar Bajaj:** No, you will not get desperate, let it become zero.

**Participant:** And sir my last question is that on this EESL coming up in fans given that in the first tender the pricing was around Rs. 800. Do you think this EESL in fans can be sort of disruptive for margins in the fans business going forward?

**Shekhar Bajaj:** We have had number of meetings including with the Ministers also, , and what we have said is that please do not mix up a consumer durable with a consumable like LED light, because LED if it is fused, it will take a replacement and that is the end of the game. In case of fan, a durable you are asking us to give you a guarantee of three years and concern that fan should last for 8 to 10 years, 15 years, who is wanting to change a fan in 3 years so somebody will give us absolutely low quality fan, then somehow it will last for 3 years and then say he is out of guarantee and he is happy and poor consumer ends up getting scrapped. Second is very important is what happens after 3-years guarantee period is over. Even during the guarantee period is over where is the service setup that others have. If somebody is supplying to me at 700 and I am offering at 800 he can easily say I will give it to you 750, what is his problem? No problem. But what about the service set up? So they have agreed that

yes, we are going to put those criteria for those who are participating that they have to show what is their service setup, ? How are they making sure that the service will continue after the period is over? All those aspects which they are putting in with some type of minimum cap of experience that a person must have, otherwise today in a consumer durable if products especially fan starts selling and turning bad in 3 to 5-years, people will be devastated because we are saying are you looking at the interest of consumer or you are only interested reducing prices. So that is what I think they have understood, they are putting a lot of conditions. And therefore we expect that absolutely the fly by run operators may not be able to be eligible plus it requires a lot of money to give bank guarantees.

**Moderator:** The next question is from the line of Anuj Sehgal from Manas Capital. Please go ahead.

**Anuj Sehgal:** I had two questions. First on the consumer business – on the RREP as you said it will be about 40-50% complete by the end of this fiscal year, I think earlier the target was 70% if I remember correctly. So is there any slowdown in the rollout based on the feedback that you are getting from your retailer and then the related question is that when we look at some of the other companies, none of the other companies in the same industry or space have a completely direct model. They all have a mix of may be entirely wholesale or 40% wholesale and 60% direct or some mix of that kind. So what gives you the confidence that in a large country like India you can practically run direct to retail like a RREP kind of a model. And then thirdly some earlier caller also asked, so while you do not know whether you have lost market share or not but in the interim all the other companies and brands are continuing to see double-digit sales growth and therefore their positions are getting entrenched both in the minds of the consumer and as a business. So once your RREP is complete how do you plan to get back your potential market share? And then lastly just a bookkeeping question – the capital employed in the business based on the earlier standard was I think 1035 crores and this time around it is 1671 crores. So the entire 635 crores is that because of the reclassification of acceptances?

**Anant Purandare:** Last year June the figure was 1657 and the current year is 1671.

**Anuj Sehgal:** No, no, I understand that but if I look at the March 2016 figure as of the previous standard that was 1035.



**Shekhar Bajaj:**

We said the Rs. 300 crores is because the acceptance is now as per IndAS, it is required to be added up. So you see the thing is Rs. 600 crores extra was utilized for our business purpose immediately we would have had a higher borrowing and our interest cost would have gone up because if the interest cost is going down that means everything is under control.. If you are not borrowing money and you are still able to say I have got so much extra money, borrowed without paying any interest, that can be done, it is not physically possible. Interest cost cannot come down if your borrowing has gone up at Rs. 600 crores Even Rs. 100 crores if you have gone up, it would have shown so that obviously because of this IndAS and all this new accounting method and then you think all acceptance has to be part of your borrowing, it is actually a liability so to that extent that it has shown there as debt. There are so many questions now I am going to forget. So let me try and if I miss out something, please add it. So, one is of course very clear that earlier we were talking of 70% and that is what was the objective then we found that there is a resistance. The resistance in the market was that in the upcountry because there is a single dealer, who is dealing in all products and when we were going individually to sell fan separate, appliance separate, lighting separate, there was a cost involved and therefore dealer says "it is not affordable." It is not making my two ends meet because the distribution which like you have mentioned that carrying by FMCG model in a consumer durable nobody has ever tried it, there is a cost involved of 2-3% so can you afford that type of luxury if I use the word, to go and do the step for distribution which nobody else to doing? So the answer is that, that is what we are saying, we want to differentiate ourselves. Others cannot just copy it. This is not using others copy by giving a 5% discount, but you cannot copy by making it available. Availability which I mentioned earlier is something which we have now got a backup model of the replenishment where anything that sells gets replenished immediately, which nobody can just copy so therefore the availability we have made sure it is available. Now we are saying that Mister you do not need to worry about keeping inventory if you are selling 100 mixie a month, you should keep only 50 mixie as a stock. I am going to come to you every week and replenish you, so why the hell are you going to keep 100 then keep 50. So he suddenly says Competition, when I want 100 fans, they say take 200 fans. And here is Bajaj when I say give me 100 fans, he will say just take 50 fans. Plus they are coming to my home, otherwise I have to place an order to the wholesaler I have to follow up with him. I have got so many other things to worry about. Today a dealer has got so many things to worry about. He says if somebody gives me home delivery. Today what is happening most

of us are using the phone and are ordering our vegetable, ordering our things, why? Do I bother to ask him I can get it from that, if I go in the market I can get 2-3% cheaper but why are people using online? Because there is a convenience. Today time is money. Dealer says where do I get out of my shop to go and order? Here he tells you that I will come every Monday between 10 and 11 o'clock. So he is at 10 o'clock is ready with his list. It saves my person's time. If I go anytime to a person he says today I am busy, today I have got some guests, today I am traveling, today I am in the marketplace. Here he says, 10 to 11 is Bajaj time. So 10 to 10:30 even half an hour is sufficient and before I can cover much bigger marketplace because now he also knows, now in between suppose suddenly he gets a big order he can always pick up the phone and then once in a while, one out of 10 times he will ring up and say can you send me 50 fans, I have suddenly got a big order. Otherwise he comes every week and he gets replenished because again we are saying you keep a stock of more than 15 days. And order is replenishing the order within 48 hours I will replenish it. So under the circumstances, instead of 7 days if he sells double the quantity till then he has stock. If he has more demand than that then he goes back and if places an order suddenly I have 100 I need 500 then he will place the order that we will supply ad-hoc. So that is a different matter. So therefore because of that the convenience of thing is so important to a dealer, if you talk to a retailer he says, with this my life has become easy. For a wholesaler or a distributor, he says at the end of the month I used to be under pressure, I am only at 70% of my target. Here we are saying you keep doing your work, do not worry about the bottom-line and the turnover will come automatically. He does not have to go and depend on the dealer of the last day to get orders. That chap is also not waiting that I will get a special deal. So all those things which are happening earlier is not happening now and therefore people initially did not believe it. They said how can this happen. Like you are having a question mark, everybody had a question mark, our own people had a question mark that at the end of the month if we do not do it competition is going to dump and therefore you will lose out your sales, okay, then what. Then finally there is a demand which has to be created, which we are doing through our advertising and brand building which will create a demand, a consumer demands it, the dealer will keep it up for that. That is very clear. If the demand is not being created, yes, you do not have new products, you do not have updated products, you do not give updated products, you do not get a good price obviously the customer is going to say sorry. But 1% or 2% we make a big issue out of it. oh! the dealer is very price conscious, customer is price conscious. For me that 1% to 2% is extra cost of this RREP distribution and personally I have

found that there is nobody who is saying "oh! your price is 2% higher, sorry I am not going to buy from you. I will go and order with a wholesaler, it does not work." Our experience has been other competition also has now looked at it and are worried that what Bajaj is doing, we better do it. So I do not want to take names but two of them have been talking to me, how you have done that, we also want to do it but the issue is which is the difficult thing for anybody to take a decision and that is what we also mentioned is that when you want to do distribution you cannot have distribution and wholesaling going on parallelly. So you have to take a hit for three months, six months, one year which we are taking, which let anybody because we are involved in day to day people like me and JMD are involved in day to day and we at our level can take a risk, "okay do not worry, negative growth, no problem, you do the right thing." After 2 years you will enjoy the fruit. So somebody has to stay at the top level, if the person is not day to day involved, they say I do not understand all this. Why you are showing negative growth. I said we do not want growth, we want you to do the right thing. Growth is resultant. We are not wanting to have growth for the sake of growth. So therefore all others, if they are not ready to give up a short term benefit from a long term this whole thing cannot be just copied by anybody if we tell you very clearly, we had our own resistance internal and therefore we had to slow down till he got all the four groups together because we were not getting viable. See when you are doing it we encounter problem and we are there to solve problem. That is our job. So we have solved the problem by all the four groups being together, now it is becoming viable so left, right, and center everybody says give it to me, give it to me. We cannot do it altogether. It is required one month of continue this four cycles, these four cycles, weekly cycles have to be completed that means it has become a way of life for dealer, then we will say okay we will go to the next dealer. We cannot go and say let us do all 50 dealers together, it cannot be done. One person has to be with them throughout for one month. So for every dealer we have to have one person so I can do maximum, if I have got 50 people assigned for this purpose for doing this rollout I can do some of 50 distributors in one month. That is the number.

**Anuj Sehgal:**

And just one clarification as you said once this is rolled out ultimately it will boil down to the kind of demand pool that you can create for the consumers to buy our product. Now in the interim if the other competitors are gaining share or getting more entrenched, do you plan to then significantly increase your ad spend, let us say next year and what are the other levers to then pull more demand because otherwise this will not work for you to expand that share?

- Shekhar Bajaj:** In India, there is no loyalty factor. A wholesaler what he does, he keeps 4 brands, whoever gives 2% discount he takes it. That means where is the brand loyalty,. So sometimes you say Bajaj, tomorrow if some other competitor gives 2%, he goes there. So that is why short term is locked that is the fact of life. But long term when he finds that I am giving a better service and better facility to the individual dealer he says okay I have been dealing with X company says what happened, can you give me a home delivery, can your person come every week and please take orders from me? He says, sorry I cannot do it. Then he says, sorry, I like Bajaj. So I am not too much worried about market share loss because that takes no time. Between 3 months, 6 months, what I am saying what I have lost in terms of my sales in the last 1 year or next 1 year but the other side whether the improvement will take place will more than make it up. That is why I am saying yes, we should be positive for the year..
- Moderator:** The next question is from the line of Vikas Mantri from ICICI Securities. Please go ahead.
- Vikas Mantri:** Based on our earlier reporting what has been our lighting and luminous growth?
- Shekhar Bajaj:** (-29%) lighting as independent.
- Vikas Mantri:** Any reason for this performance?
- Shekhar Bajaj:** As I mentioned that because we have stopped taking the orders from EESL which was we had taken last year almost more than 60-70% of our turnover was coming through EESL, now EESL order, now the prices have gone so bad, if somebody has got a sales target then he will take EESL order, sell it, makes more money but shows topline and say I am Fortune 500 company. You can always there as a company Fortune 500 company which is Fortune 500 has got only \$40 billion but it is Fortune 500, so you are very happy. So we have stopped worrying about toplines. We are saying we are only interested in bottom-line and interested in distribution. So therefore if EESL does not give me any bottom-line I am not interested in that business. So I do not care, that is why the sale is (-40%) is immaterial because basically it is giving me no margin.
- Vikas Mantri:** And sir by when do you think we will be through with our REACH program completely?

**Shekhar Bajaj:** March 2018.

**Vikas Mantri:** And then we can say that our primary and secondary sales are exactly the same?

**Shekhar Bajaj:** Yes, I presume so. It will be same, (+/-5%) will be there. The interesting thing I am adding to this people say okay, you have done that. Now after 2018 or let us say even after 2019 everything is done, so now there is no work to do. Somebody can say that because now you have done your rollout, now what you are going to do? There is no work we say sorry we are not going to cover the world market. The total number of outlets that have been sold – Unilever has only 6 million outlets. We are talking about maybe 2-3-4 lakh outlets, so therefore what we are discussing, it is a long way to go in terms of distribution. Once you go there then you can keep it expanding. Like for example, if there are 1200 outlets in Tamil Nadu we have covered 800-900 outlets. So we have covered 900. When we find that this rollout is over, then we add another one sales person and do 1000 outlets then 1100 outlets. Then from Chennai you go to Madurai, then from Madurai and from Madurai you go to other places and keep expanding. There is no end. India is so big that you can keep expanding forever and ever and keep flourishing. And the future clearly is with the Pay Commission revise, with the support which is being given for the farmers and all and they also want to have all the luxuries of consumer products, I think if we give this type of services to the rural customers again competition cannot just come in. So if our start distribution RREP and availability in the rural markets which happens, we will be having clearly an edge over anybody else.

**Moderator:** We will take the next question from the line of Rajesh Kothari from Alpha Accurate Advisors. Please go ahead.

**Rajesh Kothari:** So sir basically for lighting business, assuming if you would have been reporting based on the previous year guidelines then what do you think will be current year growth?

**Shekhar Bajaj:** (-29%) has been the first quarter. Lighting segment are you talking about or Lighting-Lighting? See in lighting last year our total turnover was 1100 crores, the lighting segment of which about 500 crores was luminaires and 600 crores would be lighting approximately. Again 600 crores of lighting this year will end up at 400 or 450 crores. This year number will be in Lighting-Lighting. And Luminaires of course will have a growth of 5% to 10%.

- Rajesh Kothari:** So in FY17 lighting you are saying can be about 450 crores and luminaires will be how much?
- Shekhar Bajaj:** There is always a pressure in the marketplace to be in EESL. So we will say okay out of our strategy 100 crores of EESL we will take to zero market. I mean that can be also a strategy that okay you are in the marketplace of ESL, tomorrow at least so many consumers are having our product, maybe 0 margin so what. So it can happen that we end up with 500 crores, so it can be 450, it can 500, it can be 550. Numbers can only be determined every time a tender comes, what is the price. If I make it to Rs. 3-4 I would say should we take it or not take it. So all those things -
- Rajesh Kothari:** And this 450 crores, whatever the number is that basically has what kind of the EBIT margins?
- Anant Purandare:** Now, we have already changed our accounting. We are now identifying lighting as a part of consumer product. So we will be calculating EBIT for the consumer product. So as far as lighting is concerned in the past we had 4-4.5% EBIT margin for the lighting.
- Rajesh Kothari:** And luminaries will have what type of margins?
- Anant Purandare:** More than 8.5% margin.
- Rajesh Kothari:** And in the consumer segment, ex-lighting consumer segment, what is the optimal margin? Do you think let us assume 100 bps, 120 bps improvement in margin over next one year or so, but the margins will still remain very low, correct or do you think that that is what the industry can offer?
- Shekhar Bajaj:** No, sorry, our margins are not low. Our EBIT margins are low. Once our turnover starts picking up, once our fixed cost gets divided then there is no reason why in the next 3 years, I am making a very rash statement, there is no reason why I should not be between 8% to 10% EBITDA and serve the consumer product business, there is no reason. Otherwise in this business we are market leaders, we are very-very established brand, why should I be having less than 8% to 10% EBIT margin as far as consumer products are concerned. There is no reason. Only thing was that because we are doing this rollout there is a lot of cost involved which once we put it altogether we are looking at clearly that fixed cost percentage will come down

because with our turnover going up we will not need to hire new people because now instead of 4 people going to the same market, maybe it is going to be 2 people because we have split up the four businesses. So at least instead of 4 people 2 people will be required. So to that extent our fixed cost will come down. But clearly there is no reason why consumer durable business or consumer product business should be less than 8% to 10%. Clearly 8% to 10% in next three years we must reach. I mentioned about EPC business in 3 years, people say how can you talk about 6% to 8%, it is now an EPC business because we are (-12%) last year everyone say how can you from (-12%) go to (+7%) (+10%). I said we will make it and therefore last year we made an internal capital incurred of 15%, this year we are looking at 20% return of capital employed for the EPC business. So there is no reason why we should have a close mind because we had a bad quarter or bad year, future should be bad why should I feel so. See market is going to be good for small appliances and fans because India cannot afford air conditioners and all and temperature unfortunately is going to get hotter and hotter because of the climate change.

**Rajesh Kothari:** What was your peak margin in the consumer durable business?

**Anant Purandare:** We had more than 10% in 2010.

**Rajesh Kothari:** So you think probably you can get back to those margins in probably next 3-4 years.

**Shekhar Bajaj:** I think that is why I have made a rash statement, I said we should. But I am not making any comment on that. You will be coming after one year and said oh! Mr. Bajaj you said 10%, where is your 10%. So I am mentally saying that if I do not make those type of margins with all the setup we have then what the hell are you in this business for? Simple. Your wondering and my wondering is identical because there is no difference. If we do well, you do well. You do well, we do well.

**Rajesh Kothari:** And your EPC business you said that you are making 15% ROC and our target is to move further and this EPC whenever now you say that includes the lighting part of it

**Shekhar Bajaj:** I was talking about EPC-EPC pure, now this it will be improved because Luminaires is always better than the EPC-alone business. So therefore now Luminaires is part of it that is why it may come to (+7%) this year, so return on capital employed may even be better than 20% for the year because our total capital employed will go

down. Though this new mathematics of capital employed may change a bit then I am comparing with the earlier system where our acceptance was not part of our capital employed. Now this whole thing is changed.

**Rajesh Kothari:** Last time when we were discussing on this rollout and when do you see the improvement in your topline growth I think in two quarters time you are saying that the secondary sales are significantly higher than primary sales but because of this rollout it is impacting your primary sales.

**Shekhar Bajaj:** It is not significant, it is better.

**Rajesh Kothari:** So your secondary sales are better than primary sales. But now after two quarters at some point of time this secondary needs to get reflected in primary, right?

**Shekhar Bajaj:** No, it won't happen. In Maharashtra what you are saying will happen after December 2016. Maharashtra and Tamil Nadu what you are saying will be correct, because whatever correction has to be done has been done. But 50% of the market by March is still under wholesale and regular way of doing business and not the RREP business, so there the inventory will not be corrected because at the end of the month we want to achieve our numbers, we want to do our sales, so there the wholesaler will take the material, he will dump it in the market. We will not give any extra discounts but he will still continue, why, because there is no tracking. Here we are tracking and putting a restriction on how much you can buy. You are putting some norms that okay, you can buy only 100 mixie at a time, then 100 is sold then only you can buy and all that is there where RREP comes in. Other regular wholesalers we do not give any extra, but if you want 100 fans I will give you 100 fans. I will not say you have already got stock of 100, I cannot give you any more, because I am not tracking it.

**Rajesh Kothari:** And my last request is that is it possible to get your last four quarters this new segment wise revenue as well as PBIT because otherwise it will be very considering for us to -

**Anant Purandare:** I think it will not be easy because there are a lot of calculations which goes into that because there is an impact of IndAS also.



- Shekhar Bajaj:** In totality what we should only ask is how is it IndAS to IndAS we should take. How is this quarter compared to the first quarter of last year that is the right way to look at it. Fourth quarter each one what provision I am making. That is why we had to postpone, first quarter we should have given the result along with our annual results but we did not do it because of this reason. It is too complicated – this also got finished 2 or 3 days before the.... And that is why they revised the format. They are not giving that complication. And they give us one more month.
- Rajesh Kothari:** And would it be possible for you to at least put your presentation on your website because I could not find this quarter presentation on website?
- Anant Purandare:** We do not give any presentation on website on quarterly business. Quarterly results are there.
- Rajesh Kothari:** Yes, that is what I am saying, is it possible for you because then we can have some more data, data points, number of distributors, what we are doing and we can track probably with a longer timeframe with available data?
- Anant Purandare:** You want it for yourself or you want my competitors to study and understand what we are doing?
- Rajesh Kothari:** No, no we want for ourselves, we do not want for competitors but it becomes sometimes busy.
- Shekhar Bajaj:** When you say it just casually our competitors see it with Hawkeye, so we are not going and giving all the details, how many outlets, okay please tell us in Tamil Nadu, in Chennai how many outlets you own. If you want those type of details, okay. So we have got 100 outlets, fine. That is why one of the strategies internally which we shared that we do not want to – that is why when you ask for lighting, now it is part of the consumer product group so therefore you do not know what is the margin in lighting and how much in appliances, you will not know, so that is a good news.
- Moderator:** Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for their closing comments.
- Shekhar Bajaj:** Thank you very much and thank you for joining this conference call. You can take that we are very bullish about the company and we feel that this decision of RREP was something which was internally also and our dealers also had a question mark.

But let me tell you that now I talk to so many of our internally our managers, our officers and also to our dealers. Now there is nobody who has a question mark, everybody is convinced that this is a right way to do. They said do not come under pressure of any investors, do not come under pressure of anybody who says, our growth is not taking place, do not get into it. You are going in the right direction. And we are definitely there. Please have patience. If you have a short term 1 month, 3-month type of investors, this is not the company for you. If you are a long-term investor, please stick to us. I can assure you that you will be happy after 1 or 2 years. You will say it was worth it. Thank you.

**Moderator:**

Thank you members of the management team. Ladies & gentlemen on behalf of Edelweiss Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.

