



“Bajaj Electricals Limited Q3 FY16 Earnings Conference Call”

February 10, 2016



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Moderator: Ladies and gentlemen, good day and welcome to the Bajaj Electricals Q3 FY2016 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 an 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. Rahul Gajare. Thank you and over to you Sir!

Rahul Gajare: Thank you Lizann. Good evening everybody. I am happy to welcome everybody to the Q3 earning call of Bajaj Electricals. From the management we have with us Mr. Shekhar Bajaj, Chairman & Managing Director; Mr. Anant Bajaj, Joint Managing Director and Mr. Anant Purandare, Executive Vice President and CFO. We will have the opening remarks from Mr. Shekhar Bajaj, after which we will move on to the question and answer session. Thank you and over to you Sir!

Shekhar Bajaj: Good evening to all of you. Let me start by on behalf of all of us in Bajaj Electricals and all of you we must compliment Anant Bajaj, because this turnaround and the performance for the first nine months after he has taken over as JMD, Rs.100 Crores profit before tax is a number which one was looking forward to and I think we have been able to manage that in the third quarter, so I thought that let me start with that note.

As far as performance is concerned, as you got all the numbers with you, lighting and engineering projects are both obviously doing extremely well especially if you see the differences coming to almost Rs.100 Crores, but if we look at it on an operating basis, there is about third quarter was the last time when we made provisions about almost Rs.70 Crores we had made and therefore there are no provisions this year and therefore to that extent the differential of Rs.106 Crores you should remove the Rs.70 Crores to see the operating improvement, but that also is substantial and if you look at the EPC, we are talking about EBITDA at 8.4% for the quarter.

That is something, which is very satisfying in lighting also our margins are much better. As far as consumer durables is concerned, though the growth in the third quarter is normally there, but the important aspect is the first level margins have not gone down and therefore though the net margins are showing a lower percentage but once the volume fixed up those percentages, net percentage also should go up. We are expecting that in the fourth quarter, the consumer durable business should continue to do as it was in the third quarter and next year we should see a much better number, because the secondary sales would have picked up better.

I think this is opening remarks and we have got orders of about Rs.2900 Crores as far as EPC is concerned and before that we will be able to slowly I had talked about Rs.5000 Crores. We think we should be around Rs.4600 Crores, Rs. 4700 Crores by end of the year. Thank you.

Anant Bajaj:

This is Anant. Thank you for the compliments and support from the investors and I justify myself I think by delivering what you all expected of us. We have to continue on the good trend, not just for now but for many, many quarters to come and this is a fourth quarter back to back where we have done well, so I think it is becoming slowly a very good habit which we will I think continue, but to just add a couple of areas which are very interesting for us and that although export is a very tiny part of a business right now, it is something which is sort of almost inspiring better margins even for domestic market because the same product which is now we are also giving at least 10, 12 countries that is actually encouraging us to have better products for domestic market and to that extent reduce the divide with export quality and domestic quality which has always been one of the big things which people would like to differentiate, but I think Indian consumer clearly has become very, very savvy and to that extent lot of our new products which we introduced in the month of October in the Paris Dealers Meet that really has started take into traction and to that extent in this quarter specially Q4, we should see lot of good traction on it, but I think even Q3 we already saw a lot of enthusiasm towards that and important thing is that these investments into good quality advertising like this Pro Kabaddi, third season which has just started from January 30 it is clearly looking out to be excellent again and we have largely put no money in cricket, but we have put a lot of money, outside of cricket and that is working out to be a very good strategy for spending process.

The important thing, which I like to announce, is that we have successfully across the 10000 dealer boards, which we had told about beginning of the year. Two months ahead of schedule we have already achieved 10000 plus boards that is new Bajaj umbrella branding, which we are doing. So 10000 plus dealer boards are now in the market having the branding there in the new format and even our packaging has reached a good level and this important technology of QR otherwise known as 2D tech basically has so done a good job where we have been achieved it for all products and now by end of the year, we should achieve it for all spare parts as well.

So to that extent the whole area is able to capture critical data is going to become way of life and which we think we are getting very good success in that and I think as a team we are getting a lot of mix of people from different industries being part of the team. So, all of that experience is adding up to the company becoming stronger, because at this point our products being low tech we do have to create an exciting by adding indifferent thing which can make a customer be excited and of course with a very young population in this country that is important that we continue to create the extra bit and I think for that I am happy to say that certainly between now and March 31, we will have R&D started finally and for that lot of good products are already on the cards.

So one of the big thing which has worked for us is a new product which have recently got introduced, have already started during good result and especially on the EPC part of it I would like to specifically compliment where we have maintained discipline in spite of many, many times where the customer also has actually tried to change their mind and say why do you need to be so disciplined, so I think we are setting important new standards in the industry and to that

extent we are able to do lot of good things and make sure of remaining those things to be good, but it is a very important for, you all as investors, but also as a country when you have discipline going right, I think it all works out in our favor.

Lastly, I would like to put on record that we have got now lot of good work happening in the CSR side, which is also giving us goodwill, people took part in the Mumbai Marathon, the Dream Run, this time the theme was Save The Planet and so to that extent lot of good and of course the anti-tobacco run keeps going on. One important thing as a company we are doing the good stuff for community between good stuff in the customer and at the same time, we have been a lot of good implementation of technology which can make the next generation customer also excited about the brand.

Lastly I would just like to comment that customer care, which is very important thing in Indian context that has improved continuously and we have many, many more satisfied customers than ever before. We in fact gave out e-mailer of over 200000 customers which have been served over the last few years and taken their feedback of lot of products that is pretty much I would like to add on and I think we are seeing the three figure mark and next level we will keep coming to at some stage.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.

Bhargav Buddhadev: Good afternoon Sir and congratulations on a good set of numbers. Basically I wanted to know is it possible to know the improvement in gross margins across consumer durables and lighting Sir?

Shekhar Bajaj: Consumer durable, our first level margin is similar to last year and there is no dip in the margins only thing is that our fixed cost has spread over zero growth , so therefore because of that the fixed cost percentage is adding about 2% to the cost, so therefore when the margin dip you are looking at is basically because of that.

Shekhar Bajaj: For the quarter, Lighting Segment margins has gone from 20.0% to 22.7% as far as lighting is concerned, but the important things in the lighting segment, the light source has gone up from 16.2% to 23.1% and luminaires from 25.0 has gone down to 22.3%. and in case of consumer durable is 27.4% is gone up to 27.8% .

Bhargav Buddhadev: For the nine months, gross margins in lighting have improved from 20.7% to 22.7% and in consumer durable 27.4% to 27.8%?

Shekhar Bajaj: If you compare December 2014 in consumer durable, it is gone down slightly but if you compare with September, because all the corrective action that has been taken, In September 2015, our consumer durable, our EBIT margins was 2.6% which is now become 5% and in case of EPC it was 4.1% has gone to 8.4% and in case of lighting, it was 6.1%, in September it has gone to 7.1%.

Anant Bajaj: Largely it was a thing where fans have made a major improvement in their margin and they have got the volume coming back because obviously this is just before the season starts for them, so they hold up, so that is also actually all added up together and main thing is that there has been lot of those freebies have disappeared so as a result of that actually giving them the opportunity there.

Bhargav Buddhadev: Under TOC, what percentage of geographies now covered under TOC?

Anant Bajaj: About 15% of all CD that is consumer durable is covered on that.

Bhargav Buddhadev: 15% and the plan is to roll this to the entire area by?

Anant Bajaj: By end of fiscal year 2016-2017, we have it in all the major parts for 19 few cities of India, which are about 5 million people, plus roughly about 45 main markets of the country, which sorts of covers more than 80% of the key markets will be covered before the end of March 2017. I think we are talking about stabilisation because introductions we have done in lot of places. Stabilizing will happen by March 31, 2017 so when you look at the Q1, Q2, Q3 next year that if you see the results very effectively coming, because main thing is right now the improvements have taken place in the physical margin, but I think key gap is the physical volume which has not matched up and it was expected so because once you are initially introducing, you are not going to get instant Karma kind of condition, so you got to sort of just wait through six month cycle and then only it comes through and everywhere the process is identical. So therefore simultaneous front is what eventually achieved that. So there are lot of important things which have been achieved during this year, which will see the benefits in the next fiscal year.

Bhargav Buddhadev: Can we expect double-digit growth than in next year or the one, which stabilizes then only possibly the double digit, growth will come?

Anant Bajaj: Yes.

Bhargav Buddhadev: So next year can we expect double digit growth in consumer durables?

Anant Bajaj: Yes that also in big yes.

Bhargav Buddhadev: Okay and Sir within lighting what could be the revenue from EESL in this quarter?

Shekhar Bajaj: I can give you a feel of the that total year we are looking at Rs.1100 Crores which is the number which we talked about for the lighting segment of which Rs.400 Crores will be LED and of that LED, almost Rs.150 Crores out of that Rs.400 Crores will be ESL for the whole year.

Bhargav Buddhadev: Within Rs.1100 Crores of lighting how much would be luminaires?

Shekhar Bajaj: Luminaires will be about 500 approximately.

- Bhargav Buddhadev:** Has there been any write back in the E&P?
- Shekhar Bajaj:** Around Rs.5 Crores.
- Bhargav Buddhadev:** Sir lastly is there any reclassification in capital employed because there seems to be a sharp decline in capital employed on a YoY basis in consumer and lighting business.
- Shekhar Bajaj:** There is no reclassification, we just got okay, you have been analyzing enough for long time, so please what do you think is the reason why Capital Employed might have reduced.
- Bhargav Buddhadev:** No Sir, I think there could be a sharp reduction in inventories. I think that could be one of the main reasons.
- Anant Purandare:** For lighting, it is increase in creditors, for consumer durables there is a reduction in inventory by around Rs.17 Crores and improvement in debtors.
- Bhargav Buddhadev:** So, Rs.17 Crores reduction in inventory in consumer durables.
- Bhargav Buddhadev:** Thank you very much and all the very best.
- Moderator:** Thank you. The next question is from the line of Ankit Babel from Shubhkam Ventures. Please go ahead.
- Ankit Babel:** Good evening Sir. My first question is that the margins in the lighting segment have improved drastically over the last few quarters. I just wanted to understand, are these margins sustainable in the near term one or two years?
- Shekhar Bajaj:** One or two years, we cannot comment, in lighting the problem is that the changes are taken place in LED so fast that we cannot talk about years, we talk in terms of months so it is becoming very competitive so, we can only say that fourth quarter which is around the corner, whatever orders are in hand our margin should be okay, but coming to next year how things are going to shape up, we do not know, because the pricing of LED is continuously becoming more and more competitive. So next two to three years to be able to maintain this margin, we cannot answer that because we do not know.
- Ankit Babel:** Then Sir in consumer?
- Shekhar Bajaj:** Consumer there has been no issue and especially I think we have not done any price dipping with the raw material pricing come down, we may improve our margins by a percent or 2%, but there is no reason for any pressure on us in terms of margins for consumer durable.
- Ankit Babel:** No Sir, but post all your restructuring whatever you are doing in consumer, what kind of margins can we look in FY2017 at EBIT level, which at present in this quarter which is 5%, now this can go to what level, next full year?

- Anant Bajaj:** It all depends on the speed of implementation of our roll out of the various...
- Ankit Babel:** Sir, let us take the base case scenario, I mean, whatever is your thought process.
- Anant Bajaj:** Best case is impossible to say, I cannot tell you that is like only going to be fiction there, because we cannot really say what will happen next in the market, today some new tax arrives or something happen as well as there is some drop in the overall demand environment things can change, but one thing is for sure that the margins will continuously improve and you got more volume and because you are not going to dump in the market and you are going to be full market condition then there is no chance of you to give extra material so one thing for certain your dealer is going to make better money than they have ever made in their life, because they get better turnaround on the same money. So less money, more business so they will love it. So less inventory, less stock.
- Ankit Babel:** But that you have already factored in and you are expecting a double-digit growth in this business?
- Anant Bajaj:** Double-digit growth does not always mean that we know exactly how much extra can come, because growth may not necessarily mean that I get 2% extra margin or will it be 3% better EBITDA it is hard to say. It is better than now, that is for certain. That is what we can say right now and that is absolutely certain if today's 5% it should be better than that for sure, because clearly there is the demand requirement is now dipping by any means. It is slow, yes, and we are faster in some of the products than the market grows, so to that extent, we are in a good position there is no doubt but it is absolutely impossible at this stage to predict something then it is just wishful thinking rather than being sensed.
- Ankit Babel:** Then on the capital employed, which has come down drastically in this quarter in consumer business, so is that sustainable?
- Shekhar Bajaj:** The reason why it has gone down is that our cooler business we take advances, and there is reduction in inventory and debtors of the Consumer durables. EPC business is concerned, between 700 and 750 Crores. What is happening in EPC which I think should continue but with a much higher turnover. Last year also it was about 700 and 750 but it was with a turnover of 1300 Crores. This time we are looking at a turnover anything between 1600 and 1700 Crores and keeping the same there is a rotation of two and a half times compared to two times last year.
- AM Purandare:** Just to clarify further that the cooler advance impact is just 12 Crores but overall reduction in capital employed is 70 Crores. So it is also because of reduction in inventory and debtors.
- Ankit Babel:** Sir, lastly on your project business now since you have the order book and you have the visibility so what kind of margins you expect in this business, say next year?
- Shekhar Bajaj:** Similar, what we are talking about which is we have now reached a level of 8% to 8.4% so I think that is the type of numbers which can be possibly sustainable, and in that it is becoming

very competitive so, I do not think we can look at much higher numbers. We would rather make sure a very good execution and get our money on time.

Anant Bajaj: Other than the execution actually, because when getting an order x value and retaining of that x value the x factor is actually getting the projects completed.

Ankit Babel: No actually this 8.4% is on account of 5 Crores write back which is nonrecurring in nature.

Anant Purandare: For the quarter it is 6.5% if you have to do that adjustment of write back.

Ankit Babel: Can we expect this 6.5 to 7% margins next year?

Anant Purandare: The answer for both your questions for CD and EPC, EBIT is a function of your top line growth and improvement in margin. As we have said that the gross margin are more or less stable, they are at the same level, however whatever actions you are taking whether you are talking about TOC implementation, range and reach expansion program, wherein you are expecting the growth in the turnover and that will improve my EBIT margin. The same case in case of EPC also, at my contribution level, it is more or less stable at 15% to 16%. If I do more and more business with the same fixed cost, my EBIT margins will improve. Now, at this level of business which you have given the projections for the year, I think we should get the EBIT margin at 6%, 6.5% for EPC.

Ankit Babel: Next year what growth can we expect in EPC?

Anant Purandare: Obviously it will depend upon the market and the business but today whatever order book that we have I think we will be able to grow at the rate of 20-25%.

Shekhar Bajaj: You can take double digit that means around 10% for consumer durable and 20% each for lighting and for EPC for next year.

Moderator: The next question is from the line of Kaushik Poddar from KB Capital, please go ahead.

Kaushik Poddar: Can you repeat the growth numbers you just narrated?

Shekhar Bajaj: 10% for consumer durable and 20% each for lighting and EPC.

Kaushik Poddar: You had done a tie up with Cisco for smart city with all these 20 smart cities or 100 smart cities that are being talked about. What is the kind of business possibilities do you see in these smart cities?

Anant Bajaj: This is Anant here, Cisco; in fact as we speak they are having one important world level conference starting in fact later today evening in their campus. There are lot of blue prints ready right now which Cisco along with us and the government is actually trying to conclude on the paper work and eventually the aim is that they will be able to do, they have sanction for about 99 smart cities and the actual roll out is something which the Government of India has to still clear

out after which it can start but there are two small ones which we are already working out with another stage government, Cisco along with us and government is actually working out on two smart cities in one of the states of India where they are already in principle given a go ahead, so that will come within the next four to five months they will be starting that of but to give an exact number would be difficult at this stage because there are lots of continuous changes which are also happening in the design requirement so to that extent the finality of the exact revenue level might be more clear I think by the end of this quarter, but clearly Cisco and ourselves are very strongly engaged as partners to make things happen and we have had the highest level people of Cisco engage with us to make sure that this can work, right now they have tested lot of critical thing at their campus and now it is matter of time that it will get to become a standard item not only here in India but for any of their solutions worldwide they will have a larger partner, of course of course that is something, the exact nomenclature of how that will work, that will be announced at the right time, but largely we are committed to the whole process and I think in the days to come you will hear from Cisco which will likely make the main announcement.

Kaushik Poddar:

See, you just talked about setting up R&D centre. Is Internet of Things part of the R&D process or you would not be going for IOT?

Anant Bajaj:

Yes, in fact our R&D Centre is going to be Platinum Lead Certified. Along with that we do have tie ups already in place for doing some part of IOT, because as you know IOT is a very vast area, so we have to be very sensible on what we need from the centers, so we do already have a couple of tie ups which we have been working on. Through Cisco we have got couple of tie ups on this but there are obviously lot of continuous update happening, so what we are trying to do is take couple of areas only currently and study that well and then make it happen, so I think the first major one which we will introduce is a good practical app which can sort of make our products talk to the customer and sort of make it basically usable in terms of very basic function initially and then it will become a little more high tech because you do not want to straight away like go away from a cycle to an aeroplane, so we are going to be little cautious on the speed of implementation of it because it is in fact faster than even LED have changed which is happening over there, so to that extent it is an high investment if you want to go big way but if you want to go in a collaborative way it becomes definitely more conducive because you do not have to over invest in one technology but definitely it is on our cards and we have some of the world's best technologies which are tying up for this, so I think we will be hearing a lot interesting products in 2016 itself.

Kaushik Poddar:

How much are we going to spend? What is the capital spend for this R&D, and opex or capex on R&D?

Anant Bajaj:

Official budget that we have is about 40-Crore budget that we have in hand, but interestingly there is a lot of good government source which is available, as a result of that I think eventually our physical cost on our account might not be that much and to that extent it is obviously still to be figured out how much of benefit will the government applications give us but I think the big

picture is we got to spend some of our money yes, but I think lot of collaborative working will happen to optimize the speed of delivery because the time line is always going to be the critical part because I think we do not yet have such big deep pockets to really spend overload, so I think we will start slow and then we will increase speed at the right time because I think it is the first time in the history of the company that we are going to have integrated research development happening together, so we do not want to overload the system also, but definitely you will see lot of interesting things happening now, because that is the only way we can be there for many, many decades in the future.

Moderator: The next question is from the line of Dipen Seth from HDFC Securities, please go ahead.

Dipen Seth: Thanks for taking my question. Just wanted a quick take on this business of LEDs, from what is visible to consumers, this is obviously a product range which is disruptive to the lighting market and there are innovations and price cuts happening almost on a weekly basis or at least they were till sometime ago, most of the manufacturing or much of the value addition takes place outside of the country and most corporates in India who are in the LED business are actually assemblers or traders at best, so what is the big deal of your presence in this business and how sustainable is the profitability?

Shekar Bajaj: This is a very, very, useful and important question and this is something as an industry we are always worried about it because in the long run the LED is going to become more and more competitive and unlike other businesses, it is more of an assembly, as you correctly said, so the whole game is distribution, marketing and brand. Those are things which are going to play a very important role in this area but one thing, I have been in the industry for over 35 years, so my experience shows that it is unlikely that LED is going to very badly basically hit the normal bulb, a 10-rupee bulb is unlikely to be hit very hard because there are lot of small places, lot of villages, lot of people who cannot afford a 100-rupee CFL, or 100-rupee LED, even though it is energy saving, it is fine, but I do not have 100 rupees to spend, so therefore the normal bulb market is still not growing but it is not going to suddenly disappear and therefore that business is still substantial business of ours which is going to be there. The fluorescent tube market is also going to continue to be there and the market which is going to fall in the next two to three years substantially the CFL market because CFL market is something which is going to be replaced. LED can be fit in where CFL is being used, the same place, LED can be used and once LED prices come down to CFL level, then we would be in a position to be able to slowly shift over to LED and that is what the government's objective is.

Dipen Seth: So, here your strategy will revolve around creating a distribution network having a very strong marketing communication and developing a durable brand but there is no way that you can engineer a breakthrough product which is ahead of the competition right?

Shekar Bajaj: In LED, there is a continuous breakthrough taking place everyday. If you study, everybody is coming out with some new type of LED and new type of design, new type of usage so it is going

to be breakthrough, Now we as a strong marketing company and distribution company there are number of parties who are doing development all over the world, who are looking at India as a big market and therefore they are looking at somebody who can take care of their products. We have advantage compared to others who have their own production only, so they keep trying to sell their own products while we have an advantage that we can take products from different parties who have the latest technology and that is the advantage that we can see clearly that we can try and source. If new technology is coming in, we can tie up with them.

Dipen Seth: Just one follow through question on this and that is currently in terms of whatever disruption or innovation that has happened where are we on the lumens per what rate of curve LED?

Shekhar Bajaj: LED nowadays people normally are talking about 80 to 100 lumens per watt.

Dipen Seth: CFL, I believe is 60, right, 50-60?

Shekhar Bajaj: 50-55 yes.

Dipen Seth: Sir on the consumer durables business this is a place where we have a very strong brand but I must confess that the events of the last few quarters have not been inspiring and I am happy to say that there is a revamp of sorts which is playing out here, is the first place that 10% growth guidance in FY 2017 to me, looks very weak given the strength in the brand, so obviously this takes in to account some strong subsegments within the consumer durables segment or some strong sub categories or product categories and it also probably absorbs some weak subcategories, so if you could actually tell us where is Bajaj really strong in which subcategories, where it is weak and what are you doing on the product launch pipe in both categories?

Shekar Bajaj: See at this moment because this is transition period therefore we are talking about double digit; personally what you are saying is absolutely correct. As a brand our brand is extremely strong and therefore there is no reason where we should be happy with doing only for consumer durable doing a turnover only 2000 Crores really does not make sense. It should be much higher, absolutely correct and therefore our new strategy of secondary sale and what we call RREP that is going and covering a much bigger market it is taking a little time and efforts and therefore we cannot just now make a guess or make a prediction that what we are going to do in the next year or two years because when this gets rolled out and it becomes a way of life the people, results will be more visible.

Dipen Seth: But Sir which are the categories where we are actually weak and I would love to know some of that and where we are strong and so that is what this 10% is actually a blended number based on certain strength and weaknesses Sir?

Shekar Bajaj: Four or five business are clearly which is 80% of the business we may be on 21 categories but of that five six categories are the one which move and where we are all of them we are strong, we are currently market leaders in Iron, both and steam and dry, we are market leaders, we are market leaders in water heaters we are market leaders in mixer grinder, in OTG so these are the

profile which are the biggest movers we are market leaders on small appliances anyway. As far as fan is concerned I think now we will be No.3 I think we will be No.3 in the market place

Dipen Seth: Okay and so what is not working where are we weak?

Anant Purandare: In fact we are not much present in non-electrical appliances.

Dipen Seth: So you mean kitchen ware?

Shekar Bajaj: Correct.

Anant Bajaj: Yeah, we cannot make up non-electric kitchen appliances we call it is NEKA essentially if we have to pinpoint one big thing which actually once upon a time was a big strength for us and we in fact actually made that industry introduction of premium fan with our Regal Fan since that time we were not introduced enough so adopts in that category for the last few years but now we recently reintroduced lot of good products there and I think which has become a slight dampener in our portfolio is going to come back strong and otherwise I think as a product luckily we do not have so many real show stopper in that sense but I think the base thing is that overall shift over is the only thing which is taking time and I think largely lot of it is a wholesale driven and when your time to change the whole style of selling that itself I think is the big part and that we have done I think product should not be such an issue and I think we have been blessed with the fact that we did not get excited by many of the usual categories which lot of other people might have just taken over and so to that extent I think so the categories which we are strength is our strength for us that we are not going into extra categories which do not work for us. So the categories we have consciously considered not to get into and some of them we also recently decided that we will slowly consider phasing it out if it is required and yes, I think the big picture is that when you make a dramatic change or as you like to call it and correctly so disruptive you cannot instantly get result sometimes also sometime the results come faster than you expect, in this case I think it is taking a little longer than we expected but I think it will give us results sooner and I think results are clearly starting to show but it is not enough at this stage. And only one counter from our side was rather from my side one basic question which is from because always eventually boils down to valuation and other things of house you put a money behind the particular segment so would you able to share at all the possible in your estimation how does the lighting industry you work out in terms of valuations because that is one of the thing which always is a question which we internally like to get sensibility about?

Dipen Seth: So Sir quite frankly any consumer facing business that you do if it has pre-tax margins of less than 10% so it really does not attract the analyst community you have a company like Crompton which is now recently one of its consumer business and even there after absorbing whole lot of corporate overhead they are still working at 9% -10% margin quite frankly for me I do not know I cannot speak for other analyst but blended margins of 6% across lighting and consumer durables is something which definitely put Bajaj Electricals sub-part in my eyes I think this businesses have got potential for you to deliver 10% plus margins.

- Anant Purandare:** Whatever ROCE is? if you look at the capital employed as compared to othe companies.....
- Dipen Seth:** So you will be surprised if you see Crompton's sliced out business I can assure you they have less than 200 Crores employed capital.
- Shekahr Bajaj:** Okay thank you.
- Dipen Seth:** Right Sir.
- Moderator:** The next question is from the line of Anubhav Gupta from May Bank. Please go ahead.
- Anubhav Gupta:** Good evening everyone. My first question is on the revised revenue guidance for FY'16 so which segments are you disappointed with that allowed you to cut the guidance by 8% for the full year towards end?
- Shekar Bajaj:** Mainly on consumer durable we were looking at double digit which is going to be almost flat and therefore about 200 Crore is out from there so that's why I think 5000 Crore we will not be able to reach around 4700 we think because of that 200 and little bit in EPC because we want to do a proper execution therefore to that extent just dumping materials did not make any sense so I think about 100 Crore there and 200 Crores out of consumer durables 300 Crores is one out of a turnover.
- Anubhav Gupta:** Right. So within consumer durable segment what reason would be for the loss of this 2 billion revenue will it be market demand or delay indication the TOC?
- Shekar Bajaj:** I would say the implementation because we are finding it when we go down to the rural market I mean leaving aside the top cities, the economy of selling each product groups separately is becoming a problem that is why we have got a rurban strategy where we say that in the rural market that means outside the top 19-20 markets we will go and sell distribution through all products together rather than a separate person going for lighting, separate for appliances separate for fan it was not working out so therefore there was a resistance of people putting in sales people only to distribute in the smaller places because the cost of distribution is much more in a smaller place compared to when you have it in Bombay or Delhi market are big enough to absorb and we able to justify the cost. In smaller places only for taking a light or taking only a fan it need not be justified that is why taking a little longer time. But yes, direction is very clear there is no going back or anything its only we going to do a thorough job, it takes six months one year extra its okay that is what our theory.
- Anubhav Gupta:** Right. And the second question is if you can highlight on your new product strategy, Mr. Anant Bajaj did highlight that the new products are reaping benefits now in the consumer durable side so what is the new product launches and which launches would be there in FY'17 and towards 2018?

Anant Bajaj: Largely I think we are looking at couple of as major categories in consumer durables and anything at couple of areas improvement in terms of using lot of this intelligent systems that we call otherwise known as also IOT are actually creating better products because now especially the smart city one of the big thing which will happen is lot of integration of technologies is one part but also using it effectively by having a smart application to really around that so one of the big part which will happen is really an integrating lot of these technologies and make it run together so the areas which we will be launching, one of them is completely new, so obviously it is early to tell what the category is but what we definitely are getting on to is owing our entire design setup which is today or else still earlier we used to have a situation where lot of designs were not our designs but they want adopted designs from external sources and as a result we did not have complete control on the process so now what we are attaining to achieve is have a complete designing control and to that extent really create IP as well because today I think the big picture will be to have our own IP and more importantly have patents which can make the product work worldwide anywhere. So for example one which I can share is that we are looking at using some of the basic technology like Bluetooth to have connectivity with our products and which could eventually be region free because if you have Bluetooth on your mobile device potentially lot of our products will not need an extra electric connection kind of condition, so that is one of the things which is being actively looked upon as a product opportunity where the Bluetooth connected devices and which will obviously be pretty much the first of its kind in the planet but exactly what we are doing we cannot share here you will have to wait and see that. But we will create the excitement for you by telling you some part as what we call it as tickler but not the whole picture yet.

Anubhav Gupta: Any new product segment you are looking for to enter?

Anant Bajaj: Yes we are so that we will disclose it at the right stage not yet.

Anubhav Gupta: Alright. Thank you so much.

Moderator: The next question is from the line of Ruchir Khare from Kotak Securities. Please so ahead.

Ruchir Khare: Hi Sir thanks for taking my questions. Most of the questions have been answered. If you could share the breakup of the order book within T&D and other segments?

Shekar Bajaj: Our total order book is 2900 Crores and the breakup is 739 Crore is transmission line towers, 1965 Crores is power distribution and 199 Crores is illumination which includes high mast and special projects.

Ruchir Khare: Okay. And Sir if you could just share your thoughts on the segments like what is going to be our strategy in future and what are the areas of growth which we see particularly in EPC business that could drive our growth in future?

Shekar Bajaj: See we have taken a view about three years back when we got into lot of problems in EPC that we were looking at top line growth and the result was that we were having a growth of 30%-35%

year-on-year for ten years between 2002 and 2012 but we got very badly impacted on the bottom line because we could not execute properly so this time its very clear we rather do limited business but we will do a only business which will make us money if it doesn't make any money if we don't get our required minimum margin level we will not quote and we will quote but we will get the order is okay but sometimes we start seeing we need the order at any cost we start working low margin and then we end up loosing money so to put so much we take so much risk and then if you do not make any money it does not make any sense so therefore which was earlier talked about the 6 ½% - 7% is EBITDA we do not make in every business then by the end we wasting our time its better to that much extra money I can make by putting a little extra effort in my consumer durable so we make a better margin. Business down does not mean that the consumer durable is clearly a better margin business compared to a EPC business fan business is not as good as appliances No.1 then comes may be fan then lighting and EPC is something which is volume but if it profitable then only it makes sense so we are not going to go for volume game we want a proper execution and proper margins that will be our basis.

Ruchir Khare: Sir but we talk about execution exactly what we are talking about what kind of execution risk did we have in past do we mitigate it from now on?

Shekar Bajaj: No earlier has may be you have not directly involved for the last three four years but what happening is that we were supplying the material and we were getting our turnover with the result as soon as you show 70% of most of the businesses is supply. So if you supply 70% and you do not do your 30% execution you have made your margins as profits on paper and the efforts what we was being done unfortunately is that we did the supplies but we did a execute we did not get the money from the market and when we execute it we have lost money that is why in the last three years we have lost a lot of money. Now we are saying that we are only going to judge the person not on the basis is what is their turnover that is why I mentioned earlier also it will be on the basis of how well we have executed, on the basis of execution we are able to judge the person's performance internally rather than how much he got turnover. Execution and profits that is the only two parameters which we are going to look at.

Ruchir Khare: Thank you Sir. Lastly just how much Morphy Richards we did in this quarter and also nine months?

Shekar Bajaj: De-grew by 11% for the quarter that has got 65 Crore turnover for the quarter.

Ruchir Khare: Okay fine Sir thank you very much.

Moderator: The next question is from the line of Ranjit Shivram from Antique Stock Broking. Please go ahead.

Ranjit Shivram: Sir if you can just help me I just missed out on the breakup our order book of can you just repeat that if possible?

- Shekar Bajaj:** Yeah, absolutely no issue at all. Our total order book is 2903 Crores so that 739 Crore is TLT, transmission line towers, 1965 Crores is power distribution and 199 Crores is illumination projects which means high mast and special projects like if you do Wankhede Stadium etc., that is called illumination projects.
- Ranjit Shivram:** Okay. And in this power distribution is there any rural electrification or some kind of a risky job?
- Shekar Bajaj:** That is our rural electrification. Rural electrification and APDRP which is urban version of that.
- Ranjit Shivram:** Okay but do we foresee any risk in any of these jobs are they going as per schedule?
- Shekar Bajaj:** Yes, there is no problem.
- Ranjit Shivram:** Okay so we don't foresee any kind of provisioning or some delays because of which we have to take some cost correction?
- Shekar Bajaj:** As was mentioned in the earlier discussion that because of our policy of our board to make a certain provision on the basis of amount not receivable we have given clearcut direction so what was not supposedly to be collectible we finally collected that is why 5 Crore of provision that was made earlier was reversed. So similarly here we think that project wise there should be and we have got a very good team and the customer is saying we are one of the few who had made money and who are in this business of power distribution is very difficult business compared to a TLT which is much more standardized and all because here you have to go to small small village and go and put it in every small house there and get a okay from the Gram panchayat all that is very difficult compared to here to power grid and that is the end of the game. They have to go to each and every below poverty line house and to provide the electricity there so it's a much more difficult thing that is why most of the organized sectors they are only eight to ten players who are most of them small.
- Ruchir Khare:** Okay. And Sir of this 2900 Crore we are expecting close to around 1200 to 1300 Crores to be executed in FY'17 after just back calculating on your guidance?
- Shekar Bajaj:** No I am talking about this as on today we have got already only two months to go two months we do may be another 300-400 Crore, and then the remaining out of that 2900 Crores may be another 2000 Crore because the normal time for TLT and power distribution is 24 months so okay so therefore you can take it that out of this orders of 2900 may be about 1200-1500 Crores will be done next year and the remaining will be done the year after and there will be some new orders which will also come that is why we are hoping that we will have a 20% growth which we have mentioned for next year possibly so 1600 if we are doing this year we should be end up at about 2000 Crore next year.
- Ranjit Shivram:** Okay. And what kind of margin trajectory in a normalized way of all these projects will be having around 6 to 7?

- Shekar Bajaj:** We are seeing that whatever 6-6.5% which can be achieved, there is no reason why it should go down that depending on the how well we will be executing the margin may include one or two percent, time will show but really all of them we are clear that it is profitable and it is achieving the required execution and we want to do a good job, so wherever we have done a good job most of the customers are saying we would like if you can take many orders, if there is an extension possible, they will give you extension, wherever they are making sure they will pay us also on time because we are giving a good job, they want us to be encouraged so we are quite happy with the situation.
- Ranjit Shivram:** And Sir in our consumer durables how much had fans grown in a nine month level and how much has the industry grown as we improve market share any color on that?
- Shekar Bajaj:** Fan we have de-grown by 5.3% for nine months.
- Ranjit Shivram:** Okay we have de-grown by 5.3% and any particular reason for this?
- Shekar Bajaj:** We said we are looking at secondary sales we want to do distribution which basically fan for the wholesale business.
- Ranjit Shivram:** Okay and so which category have had actually pulled up our consumer durables, for the nine month?
- Shekar Bajaj:** Because of us not going through the wholesale route, but a distribution route our margin in fan has gone up compared to last year.
- Ranjit Shivram:** Okay margins have gone up but revenues have declined. And which product category had shown very promising growth?
- Shekar Bajaj:** . Premium is becoming better now. Within the fans, the premium is doing better that is why the margins are better but in terms of appliances also has grown by 0.8% MR has de-grown by 0.9% and fan de-grew by 5.3% that is we are down by 1.3% totally as a consumer durables.
- Anant Bajaj:** What will happen clearly in the coming months is that we will have more and more expenditure on improving the quality and I think once that happens the traction will also improve in the terms of customer behavior because especially the younger lot they are very conscious on the quality they are buying of a product and we do as a company tend to still have a larger base of older people, when I say older means above 40 years are larger base for us and we have to get the younger lot in, clearly our quality is going to be the driver towards that and I think that is one of the big thing which our R&D will achieve along with the QC team is to improve the quality and once quality is improved I think overall customer care requirements is also reduced because if your product does not get spoiled, obviously the chances of getting better profit by not having that expenditure at the higher level will clearly make us better and we are of course we look in market we will be classified as best after sales service, there is always massive improvement scope, so there is no end to improvement, so I think we will get lot of extra margin eventually in

the long term by better quality, more cutting edge product which is different because in our products currently there is not too much of technology we can put in so that is where the excitement is there for the R&D people, common get this non-techie product becoming techie, how do you do that, let us see how our smart guys in the R&D really come up with something crazy because the single word what I have given them is crazy, create something crazy for us because there is nothing much I can do in these products with normal thinking, so let us go crazy and disruptive.

Ranjit Shivram: Okay and Sir lastly LED what is our like are we largely into kind of we buy it out and we use our distribution and sell them in kind of a trading or is there any manufacturing involved from our end for LED?

Shekar Bajaj: See basically LED most companies in India whether they are own manufacturing or sourcing from outside is more of an assembly operation, unlike a lamp manufacturing or CFL manufacturing is manufacturing while here it is more of assembly operation so we are not in the manufacturing of LED but one of our sister companies is and manufacturing is that same assembly so we are today not restricted to buy from only our own sister company we are buying from outside whoever can give me good quality and good price today the whole game is becoming competitive every day the price goes down so we have to keep looking at cost cost cost and quality quality quality.

Ranjit Shivram: Okay so with all this problems in China do you foresee a situation in which the competitive intensity from the Chinese guys can increase and they can play spoilsport in terms of the overall LED market and because of that our lighting segment margins can get impacted?

Shekar Bajaj: Absolutely it can happen because Chinese when they want to dump they will dump and when they dump it they do not care it is going to lose money but yes China is already there in the market but their quality is not that good and

Anant Bajaj: Overall good news is that the biggest technology guys in this are not Chinese, it is Japanese the Germans and Americans which are the top players in terms of the technology in LED, be it the LED chip, be it the LED driver, be it the LED batteries and all of that which they use is all largely non Chinese, Chinese like to call Taiwan as part of them Chinese Taipei or whatever but reality is that Taiwan is a different piece and to that extent lot of the main technology comes from Japan and US and little bit from Germany so these are the real guys who are the one to engage with and I think India is already created a good high quality set up for assembly so we are luckily dealing with the best in the game so to that extent we pretty much well set.

Ranjit Shivram: Okay so probably we will be able to maintain the kind of can we assume that this 7 kind of margins is sustainable in FY'17 and so we will maintain this is a kind of a floor which we can assume?

- Shekar Bajaj:** Margins will be under pressure the turnover 20% growth will takes place but margins will be under pressure so will see we have to just be on our toes, that is all I will say.
- Ranjit Shivram:** Okay Sir thanks.
- Moderator:** Ladies and gentlemen due to time constraint that was the last question. I would now like to hand the floor over to Mr. Rahul Gajare for closing comments.
- Rahul Gajare:** I would like to thank all the participants on this conference call and wish management well for the forth coming quarters. Sir, do you want to have closing comments over here.
- Shekar Bajaj:** No I think I was happy to receive some very interesting questions at this moment the important aspect which was always the worrying factor is that industry segment there was one segment which was always loosing out and therefore to that extent the other segments which was basically subsidizing that one sector, now luckily all the three segments are making money consumer durables making little less money but consumer durables are still it was making 8 now it is making 5 compared to 8 , 5 is bad but if you still making money every segment is making money so nobody is depending on anybody else to subsidize it so that is the good news and all the three once the market our secondary sales and TOC gets implemented then we can see substantial growth coming in that is all I can say and thank you very much and wish you all the best.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Edelweiss Securities that concludes this conference call thank you for joining us and you may now disconnect your lines.