

L-1/2020/MGP

February 18, 2019

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

National Stock Exchange Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai- 400051.

Code No: 500031

Symbol: BAJAELEC- Series: EQ

Dear Sirs,

Sub.: Transcript of post results Conference call held on 7th February 2019

Further to our letter no. L-1/1987/MGP dated 5th February 2019, we enclose herewith transcript of the Post results conference call held by the Company with the Investors, on Thursday, 7th day of February 2019, on the financial results for the quarter and nine months ended 31st December 2018 which was hosted by Emkay Global Financial Services Limited.

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

Thanking you,

Yours faithfully,
For Bajaj Electricals Limited

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Mangesh Patil
EVP — Legal and Company Secretary

Encl: As above



“Bajaj Electricals Limited
Q3 FY2019 Earnings Conference Call”

February 07, 2019



ANALYST: MR. VARSHIT SHAH – EMKAY GLOBAL FINANCIAL SERVICES

MANAGEMENT: MR. SHEKHAR BAJAJ - CHAIRMAN & MANAGING DIRECTOR – BAJAJ ELECTRICALS LIMITED
MR. ANUJ PODDAR – EXECUTIVE DIRECTOR - BAJAJ ELECTRICALS LIMITED
MR. ANANT PURANDARE – PRESIDENT & CHIEF FINANCIAL OFFICER – BAJAJ ELECTRICALS LIMITED

Moderator: Ladies and gentlemen, welcome to the Bajaj Electricals Q3 FY2019 earnings conference call hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Varshit Shah of Emkay Global. Thank you and over to you Sir!

Varshit Shah: Thank you Raymond. Good evening everyone. I would like to welcome the management and thank them for giving this opportunity to host this Q3 FY2019 earnings call. We have with us today Mr. Shekhar Bajaj, Chairman & Managing Director, Mr. Anuj Poddar, Executive Director and Mr. Anant Purandare, President & Chief Financial Officer. I would now hand over the call to the management for opening remarks. Over to you Sir!

Shekhar Bajaj: Good afternoon to all. This is Shekhar Bajaj here. I am sure you must be very glad to see the numbers. Let me give you a summary of what has happened and what is expected in the future. If you look at our consumer product we have been seeing for the last three quarters that we should continue to grow around 25% and I am happy to inform you that we have continued growth of 26.7%. In case of the lighting business, unfortunately the prices of LED keeps coming down, the CFL is whatever little we were selling last year become worse and therefore there is hardly any growth as far as lighting is concerned, but the appliances has grown by over 40% and Morphy Richards also grown by 33% and fan because of RREP system of selling we do not dump what is not required at this moment and therefore there is not much of sale of fans in December, season only starts in January, February, so the growth will come in the last quarter of this year, so the fans growth is only 6%, but overall because of this 40% growth in appliances, our growth has been 26.7%.

As far as EPC is concerned, EPC has shown a stupendous growth of 157%; Power distribution has grown by 215% from Rs.307 Crores has gone to Rs.970 Crores, out of this Rs.970 Crores, UP alone is to Rs.812 Crores and transmission is of course grown by another 220%, but main thing, which we must understand that this 812 Crores of UP next quarter, partly it will continue, but in the long run this UP project once it is over by latest end of next year, then this turnover will not be available. Other aspect which is important to understand is that, which I have been saying over the period, those who are following that in case of especially consumer product, we were finding that because we were not having growth because we were doing a redistribution by avoiding wholesalers, etc., so because of that, the fixed cost was going up, the topline was not coming and therefore our bottomline was getting bad to worse, now the thing has reversed.

Our growth in consumer product has gone up by 26% when our fixed cost would go up by may be 15%, 17%, so therefore, our margins if you see has gone up from 6.5% to 7.3% and next quarter we expect that compared to whatever is the margin that was there in the fourth quarter, the margin in the current year for the fourth quarter will be better than last year. The exact

percentage we will see over the period, but in case of power distribution again because of the huge growth in turnover, our fixed cost got divided over such a vast volume against Rs.544 Crores, the overheads were being distributed, now it has gone to Rs.1400 Crores and therefore obviously our fixed cost percentage has come down and therefore in future years if the other businesses do not pick up and the power distribution business slows down our margins, our contribution may come down slightly in the fourth quarter, in the coming quarters and therefore one should not expect that from operating profit point of view the type of improvement from Rs.32 Crores to Rs.79 Crores that has happened in the EPC business will be a sustained type of margin improvement that has taken place, but next quarter should be as per my earlier forecast, which I told that we should do about Rs.4000 Crores of EPC business, we have done already Rs.2900 Crores and in the current quarter we should do about Rs.1100, Rs.1200 Crores, so that Rs.4000 Crores that we talked about EPC business should take place.

As far as consumer product is concerned, if you look at around 20%, 25% growth taking place in the fourth quarter we should be at anything between Rs.2800 to Rs.3000 Crores, so that Rs.7000 Crores, which we have mentioned last quarter, I think around Rs.7000 Crores we should be able to maintain may be Rs.6800 Crores, may be Rs.6900 Crores, but around Rs.7000 Crores is very much happening. The consumer business continues to be good. With this budget giving a lot of support to the lower end people, middle class people who will have a lot of savings because they do not have to pay those taxes, will help us to increase our demand for our consumer products and therefore overall I am very bullish about the company and we are expecting that fourth quarter also, the margins and profitability will be maintained as far as consumer product is concerned and even here because the UP project is little uncertain in terms of what will happen after March 31, 2019, therefore, I am keeping a little low key as to make any estimate for what will happen after the fourth quarter as far as E&P is concerned, that only time will show, I think by early March we will come to know, now also it depends on the election, who comes into power, whether the Saubhagya scheme will be extended and not extended, all those things are little uncertain and therefore to that extent I do not want to make any forecast for the E&P business. With these words I would like to begin the question and answer session. Thank you very much.

Moderator: Sure. Thank you. We will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment, while the question queue assembles. The first question is from the line of Balthazar from Sloane Robinson. Please go ahead.

Balthazar Florentin-Lee: Good afternoon. Congratulations on a very strong set of numbers. I understand you cannot give guidance on the EPC, but regarding your intention for it, once this very large project has been digested and is off your books, what is your intention for the business is, I want to ask you two, three years down the line what would you hope for the sort of revenue split between your EPC business and your consumer business to be?

Shekhar Bajaj: Thank you very much. We have already given the indication every quarter. We have always said that the EPC business should normally be not more than 50% of our total turnover. This quarter

because we got this huge UP project because of which we are forced to complete that in time and therefore because of that, the ratio becomes for this year Rs.4000 and Rs.3000, total Rs.7000 Crores. For the coming years, I am expecting that the consumer business from a level of Rs.3000 may go to Rs.3500 of whatever it is, but the EPC business will not grow more than 3500 because we do not want to take new order, so the ratio of EPC business hopefully not cross 50% of our total turnover in the future.

Balthazar Florentin-Lee: Thank you, but it is your intention to continue with it and keep it going and as your consumer business goes from strength to strength, it is not going to be your main focus and you will let the EPC businesses on the background, you still want to generate Rs.3500 Crores?

Shekhar Bajaj: No, we are saying that EPC business is a business where we are there to make money, so therefore we have internally have a certain target profit to be achieved. In case we do not do that and therefore I mention that at a certain stage we stop, we would not do more business, but if you suppose because of that the business goes down to Rs.2500 Crores, it is perfectly okay, we are not saying that we have to achieve 50% of the turnover from EPC. EPC will only do if the margins are meeting our minimum expectation.

Balthazar Florentin-Lee: Excellent. Thank you very much.

Moderator: Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Good evening Sir and congratulations for the strong results.

Renu Baid: Sir, you have seen a very strong performance on the consumer product side if you look at the portfolio, so how should one now incrementally look at when we have A) someone is coming ahead and given that now we are also streamlining our inventory holding or stocking policies also, so in that perspective how should we look at that summer is panning out, most of the peers in the fan category have grown high double digit, so seasonally we are not comparing the market shares, but then from that perspective should one then embrace for a much stronger growth in the fans in summer categories in the next two quarters for us?

Shekhar Bajaj: We have grown by 29% for the first nine months as far as fans are concerned. In the third quarter we have grown only by 6% and the reason is that we were not pushing it because we said at this moment it was very cold and therefore demand for fan was not there, we did not want to block the inventories, because now we have got common retailers who are dealing in all the product groups and therefore if we block in for fan then he will obviously have no money left over to do other businesses, so we say that now with the water heater season getting over, In February it makes sense for him to January also and then February onwards to buy more fans because that is the season for selling fans then he reduces his need to invest in water heaters and mixers and others, so I think the 25% type of growth overall in the consumer business seems to be a reasonable target to look towards.

- Renu Baid:** Right and Sir last time when we met you mentioned that in Morphy Richards we are undertaking a few initiatives like adding categories and expanding distribution reach, so where are we on that and how should we look at the growth prospects of Morphy Richards?
- Shekhar Bajaj:** See Morphy Richards earlier we were having its own distribution channel, now what we decided that once our distribution as far as RREP is now almost through and we have got over almost 190000 outlets to whom we are selling, it makes sense if we can use both Nirlep and Morphy Richards using our distribution network, so at this moment when we were directly selling Morphy Richards we had about 11000 outlets, which were being catered to. With now going directly through our distribution network, it may go up to 30000, 40000, so that is the advantage, which we see in Morphy Richards. In the third quarter we have shown a growth of 33% in Morphy Richards, of course last year was not a good year, so this 33% nothing to be excited about, but the fact is that it is now started to grow.
- Renu Baid:** Right and coming on the EPC business and leverage side if Purandare Sir can help with respect to what has been the debt levels at the end of December and how are we now securing incremental working capital, funding from the customer in UP in terms of advances and how should one look at this going ahead in FY2020?
- Anant Purandare:** The current debt in the balance sheet is around Rs.1372 Crores, which is the increase of around Rs.640 Crores as compared to March and it is mainly because the working capital increased for the UP projects. As far as funding of this, yes, there is internal accrual of around Rs.170 Crores and we are raising some long-term funds through NCDs plus there is working capital funding from the banks and other lenders, so that is how we are funding this working capital requirement.
- Renu Baid:** The advances that you were securing from UP government?
- Anant Purandare:** Yes, we have received the advance from the UP government, which is around Rs.430 Crores, obviously the advance gets adjusted as the billing is happening, so as of December around Rs.390 Crores advance was outstanding.
- Renu Baid:** Right and going forward next year should one expect that Rs.1300 Crores, Rs.1400 Crores of debt should come down meaningfully by end of the year?
- Anant Purandare:** As the year progresses as we do the erection billing, we will be collecting the 30% of supply, which is released by the customer on erection, so that is how gradually our working capital will go down as we progress in the erection.
- Renu Baid:** That would be good and also on the order backlog side if you can share what is the value of the backlog and the split between the segments?
- Shekhar Bajaj:** As far as the UP project is concerned that is the main order book as far as power distribution is concerned, so though it says Rs.4600 actually these numbers are not going to be achieved and that would not required also because many of the places, the electrification already there and

therefore we have already mentioned that though the order book is for Rs.5000 Crores we do not expect it to cross Rs.3000 Crores. So therefore the numbers we do not exactly know. The other issue is that this is coming under the Saubhagya Scheme of the Government of India through the REC. Now March 31, 2019 is the time, which has been just now announced, what is going to happen in election we have got no idea, so if the BJP does not come in, the new government comes in, what is their thinking on Saubhagya Scheme we do not know, so till March 31, 2019 whatever we can do we will do, after that we will have to wait and watch.

Renu Baid: Right, so the current order backlog which we have the total order book including PD, transmission line, illumination projects is about Rs.4600 Crores?

Shekhar Bajaj: Yes, Rs.4600 the power distribution under the Rs.1000 Crores is TLT, which of course will all take place and Rs.126 Crores is for illumination.

Renu Baid: Okay. That explains well and Sir my last question is how are we working now with respect to new product launches and ramping up the entire speed of the channel with better new products, so if you can share some updates on that side along with Nirlep's performance whatever little help in there?

Anuj Poddar: New product launch is the key focus for us in the current year, we are week-on-week and month-on-month churning out new products. When I say new products that either includes new SKUs, but mostly within our existing categories or a refresh of some of our existing SKUs on some cases, new products at their sourcing from outside, which we are going to validate and introduce into India, all three fronts, these will remain within our categories, but within each category whether it is fans or mixer grinders or any other appliances, etc., we want to expand range of products and offer, so that is the focus and you will see that happen all through this year. Coolers for example in the coming season, in the heaters again in the winter of the coming year, etc., you will see that happen all through the year. So that is from the new products. In terms of Nirlep, just like Morphy, we spoke about Nirlep has also been introduced across our full distribution network. We have seen a fillip in the Nirlep numbers in the last quarter, but to caveat that, that happens because it is the first time it has been introduced across the entire distribution network, so the first round of primary sales on Nirlep is high as the stocking starts taking place across that whole value chain. I do expect certain dip in that in January, February because the primary sales would have happened then, after that once the secondary sales pickup it is when the next round of selling will start happen, so there will be as I said first round when the entire sales happens, stocking happens, a slight dip while that starts to stabilize in pickup and then it will pickup normal growth curves on that, but higher than before.

Renu Baid: And if I may add one more question on the pricing side under law we have not been very aggressive to take price hikes in the market, so how are we looking at the pricing actions in the coming quarter ahead of the season?

- Anuj Poddar:** I would think we have been fairly what should I say if not aggressive, but we have been fairly taking the price hike, so we need to do more importantly not drop prices when we see competition doing that, so we have been maintaining our price points that has held out well for us in Q3 where the commodity or this cost size went up for us, but because of a price we managed to maintain margins. You will see some benefits of that in Q4 because if cost go back to normal or the inflated cost of Q3 correct back downward in Q4 we are not dropping prices as a result of that and therefore we should see some benefit of that.
- Renu Baid:** What would have been the average price hike you would have taken during the last quarter on an average?
- Shekhar Bajaj:** may be 2%, 3% not more than that.
- Renu Baid:** Alright. Sure.
- Anuj Poddar:** we maintain a certain stability to our pricing approach in the market as opposed to any frequent revisions upwards or downwards in that.
- Renu Baid:** Correct. Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Nikhil Oswal from Stallion Asset Management. Please go ahead.
- Nikhil Oswal:** Thanks for the opportunity Sir. I am actually new to the company, so I just had a few basic questions, so Sir since I joined the call can you just tell me about the levels and net debt that we have?
- Anuj Poddar:** Nikhil your voice is not very clear.
- Nikhil Oswal:** Sir I just wanted to ask about the net debt that we have on books right now?
- Anant Purandare:** It is Rs.1372 Crores.
- Nikhil Oswal:** Alright and Sir the other question is can you just give me a segmental EBITDA margins if possible that we make on consumer or in EPC because on blended basis we are making 7.3%, so what would be the segmental margin?
- Anuj Poddar:** Let me clarify Nikhil 7.3 is segmental EBITDA margin for consumer product, let me just read out the figures, so the operating margins for the quarter for consumer product has increased from 6.5% to 7.3% Q3 last year versus Q3 this year. Q2 was 5.7%, but that is a function of seasonality. The operating margins for EPC segment are different, so EPC segment margins have been 5.6% in Q3 this year, they were slightly higher last year 5.9%.
- Nikhil Oswal:** Alright and Sir the other questions regarding the cash conversion cycle that we have right now is 112 days, which is a little stretched, so are we looking to improvise on that?

- Anant Purandare:** Yes, as explained in earlier questions that the working capital, which is now blocked for the UP project which may release as we do the execution part. Money, which is held up for the supply of 30% that will get released, so gradually the working capital will reduce.
- Shekhar Bajaj:** The way this whole project business works when you supply you get 60% immediately, when you complete your erection then you get the erection 90% and you get remaining 30% of your supplies. When you complete that whole project we have got 16 different tenders that we won, when you complete a full work of one tender then the last 10% comes, so 10% will take sometime, the 30% once we complete the particular area, then we get 30% of the remaining supply and 90% of the erection after that, that is why he is expecting that as we are completing the various projects and we make a presentation we will get 90% of erection and 30% of supply, which we have not got, that is why the cash flow will improve next year.
- Nikhil Oswal:** Sir another question was regarding your consumer business, so since we are now focusing more on consumer business than our EPC because we have decided not to go beyond 50% in our EPC business, so going forward this would improve our working capital days and cash conversion cycle as well right?
- Shekhar Bajaj:** Absolutely because actually most of our distribution business in case that means trade business, which is 60%, 70% of our business is all almost on cash because all our distributors are on channel finance, so therefore, the banks are financing them, so there is almost no working capital required there. Working capital is only required when we sell to MFR that means like Big Bazaar or we give it to Amazon and Flipkart, so for those people, we require some working capital, but that also is within 60 days, so frankly speaking working capital is not a issue for consumer product.
- Moderator:** Thank you. The next question is from the line of Rahul Gajare from Antique Broking. Please go ahead.
- Rahul Gajare:** Now it is very heartening to see that the consumer margins have inched past 7%, I wanted to know from the next three-year perspective or a five-year perspective, what is the kind of margin that you are looking for from the consumer business, you already talked about the growth of 20%, 25%?
- Shekhar Bajaj:** Internally, which had mentioned earlier also, that we are expecting increase in fixed cost by about 15% and if we grow by 25%, then in terms of fixed cost will go down by 1% per year and therefore in three years time, by no price increase, no further better purchases if we continue the business, but continue to grow by 25% and able to maintain margins, that 7% should go up by 1% for year, so in a period of three to four years it should go up to 10% this is what I would like.
- Anuj Poddar:** Rahul, this is Anuj Poddar, just to add to that, so agree with what has been said, 1% let us say is more or less what we call an increase every year, so the way I see it is also that we understand

that our margins are slightly lower than competition, so that is also function of product mix. Number two, as you know our focus is on driving growth topline, bottomline and if we can deliver that to investors then that is good. If the bottomline growth can continue to out pace its top line growth then automatically that is the result of margin. With scaling up, I would see that operating leverage delivers at higher bottomline growth. Number three was important for us, it is in the process of chasing margin, we would do that via our growth not by cost cutting in terms of shrinking because very often you can do short-term measures to shrink cost and drive higher margins, but that is not good for long-term growth, so given that we are operating in the current way right now we want to continue to drive or enhanced margins, but while maintaining secular sustained growth and therefore do that in a calibrated manner.

Rahul Gajare: Well that is pretty fair. My second question is on the EPC business, while UP order is fairly large, could you give us some indication as to how much of that order is already executed from UP?

Anuj Poddar: So in terms of value terms I think with Q3, let us start UP order has got Rs.5000 Crores. Q3 figure in that is about Rs.812 Crores, there is some billing prior to that in Q2, so total amount is Rs.1148 Crores of that has been already revenue booked, but the balance, which is around Rs.3900 Crores will not fructify, as the Chairman already explained earlier we expect the UP total order size to end up anywhere between 3000 plus minus Crores, the balance to go would be about Rs.1800 Crores is the estimate.

Shekhar Bajaj: We expect another Rs.300 Crores to Rs.400 Crores will take place up to March, so Rs.1500 Crores we expect will be over by March and next year we can look at around Rs.1500 Crores.

Rahul Gajare: Okay, if Rs.1500 Crores remain, I was just basically trying to see what is the kind of growth that we can come to in the next year for the EPC business, the second part of this question in terms of the kind of revenue that we have seen in this particular quarter, ideally you tend to get a lot of operating leverage, when you have a very high execution that you have done. Now at Rs.1400 Crores of execution from EPC business, I actually expected uptick on the margin, but margins has – while it is moved from 4.1 to 5.6, but I thought that the margins should be upwards of 6%, so what are your thoughts on the margin of EPC business going forward?

Anuj Poddar: So if I may answer that and Chairman can add in, I think EPC business unlike consumer has a lower leverage because bulk of a cost are directly linked to direct supplies built into that project and therefore, the goods are largely direct cost, so the operating leverage is typically operate as much in the same way as it does for the other business number one. Number two, the fact is that the pricing side while it is fixed based on the tender, the cost on the EPC side did go up because of commodity or other cost going up and also because of the pressure of execution in Q3, not just for us, but for all the other contractors too. As a result, all the contractors are chasing the same supply sources and there was a period when all the suppliers taken advantage of that and increase the cost to one of us, so that is one of the reasons for not seeing an improvement in EPC margins in Q3. We do see some of the cost side pressures come down in Q4 because of the timing

execution pressure ease up a little bit, having said that, there are other uncertainties around the EPC that continue to create uncertainties on the margin for that.

Rahul Gajare: If I am not missing and I think we were looking at closer to 7% plus margin on the UP business, with cost over and is it fair to expect the margin going closer to 6% for this project?

Shekhar Bajaj: I do not think so. I mentioned in the opening remarks that it may go down actually because what happens is that fixed cost, because we have got very high fixed cost to do this, in such a short period the number of people and all the whole setup, so overheads have been substantially increased, the number of godown, the number of other things is there and if we find that our topline does not come then that distributor over a much smaller volume and therefore to that extent our profitability may get impacted, so if 0.5% to 1% further drop may take place is something, which is possible. I hope it does not happen, but from a guidance point of view I would say be prepare that it may go down. According to me unlikely because we had to purchase at a much higher prices, it was mentioned by Anuj that because the pressure was there we have to complete substantial amount, you can imagine we did a total 1150 Crores in the whole year. Here in one quarter we did Rs.812 Crores, you can imagine to do that you have to work and for a supplies also we have to pay extra, everything extra we have to pay just to make sure that we are able to meet the pressure of December 31, 2018 because the PM wanted to announce that as per Saubhagya Scheme the UP has been electrified.

Rahul Gajare: That is all from my side. Thank you very much.

Moderator: Thank you. The next question is from Deepak Narnolia from Birla Sun Life Mutual Fund. Please go ahead.

Deepak Narnolia: Good afternoon Sir and congratulations for strong set of numbers. I have this question about EPC business. You said post March Rs.1600 Crores Saubhagya Scheme order would be pending?

Shekhar Bajaj: No, I am saying Rs.1500 Crores will be completed by March 31, remaining 1500 to be done the next year, it is 3000 cr, Now it is possible, if the Saubhagya scheme comes to an end and they do not extend it, which I personally think they have to extend. The electrification is something which no state government can stop and say no more electrification. Because it is a basic, because in two, three years, again the elections are going to come for the UP itself, so they have to do as much electrification as possible. So according to me, the Saubhagya scheme will be extended, but it can happen that they may say partly the State Government will fund it and all, so the Rs.3000 Crores may even come down to Rs.2000 or Rs.2500 Crores, we do not know, but I am saying Rs.1500 Crores will be over by March 31 and we are expecting, it will be not more than another Rs.1500 Crores next year, that is all.

Deepak Narnolia: If that scheme is not extended then what will happen to your work, means you will be paid for the current, and it will close down?

- Shekhar Bajaj:** Yes, it would not be exactly zero, but I mean, what I am saying is, it may go down, out of that Rs.1500 Crores it may end up only Rs.1000 Crores or Rs.700 Crores, we do not know, so if that happens that is why I was mentioning that if that goes down, it will take time to bring overheads down, so therefore to that extent margins will get impacted.
- Deepak Narnolia:** So I am trying to know that even if the scheme is closed your money will not be stuck for the current work?
- Shekhar Bajaj:** No that is already earmarked and kept aside, for Saubhagya they have already transferred their funds from centre. REC has already transferred the funds for this Saubhagya scheme is on, whatever is billed is something which will be financed, if you do work after April we will come to know, so they said by early March they will be able to tell us what is going to be after April.
- Deepak Narnolia:** Okay, next year your volume can be impacted because of this?
- Shekhar Bajaj:** Correct.
- Deepak Narnolia:** Volume of this business and in this quarter Sir, you have done Rs.1400 Crores sale in the EPC business.
- Shekhar Bajaj:** Including Rs.90 Crores from Luminaires and Rs.1300 Crores from our illumination, power distribution and transmission line business.
- Deepak Narnolia:** So actually, normally fourth quarter is the bulkiest quarter for the EPC business, but you are saying that in the fourth quarter you would do somewhere around Rs.1100 Crores correct?
- Shekhar Bajaj:** Correct because what has happened that they put a lot of pressure on us and made certain wherever they have unelectrified villages they made sure that whichever, which I want to call is low lying fruit they say please electrify that first because we got order for only 40,000 villages to be done, so they said whenever we can do quickly, so therefore that Rs.812 Crores that we have done for UP business in the third quarter may be only Rs.600 Crores coming up in the fourth quarter we do not know it could be, because now we have to go to village-to-village, earlier it was bulk, you take Gondia, there were 3000 habitats which we have to do, so you do altogether one after and now they say we have 10 house, we have 100 houses, we have 50 houses, so it may slowdown.
- Deepak Narnolia:** So once the tranche is completed you will start realizing your money?
- Shekhar Bajaj:** We are hoping so, 90% I am not worried about that we will get, the last 10% will only be given when they say okay, now this project is closed and handed over to them and they accept it and then they do their audit and then we get our last 10%, so last 10% may get delayed by three months, six months, I do not know, so the last 10% will take its own time, but the 90% part is according to me will be paid well in time.
- Moderator:** Thank you. The next question is from Varshit Shah from Emkay Global. Please go ahead.

- Varshit Shah:** Congrats for great quarter. Sir I had some few questions from some investors who could not join the call, so they wanted to know about how the premiumization strategy is playing out in terms of new product launches and how do you see it going forward for the FY2020 as well?
- Anuj Poddar:** More than premiumization for the sake, the focus is on this enhancing the overall product portfolio, so we have the products for everybody that are competitive not necessarily in price wise, but competitive in terms of offering range that we have for all customers number one. Number two is really about making sure that our products are frequently updated and contemporary, so to me personally that is more of a focus. India remains a mass market, so we will add premium in innovative product, at a maximum volume and value comes from the mid or the mass market range, so if I answer your question, to me that is the way I look the whole consumer and product portfolio.
- Varshit Shah:** Sir one more bookkeeping question, so this Rs.1372 Crores of debt includes the advances received or is it excluding advances?
- Shekhar Bajaj:** This is net of advances.
- Varshit Shah:** Okay, understood. Thank you.
- Moderator:** Thank you. The next question is from Kushal Khandwala from Lucky Investment. Please go ahead.
- Kushal Khandwala:** Good afternoon Sir. Can you please help with the intersegmental volume and value wise percentage growth breakup in the CD segment?
- Anuj Poddar:** In the EPC segment?
- Kushal Khandwala:** CD, consumer durable?
- Anant Purandare:** Volumes? we do not give, because there are too many product categories within that. other question was value growth within the segment?
- Kushal Khandwala:** Yes, I think value growth you have provided; I just need the volume growth?
- Anuj Poddar:** Volume we do not give out because again it is not the consolidated volume as it does not make sense into each subcategory.
- Shekhar Bajaj:** I do not know when you say volume growth, value growth we understand, what is volume growth now how do you consider volumes and they are 900 SKU.
- Anuj Poddar:** So we had 1200 SKUs.
- Kushal Khandwala:** The other question is that, if you can throw some light on the 1500 Crores worth of borrowings that we have had an approval of, so where do we intent to distribute that money going ahead?

- Anant Purandare:** This was for commercial papers and NCD, we already have commercial papers of around Rs.400 Crore and we are now raising Rs.200 Crores of NCD. We have taken these approvals on the basis of projected cash flows, now the current requirement is around Rs.700 Crores, which we are utilizing.
- Kushal Khandwala:** All right, fair Sir. Thank you. That is all.
- Moderator:** Thank you very much. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Good evening Sir. Thank you for the opportunity Sir. First question I had is with respect to the consumer business can you help us with the nine-month growth for the fans appliances, Morphy Richards and lighting business, please?
- Anant Purandare:** Nine months growth figures, lighting is 12%, appliances is 33%, fans is 30% and Morphy is 9%. Total CD is 26%.
- Achal Lohade:** As we said probably the increase is about 2% to 3% most of that is the product mix or the volume led rather than really the price increase, is that fair statement?
- Anuj poddar:** Yes, so price increase is nowhere close to this 20%, price is very very low single digit, 2%, 3%, so it is all volume and product mix.
- Achal Lohade:** Sir, another question on the EPC business particularly with respect to the UP project order, what would be the biggest component for us with respect to the raw material, is it copper, is it aluminium, is it lights, what is driven the cost increase, I was just curious to understand that?
- Anant Purandare:** For the power distribution project, it is a mix, these are all bought out includes cement poles, cement, steel, cable, conductor, etc, that is aluminum and copper. so it is more or less mix kind of the components.
- Anuj Poddar:** But just to understand if we are trying to correlate to particular commodity price going up, the increase in cost is not because of only underlying commodity, but it is a supply demand situation of the pole for example, it is not necessary to do with cement price, but everybody is chasing pole supply in a short period of time. The seller is increasing his selling price.
- Achal Lohade:** This fixed price contract was, it is particularly for the UP project or in general our EPC business has fixed or is there any escalation clauses out there?
- Anuj Poddar:** Most of the transmission like towers contracts, there is a price variation clause and power distribution some contract we have price variation, but most of them are fixed price.
- Shekhar Bajaj:** Here as Anuj was mentioning that the problem is that even if a PV clause was there for price escalation, there is no price increase because of the escalation of raw material price, if the demand supply for which obviously you are not going to get a price escalation, if somebody says

though the cost is same Rs.2000, but I am going to charge Rs.2500 because everybody is asking for it and therefore demand supply, there a shortage of a particular item, what happened is we have to squeeze, which we had thought we will take another 12 months to 14 months to complete, we have done this Rs.812 Crores, we have to compress it in six months, we started somewhere July, August and we have to complete by December 31, what we have done and therefore that time all our calculation in terms of demand supply has gone completely haywire.

Achal Lohade: Basically the government changed its mind with respect to the timeline in short, they have tried to prepone it?

Shekhar Bajaj: Basically we are also supporting the government and the reality, so therefore, they were putting pressure because they were getting pressure from that political thing also, so politically not legally, but politically they can always put pressure on you, please supply fast and we are supporting that.

Achal Lohade: Got it and a just clarification on what you said Sir with respect to this order you said out of Rs.3000 Crores we do not know how much you will be executed later on, but 1500 will be done by March and balance Rs.1500 something will get executed, some might not be, in that scenario you would expecting some margin contraction possibility in FY2020, is that understanding right Sir?

Shekhar Bajaj: Absolutely, because what happens is that, suppose your turnover is going to be only Rs.1000 Crores of EPC and your fixed cost let us say Rs.100 Crores, it becomes 10%, if that becomes Rs.1500 Crores it becomes 7%, so the fixed cost element depends on the turnover because that fixed cost have already got employees and everybody except for contractors, which we may reduce, but otherwise most of the people who are on the roll have to be paid, whether you do Rs.1500 Crores or you do Rs.1000 Crores, it does not change, so it can impact us by a 0.5%, 1% depending on what is the final numbers.

Anuj Poddar: Achal, what also happened in the situation is you are not able to plan in an optimal manner, because you do not know whether you planned for Rs.3000 or you plan for Rs.2500 or what is the scope of work because that is moving or that is a little dynamic because of a given situation, so therefore, that has an implication on the cost optimization of that because we have to plan to execute the full thing because they are in a hurry, but on the other hand you do not when and what may actually reduce.

Moderator: Thank you. The next question is from Jai Kakkad from Ambit Capital. Please go ahead.

Jai Kakkad: Thanks for taking my question. Wanted to ask in the consumer part of your business, how are we are trying to improve the product quality, what is your focus on in-house manufacturing and R&D in the next two years, three years?

Anuj Poddar: So let me separate both questions, the quality is a separate question to my mind versus the manufacturing versus sourcing. On quality again I say there are two, three aspects, one is

constant effort to improve quality based on returns or defective or warranty, under warranty returns that we get and each of them is already analyzed and then there is a root cause figure out and can we enhanced or do what should I call corrective measures in the product whether in design, or whether in terms of material or in terms of building, manufacturing etc., to enhance the functional or the life of that product and therefore effect the quality of product, that is the ongoing exercise that we have. Second is more longer-term quality enhancement. In terms of new product development and features or uses of different materials, etc., is something that we are looking at actively. As you may know we will setup our own in-house research and development team and setup at the start of this current fiscal and the team is now a days doing that actively in terms of products development on that. The third really is sourcing and that is linked to your question of manufacturing versus sourcing, we are constantly trying to source ready products also from outside markets and in that go through rigorous validation and quality checks and see if some of that can improvised. Coming more directly to the manufacturing versus sourcing question that is an independent question also driven by both current cost considerations and also longer-term strategic consideration, we need to balance both out. So we do have manufacturing facilities, we do want to optimize capacity utilization that has gone up for each of our plants, the capacity utilization. We are constantly looking at whether we can make changes from a manufacturing facility point of view to changing from A, product mix to a different product mix, that is more strategically relevant for us. While I do not know the name of particular product category, but there may product categories that we are manufacturing and all that are getting commoditized and we think in the long run that may be outsourced better instead of us trying to manufacture that in-house. So to me that may cause a buy decision is far more strategic in terms of what are the competitive advantages that we have to take while maintaining cost efficiencies on that.

Jai Kakkad: Just a follow up on this, so Sir in this how much are you going to invest say in the next two, three years both in R&D side as you mentioned and if you are going to increase any or you spend anything in the capex side also for manufacturing?

Anuj Poddar: We have not quantified that, but to give you a sense we are not looking at some significant big ticket expenses that disturb the P&L, both on the manufacturing capex and ad spend we have been doing that constantly and we have obviously we will discuss something we will do that, but financially the impact of that will be as part of running business, similarly of the R&D side. Our R&D investments have gone up already this year over last year that has already factored in the number that you see, so incrementally we do see some of that going up next year also, but not something that should disturb the P&L or one big large capex. If and then there is a single large capex of that sort, we do not have that right now, but we will come back separately and share that.

Jai Kakkad: Sir lastly on the analytics part of it, how are you using analytics, because now you have visibility of the end retailers, so how are you using analytics to make decisions on product launches, SKU upgrade, etc., just if you can throw more light on that?

Anuj Poddar: There is two levels of analytics right, one is analytics at a distribution chain, which includes retailers, and second analytics at a consumer level. To be candid the data we have now which is our competitors do not have, it is beyond the distributors right down to retailer level, we know all our retailers, we know the offtake in terms of volumes and products and SKUs at every retailer that has given us good visibility in terms of planning in terms of optimizing that through the entire value chain right back till our sourcing and supply, so to that level we are using analytics to improve our whole inventory levels at the retail level, at the distributor level and at our level, both in terms of stocking and in terms of replenishment timelines. The second level of analytics will be when we get far more greater access to consumer level visibility, feedback, etc., we have that right now from two sources, one is from the consumers who come back to a customer care in terms of any feedback, questions that they face, but obviously that is less than 5% of consumers that come back. We do not have consumer visibility to 95% of our customers by bought a product and happy and therefore do not come back to us in terms of contact and therefore we do not have a direct contact or communication or access to get, so we do or have started studying some level of consumer insight through the digital channels including online platforms and social media, but to connect the dots on that back to actual purchase decision etc., it is a little early stages right now to do that for us.

Jai Kakkad: Okay. Thanks for answering my questions.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Shekhar Bajaj: Thank you very much. I am thankful to all the investors who have had a lot of patience and lot of confidence on us that is we will perform as per expectations and hope that you are reasonably satisfied. We hope to continue our effort to offer better and better product and to give better and better return to our investors. Thank you very much.

Moderator: Thank you very much. On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.