

August 16, 2021

To,

**BSE Limited**

: Code No. 500031

Department of Corporate Services  
Phiroze Jeejeebhoy Towers  
Dalal Street Mumbai 400 001

**National Stock Exchange of India Limited**

: BAJELEC - Series: EQ

Listing Department  
Exchange Plaza, Bandra Kurla Complex,  
Bandra (East), Mumbai 400 051

**BAJ21-Series B NCDs INE193E08020**  
**BAJ22 -Series C NCDs INE193E08012**

Dear Sir/Madam,

**Sub.: Submission of the Transcript of the Q1FY22 Earnings Conference Call (i.e. Post Earnings / Quarterly Call) of Bajaj Electricals Limited (the "Company")**

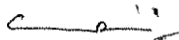
Further to our letter dated August 4, 2021, and pursuant to the provisions of Regulation 30 (read with clause 15 of Para A, Part A, Schedule III) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended ("**SEBI Listing Regulations**"), we enclose herewith the transcript of the Q1FY22 Earnings Conference Call (i.e. Post Earnings/Quarterly Call), as organised by PhillipCapital (India) Private Limited, on Wednesday, August 11, 2021 at 5:30 P.M. (IST), wherein, the financial results of the Company for the first quarter ended June 30, 2021 were discussed.

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

Thanking you,

Yours Faithfully,

For **Bajaj Electricals Limited**



**Shekhar Bajaj**  
**Chairman & Managing Director**  
**DIN 00089358**

Encl.: As above.



## “Bajaj Electricals Limited Q1 FY22 Earnings Conference Call”

**August 11, 2021**



**MANAGEMENT: MR. ANUJ PODDAR – EXECUTIVE DIRECTOR  
MR. EC PRASAD – CHIEF FINANCIAL OFFICER**

**MODERATOR: MR. VINEET SHANKER – PHILLIPCAPITAL (INDIA) PVT.  
LTD**

**Moderator:** Ladies and gentlemen, good day and welcome to the Bajaj Electricals Q1 FY'22 Earnings Conference Call hosted by Phillip Capital (India) Private 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, please signal an operator by pressing '\*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vineet Shankar from PhillipCapital (India) Private Limited. Thank you. And over to you, sir.

**Vineet Shanker:** Thank you, moderator. Good afternoon, everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Bajaj Electricals Limited Q1 FY'22 Earnings Call. To discuss the result, from the management side, we have Mr. Anuj Poddar – Executive Director and Mr. EC Prasad – Chief Financial Officer.

Without taking much of your time, I would now request sir to give his Opening Remarks, post which we will open the floor for Q&A. Thank you. And over to you, sir.

**Anuj Poddar:** Good evening, everyone. This is Anuj Poddar. Thank you for joining us today for this earnings call. I am going to start by putting a headline and, then I will share some data. As you know, this has been a tough quarter for everybody in terms of the quarter being COVID impacted and with lockdown and number two on issues around commodity cost, etc., That said, we continue to maintain our strategic direction and improve on all fronts, and I will talk about that a little more.

On growth, we are happy with our top line numbers in terms of direction and our consumer business. On bottom line, I know that there are a lot of questions particularly on consumer products, a couple of headlines from me there, number one, there are reasons for the dip in bottom line for consumer product segment, and I will take you through that. There are various one-time cost and non-comparable items also, that's why optically it looks that way but as we take you through that, you will understand why that looks that way, it is not as much a matter of concern. Number two, we are very confident Q2, Q3 and on a full year basis, we will bounce back so the direction on that remains intact with what we have been guiding earlier. So, we remain as confident on that part.

Initially, I will talk to you about the cash flow, debt and balance sheet situation which again continues to deliver with our guidance and trajectory that we have been maintaining so far.

Quickly on our headline specific numbers, etc., you have all got the financials, I believe the first filing that happened online on exchanges, there was some visibility issue on font in some cases, so that has been uploaded for your information in case some of you have not gotten, that's been corrected in terms of fonts and visibility on both exchanges. That said, I will not repeat all the numbers since you have access to that, a few headlines on consumer products, rather let me say overall growth for this quarter has been 41% in which our consumer products growth has been 56% from Rs.395 crores to 617 crores. Keeping in mind, this is the fans and cooler quarter where

we are not leader and typically Q2, Q3 is better for us but given our position in the various segments, we are fine with this growth, we think we have done well.

Coming to consumer products EBIT, which seems flat, and which is where we have been getting some questions, that is net of many one-off on non-comparable items. I will walk you through some of the specific items for you to understand what are the cost elements that have gone into this:

1. As we have been saying for the past couple of years, our consumer products business revenues have been going up and our EPC business has been staying flat, and some cases going down. And therefore, our proportionate share of consumer revenues to total Company revenues has been increasing. As a part of that, every year we relook at the allocation of common unallocated support of fixed cost between the two segments. To that extent, we had an incremental allocation of overheads of Rs.12 crores that have moved from the EPC segment to the consumer segment for reporting. So, that's point one.
2. In this quarter, we have increased our publicity spends. Last year Q1 was Rs.14 crores, this year is Rs.29 crores, so there is an incremental Rs.15 crores spend on publicity. This we maintained, is strategically important for us on our journey. This comes to about 4.7% of our consumer sales this quarter. We are happy to be at a variant on this versus competition because we think strategically long-term this is important, I have been calling that out that we will not shy away from investing our brand for the next couple of years to dress up a short-term quarter performance.
3. There is what I would call one-time a non-comparable cost. We have been transitioning our logistics, outsourcing our entire 3PL to Mahindra Logistics. As you are aware, over the last couple of quarters, some of that transition that's been happening in a phased manner across various warehouses and geographies across India, this quarter was supposed to have a transition of our single largest central warehouse in North India, which is a bulk or the centerpiece of our logistics. That transition was delayed because of the COVID and therefore there has been a fair amount of period in this entire quarter where we had double rental cost and not transitioned as per the original plan. That was unavoidable. Because of double warehousing and as a resultant sub-optimal transportation management on this, double movement of goods we have had an incremental cost of Rs.5 crores on this logistics front. This will start the way we are seeing current logistics transition by around mid-August this will start normalizing. So, in Q2, this will start coming down, in half of Q2 we will start seeing the benefits of this logistics transition. So, to that extent, it will have Rs.5 crores incremental overbudget impact on logistics in Q1.
4. We paid out employee incentives in early July. This is as a reward for we beaten our budgets last year financially and achieved highest ever profits. We have had extra incentive payout and to that extent there has been a Rs.3 crores incremental incentives cost built into the Q1 number. This will again normalize from Q2 onwards.

5. Yes, we have had commodity price impact. While we passed on part of that, not all of it was passed on in Q1, as per our internal calculation, we had about a 3.2% impact on FLM (first level margins) because of that, aggregating to about Rs.19 crores. I will take a question on this; I am sure that will come as to how do we see that playing out over the coming quarters. If you add all these items up, I will leave you to do the math on that. That's up to a significant amount. I am not saying all of it could be avoided, some of it you can consider the expenses or not but fair amount of this could have been considered as something, I would bat for seeing a normalized performance in the full quarter basis.
6. Lastly, of course, we had three months of sales versus two months of sales that we had. So, because of these various reasons and seeing the trend line in Q2, we remain as confident of delivering the coming quarters for the business and a trajectory will be maintained. We see this as a short-term thing. I had also shared I think probably in March in one of our investor interactions or media interactions that there are short-term challenges, we will face those short-term challenges, but to counter the short-term challenges, we will not underinvest or shy away from doing what we are doing from a long-term perspective, that includes R&D spends, etc., So, we will continue to incur and invest in these things. Okay, So, that is to give a roundup of the Q1 consumer products business.

A quick commentary on our EPC business. While overall trajectory remains that we have been speaking, the loss has been coming down, highlight there is EPC comprise three segments: Illumination, Power Distribution, Transmission, all of which were a drag and the Company had losses in the past. Our Illumination has turned around. So, we are breakeven in this quarter in Illumination business. And through the rest of the year, Illumination will give us positive EBIT and therefore that will only leave power distribution, power transmission that we continue to fix. So, to that extent, coming back to a strategic direction, we are now seeing turnaround in Illumination business as we have been working towards.

Final couple of points I want to make is on our balance sheet and debt position. We had generated positive cash from operations of Rs.39 crores in this Q1. So, irrespective of the P&L, you would at least see our focus on cash flow remains and the fact that we have generated positive cash flow from operations, points to the inherent strength of the operating business that we have in running, net of accounting of P&L entry. I would dare to say that we are one of the few companies that have generated positive cash from operations in this quarter.

Lastly, on the debt position, our March exit net debt was about Rs.425 crores, our 30<sup>th</sup> June debt was Rs.656 crores, so there is an increment, but keep in mind this is after adding in the debt that we have inherited from Starlite as part of a merger transaction that was planned. We have inherited about Rs.215 crores of debt of Starlite and therefore the position of debt is really pointing towards that. To that extent, we continue to fix that on a consolidated basis.

Now I am going to fast forward into giving you the debt position as of 7<sup>th</sup> August, so you get the visibility into how we are fixing that and how our cashflow is trending:

As on August 7<sup>th</sup>, our net debt which was 656 crores on 30<sup>th</sup> June is now down to 434 crores that is by over 200 crores in these 37 days. And that points to both more efficient cash generation and we are restructuring our working capital and credit terms, etc., to start optimizing this further to the advantage of the business.

With that we remain confident on our overall cash position and debt in balance sheet trajectory for the rest of the year. Our guidance last year was that we will exit March '22 as a standalone Bajaj Electricals on a net debt free position. We continue to hold the guidance. We have got an incremental debt in this Q1 from Starlite as you are aware. We will also seek to repay some of the debts while we may not be repaying all of that. But we therefore remain confident and hold to all our guidance that we have given for this year on a full year basis.

So, with that I will take a pause and I will hand it back to the moderator for the question and answer.

**Moderator:**

We will now begin the question-and-answer session. The first question is from the line of Renu Baid from IIFL Securities. Please go ahead.

**Renu Baid:**

So, my first question is on margins of consumer products again. At the start of the year when we gave the guidance of almost flattish margin between 9% and 10% level, did we price in the increased allocation coming in from the EPC business of nearly Rs.12 crores? And this allocation of Rs.12 crores on a quarterly basis or how should we look at this number on an annualized base level? In connection with this, if I can just add, given that Rs.12 crores of corporate allocations have moved to consumer, which effectively means that even Rs.13 crores of EBIT loss in the EPC business is technically then not a big improvement, it continues to be under water. So, your comments on the piece are awaited?

**Anuj Poddar:**

Renu, firstly on the CP margins, if I go back to history and come to current, we had spoken around 1% margin expansion every year by which we should have been at 9% margin for this year which is FY'22. I always say that leave aside odd quarter that tends to skew numbers, if we take the rest of the three quarters, we will deliver that 9%, we are internally trying to deliver 10% given that we did that last year, that's number one for the remaining three quarters. This is after factoring in the increased allocation. So, why I always remain slightly conservative on margin is because we know we yet are taking in stride incremental allocation that is come in. So, actual margin improvement delta is much higher, but we are delivering this improvement after taking in some of the incremental allocation and our incremental spends on brand and R&D that is starting to kick in this year. So, to give a short answer to your question, yes, we will hold true to a 9% guidance that we have given, for a 10% target that we are chasing for CP margin for the rest of the three quarters, point one. That hopefully answers the second question also on the Rs.12 crores. Rs.12 crores is for this quarter, but it will replicate itself through the rest of the

year but this guidance on margin is after that. Your question on EPC margin. Yes, it looks as if it was worse upon us to factor the same. But we have had a one-time again provision of about Rs.10 crores in the EPC also because some provisioning that we have done there. So, that is net of that. so overall we remain confident on the EPC losses also continue to shrink.

**Renu Baid:** And this Rs.10 crores provision pertains to cost overruns or receivables?

**Anuj Poddar:** To receivables. I would again write that into cash versus non-cash. I don't know which one you prefer but for the provision not a cash cost, but to me what is more important is to get the cash operating losses and EPC down to zero, so then at least we are not burning cash on that, we remain focused on that and then some of the entries that we have to keep adjusting this. Keep in mind, one of the benefits is of getting the Illumination business to turn around because Q3, Q4 once Illumination delivering profits, that will again start netting off. So, on a cumulative basis that's we remain positive on EPC exit this year.

**Renu Baid:** The second question pertains to how are we looking at the broad-base demand outlook after the second wave of COVID, is business now back to normal and the various segments both in terms of regions as well as segment wise if you can give some color in terms of performance for the first quarter?

**Anuj Poddar:** Number one, demand, I think is healthy in Q1, as you have seen about 50%-plus growth in consumer, similar two months period over last year, maybe eight weeks versus six weeks of last year. That trend continues. It has become better in July. So, we are seeing a demand uptick in July. Will that continue to Q3? I think it will. But last year if you look at the gross Q3 demand, growth was even higher than Q2. Will that much stronger growth happen in Q3? I don't know but 45-days into Q2, we are seeing a demand being buoyant and being strong. I think the challenge this year is more on the commodity cost side and pressures on that and therefore on the margins. So, that's a separate part. On segment wise, Appliances in Q1 has grown 75%, Fans has grown 49%, Morphy Richards has grown 85%, Lighting well in consumer, the way we report is 12%, but if I consolidate Lighting which is B2C and B2B, which for us is Illumination but other companies report it together, the aggregate lighting growth is 86% for us.

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

**Achal:** If I see QoQ or YoY, we see the reported other expenses at standalone level at Rs.173 crores. Just wanted to get some color is there any apart from the provisioning, is there any other one-off which we should be aware of in the other expense item?

**Anuj Poddar:** Two things. One is brand, so brand has gone up from 14 to 29 and then there is the EPC write-off that I spoke about, that operates at two levels at a gross and net level. So, there is Rs.20-plus crores provision that's come here, but that we can net it off in the top line, so you can assume a Rs.10 crores net impact here. So, that has come into the other expense line. If I take both items out, then the rest of it is pro rata increase in line with sales growth. These are the two that have

disproportionate increase in the other expense. And the MIS, I am just trying to see the reported financial. The other one-off that I mentioned is logistics cost of Rs.5 crores, the employee incentive, I want to mention one more one-off item which is Rs.2 crores of VRS cost for employee retrenchment cost at one of our factories. So, all these sits in the other expenses and employee benefit expenses as a one-off or it's a proportionate increase.

**Achal:** VRS cost is a part of standalone or consol sir?

**Anuj Poddar:** It is a part of standalone and therefore also part of consolidated.

**Achal:** Secondly if you could give us some sense about the gross margin part. You did mention 3.2 percentage point impact. But my question would be in terms of gross margin how were they in FY'21 and how do you see over next three years what kind of improvement can we expect? And with respect to the total raw material cost inflation and the price increase we have taken?

**Anuj Poddar:** On segmental gross margin, we will give you a qualitative sense, number one, our gross margin in this quarter is impacted because of the commodity price impact like I told you that 3.2% that we have not been able to pass on, but that's also because we have taken a staggered hike, we have taken a hike in May, June for certain categories about 3% each. We have taken a further hike, now in July, some categories of 3% and effective 15<sup>th</sup> August that we are taking a further hike in the other categories about 3% to 4%. So, by end of Q2, we will have gross margins to the normal level. We are seeing the commodity which have been continued to be an uptrend. So, there was a lag in passing on that, but commodity costs have now stabilized. So, now the increase in price will go to the gross margin contribution. So, by 15<sup>th</sup> of August on our paper by say September in terms of realization, we will be back to normal full gross margin level that we used to operate at. So, what you are seeing is 3% I spoke to you is very larger side. While we were increasing prices, the costs were increasing with that lag.

**Achal:** Just a clarification. If we were to look at cost inflation at the segment level, what would that number be in September or October of last year? Cumulatively, what is the margin cost inflation at the weighted average or at the segment level – upwards of 10% or would that be 7%, 8%?

**Anuj Poddar:** Total cost of goods sold or gross cost level, I haven't done the math, but I am just working back off my head, I think Q3 was about 3%-odd, Q4 was about 6%-odd, that's 9%, this Q1 I am seeing 6%-odd, of which we have taken 3%, so 9% plus 6% about 15%. So, about 15% till date, of which we passed on between 9% to 12%. That's been a moving target. While we are passing on, that negative lag has been building into our margins, but as that cost is now flattening out, you will see the catch up take us back to normal margin.

**Achal:** You did talk about the changes in the credit term. Was it for the consumer products business or EPC?



- Anuj Poddar:** Change has been entirely for the consumer products business. While we don't push that out publicly. We were I think to my mind sub-optimal and out of line with industry in terms of the credit period with a shorter and not industry offers. So, we have normalized that now in par with industry and create a financial structure. So, we will have better working capital for that.
- Achal:** Through channel financing, is that understanding right for the offline, 100% is channel financed?
- Anuj Poddar:** Yes, but that's on the sales side. This I am talking on the purchase side. So, the purchase side vendors we had very generous which is a short credit period that we were enjoying versus industry, so it has started normalizing that and that is now releasing what we have for us. And that is here to stay so that's not going to go back. So, that's not a one-off. Now this will be the trend. Therefore, this cycle will continue as is.
- Moderator:** The next question is from the line of Amit Nahawar from Edelweiss. Please go ahead.
- Amit Nahawar:** I have two quick questions, Anuj. Too many explanations on margins and thank you for clarity but typically if I take EPC, is it fair to assume that FY'22 might still be in red for us despite you are tracking say regress framework, lot of things might be out of control, first question is FY'22 largely EPC will be red, is that a fair assumption?
- Anuj Poddar:** Amit, I have always maintained the full year will not be positive, we will exit the year with a positive run rate. So, we have the visibility of a breakeven so that we are confident that FY'23 will be breakeven. Some of that gets pushed back and forth by a quarter because again Q1 was not planned for the EPC, whatever has happened because of lockdown, projects are not getting executed. Q2 is a monsoon quarter. But you will see light at the end of the tunnel at FY'22. While full year annualized aggregate may not be positive when we will exit so that you would have visibility that FY'23 will not have any losses from EPC.
- Amit Nahawar:** So, we basically provided for some Rs.10 crores in receivable but how do we assure ourselves that sort of thing does not repeat because that can be a bigger, because the redemption is a large number, right, so any color on that?
- EC Prasad:** As Anuj mentioned, there is not actually a cash outflow, we remain at the provision based on prudent view taken. We have already taken a provision of Rs.16 crores in the month of March but that was reflecting as a part of the gross margin, not as a part of the provision. Now, what we have done is since we are closing these projects, we moved this provision from the margin levels into the provision for doubtful debts. So, that is the net impact of 10 crores. But having said that, it's not that we are accepting this as a hit, we will continue to fight with our customer, but on a prudent basis we have made this provision.
- Anuj Poddar:** I will add to this. Our total exposure continues to come down, as EC shared, receivables from our PD business which were Rs.1,388 crores as of March '20, it was Rs.972 crores as of March '21, till now Rs.778 crores as of June '21. So, number one, on cumulative basis, we

continue to bring that down. Number two, the biggest question for all of us has been the retention money and will that come in. When a 30-days on certain projects, we started seeing that at least a couple of projects we have got the retention money which were last 10%. That was a very important proof of concept for us. That's having to go through that process of being able to complete all the documentation, paperwork, audit, and release from all the agencies from a state or central level to get the last 10%. While these are some of the smaller projects, we are more confident that the balance 10% in other projects will also come in the due course. So, we do not see any significant large hits coming because of this as they are non-cash in nature.

**Amit Nahawar:** Second question is on Starlite. So, typically, in FY'22 and '23 how much will we commit in investments and how are you able to assure our returns on these businesses, might not take more time?

**Anuj Poddar:** So, again, first, let me address Starlite, Amit. Fact is like I said earlier, Starlite has only moved from being a JV outside to becoming officially on our balance sheet because we have been guaranteeing their debt and therefore had been funding their losses in the past also pre-transaction. All that this transaction has done, has made entries visible and transparent to everybody and allows us to streamline that better and faster. Case in point being a debt of Starlite now refinanced that with much cheaper debt using BEL balance sheet. So, the consolidated effect, real impact on that in bottom line basis will be better than it was before, number one. Number two, it's allowing us to move better and faster on the operational side of Starlite production, etc., for example, we have given our best ever output in July month on the Starlite production and that's what you will start seeing operating synergies become much better and faster over the coming months on Starlite, Number three, on Hind Lamp specifically while that has not directly been impacting us in the past, Hind Lamps is where we had this VRS and retrenchment of people, that factory as on date is not operational, it has been shut down. We are not sure whether that factory will restart unless it is viable, that's one of the reasons that we had to go in for retrenchment of people. As a result of these, while these are one-time cost, this will result in reducing operating losses from the Hind Lamp's factory in the future. Lastly, while we do not share too many details on that. There is land value and there are tax assets sitting in both Starlite and Hind Lamp. On a consol basis, as those transactions over the coming few years, we are confident that we will build in the inherent asset cost, both property and tax, we will overall be in a beneficial position factoring in the purchase price also.

**Moderator:** The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

**Aniruddha Joshi:** Sir, is the VRS completely over or there will be more VRS related expenses in Q2 and maybe Q3 also? I joined call slightly late, sorry, but what was the first reason you indicated for the one-offs, I missed that, so if you can please indicate again? And lastly, what was the growth in Fans and Morphy Richards that you indicated?

**Anuj Poddar:** First, on the VRS, this current VRS or retrenchment cost covers about Rs.1.8 crores, where we have about 90 people in our Shikohabad plant. There are more people right now. Secondly, there

is another round of exercise that's been done at Ranjangaon in this Q2. So, Q2 will factor in the impact of that exercise in Ranjangaon. Thirdly, to your question, will there be more of these? No, obviously, we cannot put that out as management, these are sensitive matters, but my only point of policy on that is as a Company we will continue to view, makes us viable what is structurally sustainable and while we are empathetic and want to continue with all our people employed, where we believe that something is becoming unviable and we need to take certain calls in the interest of the organization and the rest of the employees we will continue to take this call. Not all of this can happen or whatever happened at one go, because the dynamics of each business, each factory and each unit are separate. And therefore, we'll take that up on a case-to-case basis as what is best interest of that unit or that factory on a short- and long-term basis.

**Aniruddha Joshi:** What was the impact at Ranjangaon if you can indicate if possible?

**Anuj Poddar:** Not right now, since we have not disclosed Q2, but again, it will be like **Shikohabad** numbers. Just on understanding on that, obviously, we do our maths on that, over two, three years, these pay off. But after that it just makes you more efficient. There is certain pay off and a workman category that one must do. But ultimately, these are designed to make us more efficient on ongoing future basis.

**Aniruddha Joshi:** The first reason that you indicated, some business from...?

**Anuj Poddar:** So, I'm not sure which one is that in what order but there were various one-offs, a couple of initial ones that I mentioned, there was increased allocation of common overhead of 12 crores that moved from the EPC segment reporting to consumer business reporting. So, that's a part of because our allocation every year we look at based on proportionate share of the revenues of each segment to total revenues. And as a consumer continues to increase in EPC staying flat, that allocation is changing every year, the mix of that is changing, that's number one. Number two, I mentioned publicity. I don't know if you caught that, but I repeated that.

**Aniruddha Joshi:** That I understood. So, this was only missing and just the growth rate in Fans and Morphy Richards?

**Anuj Poddar:** Fans has been 49% growth and Morphy Richards has been 85% growth. In the past many years, we had been flattish on Morphy Richards, but as you've seen from FY'21 and now FY'22 also, we started reporting very healthy double-digit growth in Morphy Richards and we are very confident of driving that much more aggressively going forward.

**Moderator:** We have the next question from the line of Rakesh Roy from Indsec Securities and Finance.

**Rakesh Roy:** My first question is regarding your price increase. Maybe I missed that, any price increase during the quarter or will you take it in near future also?

**Anuj Poddar:** We have had a 3% price increase, some in May, some in June, but since May was mostly lockdown in all cases the impact has only come in about 25 days of this quarter, post the June price increase, number one. The 3% is lower than most of competition, so we have had a follow-on price increase in some categories as of 1<sup>st</sup> July and the balance category we are intending to do as of 15<sup>th</sup> or 16<sup>th</sup> of August. So, you will see the further incremental price increase impact flow in Q2.

**Rakesh Roy:** My next question regarding any new launches during Q1 or any in Q2 or Q3?

**Anuj Poddar:** We have had some new launches in Q1 but because that was lockdown quarter that we saw we will have much more new launches in Q2. Q1, we had about 13 launches. But Q2, while I can't give it away, lightning is going to be one area of focus, so you will see significant launches. One more point to add there, because we split lighting separately, illumination which is where we have been riding high growth in lighting, we have had about (+) 60 launches in Q1.

**Rakesh Roy:** Any new launches in Fan also out of 13?

**Anuj Poddar:** Yes. So, four launches in fans in Q1.

**Rakesh Roy:** Fans, in economy or premium?

**Anuj Poddar:** Premium.

**Rakesh Roy:** My last question is regarding any market share gain in any product during the quarter?

**Anuj Poddar:** On an aggregate market basis with this (+) 50% growth in CP we had a market share gain. Versus the top three or four players, I think we have all had market share gains. So, amongst us relatively the story varies, but if you look at us, where the Bajaj or the top 3-4 players versus aggregate industry growth we have had a market share gain.

**Moderator:** We have the next question from the line of Rahul from Haitong.

**Rahul:** I just have one question, from what I recollect between TLT PD and projects, illumination projects is where the company had the highest margin. I was slightly shocked when you said that the company has achieved breakeven in illumination projects. Because I always thought this is where you make your maximum money. That is one. And connected with that, I want to understand what is your plan on achieving breakeven in TLT PD? PD especially given the size of the orders have reduced substantially. So, I want your comments on execution projects and then the plan of breaking even in the other two segments.

**Anuj Poddar:** On illumination, I don't know the past conversation, but since the time I have joined which is November 2018, it has always been loss making every quarter. And from what I know at least for a couple of years prior to that. So, it may have been profitable before that. It has been a loss

contributor. So, this is the first quarter we are near breakeven on a full year basis, we will be positive on illumination. Last year had it not been for COVID we would have achieved that breakeven last year. That's point one. Point two, on PD plan for breakeven really is, it's hinged on phase three, we are expecting phase three, phase three was to come in anytime in May or June, it's slightly delayed because centre has to sanction that and then the state will sanction that to us. Once phase three scope in quantum is confirmed, that should again it's tough for me to give a commitment on behalf of the government, but we expect some time in Q2 phase three should get confirmed. The scoping or quantum of that should get confirmed to us. Basis that then we can realign our resources and organization to figure out what is the quantum and cost structure going forward on phase three. We believe this will margin accretive phase three because operationally we are carrying certain inventories and resources, etc., that will be put to use in phase three and therefore will be margin accretive. Without that phase three, this will just require a fast relook at cost structures on this. So, right now, we have been, if I may say, no man's land till that gets crystallized. So, that's really the outlook or visibility as to once we have phase three coming in, and this is primarily UP I am talking of for power distribution business, then we will realign our business and operation cost structure to deliver what will be margin accretive. On power transmission, quite honestly, we would have been positive now except for the whole CAPEX cycle having slowed down since last COVID last year. I think once that starts normalizing, we have been maintaining an order book there. I think we have closed not very far off from breakeven. When I say that, all our incremental projects in power transmission at a project level are positive. It just because the total order book has been shy of the levels that we want; certain fixed costs are not getting absorbed. As our order book close by another 100 to 200 crores, we believe power transmission in a business level will be positive. Right now, at the project level this is positive. I would highlight this again, because this is different from the past where the project level, we were losing money on power transmission either because we were not executing them efficiently or they were not budgeted efficiently. So that has changed. So, project level, we are positive. As we optimize order book by another 100-150 crores, we will be positive on an aggregate basis. One thing we have not been doing is in the desperation to make business level positive, not being buying, or low bidding to get negative margin for projects, so that doesn't really help, it's just boosts the order book optically. So that's the only delta there.

**Rahul:** If I can just add over here, in each of these segments, what is the kind of margin that you are looking at, as a segment level margin? What are the kind of margin that you would be comfortable in p-generation project or TNP and so on and so forth?

**Anuj Poddar:** Power distribution and transmission, quite honestly it will remain single digit margins and mid to low single digit margins. But as long as we remain profitable, we want that to stop being a drag on the overall profitability of the company. And we are fine with that because we have been managing that on scale in capital employed being conservative and not being a drag. On the illumination over 2-3 years, we will endeavor to take that to double digit margin. Our focus right now is two fronts. Number one, to turn it around to breakeven which we were doing this year. Number two, to garner market share and consolidate rank. We were a number four player prior

FY'19. We have gone from number four to number two last year. This year also in Q1, like I have said, we have had very strong 100% growth if I look at this illumination standalone on top line. So, right now the focus is on fixing bottom line to positive and driving market share and rank growth. As that consolidates over the next 1-2 years, we will see that margin actually starts going aspirationally to double digits also and we very much think that is possible.

**Moderator:** We have the next question from the line of Achal from JM Financial.

**Achal:** My question was with respect to supply disruption. How has been the supplies in the last 3-4 months? And how do you see, like you have mentioned in the past in terms of maintaining the outsourcing and we now make, any changes in that side?

**Anuj Poddar:** So Achal, supply in terms of availability of finished goods or overall production capacities has not been a challenge now. In fact, because of last years' experience where stock outs and supply disruptions were there, we have been maintaining a higher inventory norm and therefore we executed March also at very high inventory levels. But internally we had a joke thing, kuch daag achche hote hain. That in this case, the issue or problem of having extra inventory has helped us in the last one or two months, number one. Number two, because you have had high inventory, you have had low production capacity at our factory with some supplies in last one or two months, we are now seeing that from August to start getting back to normal levels of production, because now we are getting back to normal cycle of inventory and sales and therefore purchasing. The supply in terms of sourcing ability has not been a challenge. The only challenge in supply front has been, one, either on commodity cost and therefore cost pressures or on conductors and semiconductors, which goes into the LED thing. Otherwise, availability has not been so much of a challenge. Coming to in-house versus outsource bit, our mix remains similar so there is no change in strategy and about 15% to 20% will be in-house, about 80% been outsourced. The other update we had; we have now got a new Head of Manufacturing. He has joined us last month. So, our focus there is to not increase our total manufacturing footprint but drive greater efficiencies in our manufacturing plants. And therefore, I again feel very confident in another couple of quarters our efficiency of cost of production in-house, and therefore margins on that by exit this we will start looking much better. In a way that was part of my answer to somebody's earlier question on Starlite, etc., I think getting this fully in our control, now we are driving the manufacturing at Starlite with the new head, many initiatives being done there. TPM, etc., being rolled out, we believe Starlite will turnaround sooner than later. Lastly, we are also re-looking at while the overall 20% may remain constant, the mix of products that we produce in-house versus source from outside, so that is something we continue to revisit. So, that is where we will drive greater efficiencies going forward.

**Achal:** And one more question with respect to the R&D spend, any numbers do you have in mind, where are we FY21, how do you see it all in 3-4 years? Same is the case with A&P.

**Anuj Poddar:** So, R&D typically has been sub 1%. We will take that up to about 2% in the next couple of years, and after 2-3 years, that will start normalizing back closer to between 1% to 1.5%. And

reason like everything else is because it will be front-loaded. As the product starts reaching the market and the monetization starts, then that starts falling back to between 1% to 1.5%. But this year or so, in the next 4 to 8 quarters that will start inching closer to 2%.

**Achal:** And about the A&P?

**Anuj Poddar:** A&P which is advertising and promotion, so there we have guided that we will be between 4.5% to 5% this quarter, because we have had a one-month sales loss that is at 4.7%. In a normal quarter that may be 4.5% or between 4% to 4.5%. We will play that quarter-to-quarter. Actually, you should look at that on an annualized basis, because that doesn't happen on a linear basis through the four quarters, that varies. So, example, Q3 in absolute terms that increases, etc., so that varies quarter on quarter, but the figures I am talking about is more on an annualized basis.

**Moderator:** Thank you. As we have no further questions from participants, I would like to hand the floor back to Mr. Vineet Shankar for closing comments.

**Vineet Shanker:** Thank you, sir. What do you like to make any closing remarks?

**Anuj Poddar:** Yes, I would. I would just try to reassert what I said at the start, we remain as confident as ever on where we are headed. Structurally, strategically we are very much on that path, even in this quarter, even in the numbers that you see, but even operationally from a short-term perspective, etc., we remain confident about the coming quarters and the full year, and we will deliver what we have guided and promised you.

**Moderator:** Thank you, members of the management and Mr. Shanker. Ladies and gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.