

February 11, 2021

To,

BSE Limited

: **Code No. 500031**

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

National Stock Exchange of India Limited

: **BAJELEC - Series: EQ**

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

BAJ21A -Series A NCDs INE193E08038
BAJ21-Series B NCDs INE193E08020
BAJ22 -Series C NCDs INE193E08012

Dear Sir/Madam,

Sub.: Submission of the Transcript of the Investor Conference Call of Bajaj Electricals Limited ("Company") held on February 4, 2021

Further to our letter dated January 28, 2021, and pursuant to the provisions of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended ("**SEBI Listing Regulations**"), we enclose herewith the transcript of the Investor Conference Call which was organised by PhillipCapital (India) Private Limited on Thursday, February 4, 2021 at 4:30 P.M. (IST) to discuss the financial results of the Company for the third quarter and nine months period ended December 31, 2020

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

Thanking you,

Yours Faithfully,
For Bajaj Electricals Limited

Ajay Nagle
EVP and Head – Legal & Company Secretary

Encl.: As above.



“Bajaj Electricals Limited Q3 FY-21 Earnings Conference Call”

February 04, 2021



**MANAGEMENT: MR. ANUJ PODDAR – EXECUTIVE DIRECTOR, BAJAJ
ELECTRICALS LIMITED**

**MR. ANANT PURANDARE – PRESIDENT & CFO,
BAJAJ ELECTRICALS LIMITED**

**MR. EC PRASAD –CFO DESIGNATE, BAJAJ
ELECTRICALS LIMITED**

**MODERATOR: MR. DEEPAK AGARWAL FROM PHILLIPCAPITAL
(INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Bajaj Electricals Limited Q3 FY21 Earnings Conference Call hosted by PhillipCapital (India) Private Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing “*” then “0” on your touchtone phone. I now hand the conference over to Mr. Deepak Agarwal from PhillipCapital (India) Private Limited. Thank you and over to you, sir.

Deepak Agarwal: Thanks. On behalf of PhillipCapital I welcome you to Q3 FY21 Earnings Conference Call of Bajaj Electricals Limited. From the management today we have with us Mr. Anuj Poddar – Executive Director, Mr. Anant Purandare – President & CFO and Mr. E C Prasad – CFO Designate. We would like to thank the management for giving the opportunity to host this call. Now, I will hand over the floor to the management for their opening remarks post which we will open the floor for Q&A. Over to you sir, thank you.

Anuj Poddar: Thank you Deepak. Good afternoon everybody. This is Anuj Poddar. And welcome to our investor call. Firstly, I hope all of you are pleased with the results. It is another second very strong quarter that we’ve delivered on. It is the highest ever profits for our consumer products business and also the highest ever PBT and PAT as a company that we’ve delivered on. Before, I get into the number details, as numbers are known to you, I just want to say that it’s not just the total numbers or the absolute numbers, which is why I’m pleased but actually, the composition of those numbers and the underlying message from those numbers. The Composition point that I want to make is that it is secular performance on all parameters, be it operating or financial performance. So, it’s performance on all financial parameters across every element, the performance has been good. And, I will talk about that a little more and it’s also representative of what I call the new Bajaj Electricals. I’ve been sharing this for a while that we are on a transformation journey, we are doing many internal things. And the fact that we are now truly, here truly able to deliver, truly able to execute well. And play to our strategy, that’s the underlying message that I want to highlight from the numbers in the financial performance that you’re seeing.

Just quick headlines on the numbers you’ve all seen that. But a top line growth at a company level is strong at 17%, clearly powered by our CP growth at 34%. Like I’ve been maintaining, we intend to deliver higher bottom line growth than the top line growth continually. And therefore, seeing the operating leverage play out our margin expansion on CP has been very sharp and strong this quarter. But the margin expansion which has happened from 7% odd to 12.3% is a combination of operating leverage and the internal changes and improvements in efficiencies that we’re working on. So, while the operating leverage may be a bonus because of buoyancy in demand. But, the underlying efficiencies and improvements that we’re bringing in are here to stay. So some of that will clearly sustain into the future.

Beyond that, all the improvements on the balance sheet are now starting to play out very strongly. In the P&L, you’re seeing the reduction, in the finance cost and therefore the step up on the PBT

and PAT level also. The other big piece, which is our EPC segment, while in the top line that has come down that is part of the calibrated strategy, important is that we continue to reduce our losses. It's a single digit loss for the quarter, it is much lower than last year. So despite a lower top line, we've cut back cost much more sharply in that business and therefore are able to control the losses to a significant level where we are now at a level where the loss from that EPC business is not necessarily a huge drag for us as a company as a whole. It is something where easily able to manage on a consolidated basis. So that's the P&L view. The other headlines for us is the cash flow, the cash flow continues to be strong, we've delivered a 142 crores of cash from operations in this quarter. And like always bulk of that is being used to reduce our debt levels. Our debt levels are down from +550 crore in September to about 441 crores now in December. So, our debt levels quarter-on-quarter continued reduce and the balance sheet has become much healthier. The ratios are all looking healthy. So that's the overall financial performance, I will just again end with headlining the fact that it's a secular growth or improvement on all parameters, and more importantly for us as management, it's the internal systems, internal working, internal execution excellence. That is most heartening for us and that is here to stay. And that's really what we're betting on for the future. So with that, I'll pass it on back to yourself.

Moderator: Shall we open up for Q&A, sir?

Anuj Poddar: Yes, please.

Moderator: Sure. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: So my first question would be to understand bit more on the consumer side of the business, if we can throw some inputs in terms of individual segment wise, which businesses that growth and where did we see the market share gain coming through and aligned with this, in terms of margins for the consumer business, though there would be input cost headwind should it be fair enough to assume that if you continue to grow the business, we should now be reasonably able to sustain the double digit margin profiling in consumer business?

Anuj Poddar: So Renu, thank you and good afternoon. On you first part, the segment growth so CP overall, is 34%. Within that our sub categories, our appliances has grown at about +36%, fans has grown at 22%, lighting has grown at 18% and the good news here is our Morphy Richards, which have been dormant for a while, has grown at +69% in this quarter. So it's a growth across all the categories. And this is what I was referring to in my opening remarks, it's the underlying metrics. A dominant business, such as Morphy, is finally showing great traction and this is the second quarter, back-to-back and we are driving growth there. In terms of market share, quite frankly it's data that's hard for us to put out there. But, the top three, four players, including us have gained market share at the cost of all the rest of the players and the rest of the market. I'm aware that many of our competitors also have declared similar top line growth. But, these are three, four or five players that have declared such top line growth. I do not believe that industry, your total aggregate consumer demand for our category has grown at that level. And we are clearly

ahead of the average growth of the industry as a whole. In terms of margins, we've expanded our margin sharply like you know from 7.7%, last year Q3 to 12.3%. As I said in my opening remarks, that's a combination of internal measures and the operating leverage that we want. How much of that will sustain, hard to put a number but I do think, a fair amount of that should sustain going forward also, because a lot of improvements that we've done for efficiencies that we brought in, and some of the costs that we've cut this year, we are not going to go back 100% of that, though some of it will come back.

Again, the good news there is advertisement cost, we brought it back in, in Q3 itself. So some of that which we had cut very sharply in Q1, Q2 is actually built into these numbers. Employee costs, and we can talk about that later, you've seen a good correction employee cost, though we will have, or we have taken an increment from Jan. So you will see a little increase in employee costs in Q4. The only other element that I would talk about there is the commodity pricing as we all know, commodity prices have gone up that's happened really from December. So it's only about one month of net baked into these numbers. But that said, we've also taken a price hike from Jan 1. So, the price hike should partly if not significantly, offset the price or cost price hike on the commodities. So, that's where we are, only thing we're waiting to see how does the market trend from here on, but overall we have a fairly optimistic view going forward.

Renu Baid: Right. And on the consumer business, if you look at from a long term perspective what is the type of investment that we're doing in terms of new products, R&D or distribution to make sure that the kind of market share growth and so called semi premiumization, that has been trying to drive continued and sustained for the next two to three years as well?

Anuj Poddar: So as I've said in the past, we are not going to be very short term we are playing for the long term to drive, continuous growth for the long term. Two of the areas that I flagged off earlier that we will invest in is products, which is R&D, and brand. Brand, you've already started to see a step up in investment except for the COVID quarters. And R&D production, investment will continue. But these are investments that we can absorb comfortably in the P&L. These are not large CAPEX major investments that we intend to do, but just make sure that the margins are additional profits that we're generating. We keep reinvesting that into the future. At the same time, we're committed to continue to expand our margins. So my view is these investments should not come at the cost of margin. But we should be able to deliver growth as well as margin expansion while building for the future.

Renu Baid: Sure. And if I can ask one last question on the EPC business, can you share some more inputs with respect to the balance sheet, as in the working capital and the receivables, how do the equation stack up there in terms of funding receivables and retention money?

Anuj Poddar: Sure. So I'll bring in our CFO, Purandare, just the headline there Q1, Q2, I know we had lower collections. Some of that has improved, Q3 our receivables have come down, collections have improved, but let Mr. Purandare give you the numbers.

Anant Purandare: Yes, EPC receivables has come down to around 1600 crore, which was as of March 1973 crore.

Renu Baid: Sorry, sir your voice is not very clearly audible, it's come down 600 crores?

Anant Purandare: 1600 crores, 1597 crores precisely.

Renu Baid: Sure, got that. And of this, what proportion would be receivables and related to the UP project?

Anant Purandare: UP project is around 680 crores.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: The question is basically, the way you guided about the debt, you think now is where we can do further reduction in the overall debt numbers. Or it will be more led by when we will receive the cash from the UP receivables, then only we will reduce the debt part, that's my first question and second, given the commodity cost increase, so you said these margins are sustainable, fairly amount of is sustainable because of the let's say the market share increase or a demand you are seeing so far, but generally in your sense, what's the commodity impact you are building in for your Q4. Those are the two questions, thank you.

Anuj Poddar: Thank you. So on the first question debt, we have been reducing debt every quarter we do expect to reduce debt in Q4 also. And yes, the EBC collections will be a part of that and we will drive that. So it will be driven by both UP or EPC collections. As well as consumer products we will maintain that. Having said that, it will reduce by similar 100 crores or more or less in Q4 little early to say only thing to keep in mind is Q4 is a period or by March is when you stock up for summer. So to that extent your working capital and consumer products in inventory does go up. So, we will make sure that we are funding that effectively. But that's an intentional thing other than that, we do intend to maintain the trajectory of collections and cash flow in debt reduction.

In terms of commodity prices like I said, we've taken a price hike from 1st of January, the price hike across categories varies between 5% to 8% to 9%. We think that should offset a significant part of the cost side price hike for us in the commodities, we do carry some inventories from the past, which are not therefore entirely affected by the price hike. And therefore we're looking to see how we can offset a large part of that price hike while maintaining margins. The only aspect to factor in is the demand side, and what happens there and therefore the operating leverage impact but other than that, we are well covered for the price hike, as well as channel efficiencies kicking in and being sustained here.

Nitin Arora: Sir, is it right to say that the secondary sales would be some percentage point lesser than your wholesale growth or if you can throw some color on your secondary sales. So that you give a little perspective on the inventory position what your channel is?

Anuj Poddar: So, not for us and that distinguishes us a little bit from the rest of the industry where because we work on the replenishment model and the RREP and TOC, we do not have aggressive primary sales and at this point because price hike was imminent, a lot of the market has resorted to a lot of extra stocking by distributors, etc., That's not the model we have, so our secondary sales is pretty much bang on and consistent with our primary sales, in this period in this quarter in December month.

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

Achal Lohade: My first question was with respect to the cost control, you said that certain cost measures have also improved the margin. So, please elaborate would it be possible for you to elaborate a bit on these cost reductions, what kind of, what the nature of the cost reductions are?

Anuj Poddar: So, it's a mix of many items Achal, one is at the COGS at the supply chain level, if we keep aside the whole commodity price increase, in general we're yet working on making our supply chain sourcing in COGS more efficient we've done that in this quarter also. Number two our logistics cost, something that we're working on. Number three is the overheads overall, overheads includes things like employee costs, operational costs, office costs, etc., So the primary cost which is COGS and logistics, as well as secondary cost such as overhead. So each of these line items we've been aggressively targeting and cutting back on or by cutting back, I don't mean artificial cutting back, but actually more structural cutbacks that makes it more efficient and sustainable.

Achal Lohade: And with respect to the COGS reductions what we were talking about probably three or four quarters ago with respect to scale down of the EPC business, where have we reached on that, have we crossed 60%, 70% of that execution or it is still much below than that?

Anuj Poddar: So my EPC guidance has been last time also that two quarters next year is when we should be then turning around after that I have maintained that guidance, but it's not that's in terms of turnaround on profitability, but important is the absolute number of the loss like, you see this quarter the loss number is very small. So, hopefully even before we turn profitable, the loss number itself should be something that, no longer we are very concerned about or worried about. But more importantly EPC we are driving also from the working capital or capital employed or receivables metric, and that is important to keep generating cash over there, rather than just looking at the P&L side on the EPC.

Achal Lohade: So, is it fair to say that the losses will be for next two quarters will not be as large as what we have seen probably in the similar range what we have had in third quarter, would that be a fair assumption to work with?

Anuj Poddar: I can't give a number guidance Achal unfortunately, but it should not be something that now shakes up P&L, consolidated P&L at all.

Achal Lohade: Understood. And just last question, if I may with respect to, some of these market share gains is also driven by the supply disruptions for the others. So, in terms of the competition are those supply chains normalized, have you seen the smaller guys also coming back and how sustainable these market share gains are. Why I'm asking is basically the numbers are fabulous, upwards of 30% for most of the reading while as you indicated that the market growth isn't as significant. So, what is the kind of numbers, I know it's hard to say for the company, but at the industry aggregate level what kind of growth, do you see from the categories we are in?

Anuj Poddar: Achal, let me answer the first part in terms of do you see the other people come back, we are at least two to three quarters away before things normalize where everybody can function as normal. So we all delivering growth, despite multiple challenges, the supply side challenges have persisted through all of this financial year and it has persisted in Q3 also, but the nature of those supply side challenges change. During lockdown and otherwise, supply challenges broadly in terms of inventory levels, and manufacturing capacity that has changed subsequently to China imports, subsequently it has changed to containers. Now, the latest set of supply side challenges is pure logistics, transport, truck availability movement, warehousing, in parts of India, etc., So, the reason I'm highlighting that is that, our growth despite that and not constrained by that, but for everybody particularly the long tail actually deal with these challenges is not easy. And, I don't see some of these things normalizing you over the next three to six months at least. So, we do have for better or worse as long as we're able to deal with these effectively like we've been doing, we should continue to maintain and defend our enhance market share at least for another couple of quarters. And quite frankly, if you do that for that period of time, you do start are becoming more-and-more entrenched and that becomes more-and-more harder to then shake off after that.

Moderator: Thank you. The next question is from the line of Bhargava Buddha from Kotak Mutual Fund. Please go ahead.

Bhargava Buddha: My first question as on the receivables of about 1600 crores which you highlighted on the EPC side. So, I just wanted to understand this better in terms of where do we expect this number to sort of reduce as we sort of enter a FY22 and how much of this could have been provided in the P&L?

Anuj Poddar: So Bhargava hi, good afternoon, thank you. Just first let me give you the numbers more specifically. So, as of September 20, the total EPC receivables was 1721 crores, as of December that is 1597 crores, it's about 24 crores reduction, of that PD is 1097 crores, power transmission is 353 crores and illumination is about 147 crores. That's the breakup of that. If you see the maximum reduction release happened in the PD or power distribution business. In this is an improvement over the previous couple of quarters where we are not seeing reduction on that side of the business. I do believe Q4 collections also should be stronger, and Q3 collections, but let's see but that's my estimate at this point of time. I don't know if you mentioned by end of FY22 was your question. So again, I can't give a number guidance, but like we have discussed in the past on the calls, we do expect significant collections to come in over the next, within the next

fiscal and you will see a much lower number like you've been guiding without me giving you a specific number on that. There will be retention money, that will some of that will continue post that but most of the non-retention money should be collected within next fiscal.

Bhargava Buddha: No, So I hope there are no negative surprises in terms of write offs, because this is a huge sum. So?

Anuj Poddar: So, that was a P&L question Bhargava, in our estimate we are fully provided for otherwise auditors would not have passed that for, we adequately and fully provided as far as we're concerned.

Anant Purandare: I would like to just make one correction. That UP outstanding is 680 crores it's not 740, it's 680 crores.

Bhargava Buddha: Okay, understood. Secondly, you mentioned that you have stepped up your ad spend. So is it possible to quantify what was the ad spend as a percentage of revenue this quarter, and what was it same quarter last year, just to?

Anuj Poddar: Yes, sure. So it was 35 crores in last year Q3 at 2.8%, this quarter it is 45 crores at about 3.9%.

Bhargava Buddha: So, essentially there is a significant jump in ad spend on a Y-o-Y basis?

Anuj Poddar: Yes. And that's the point I was making, so that is already baked into the numbers.

Bhargava Buddha: Okay. So is it possible to highlight what has been the gross margin improvement on the consumer business, is it possible to quantify that?

Anuj Poddar: Gross we don't share Mr. Purandare, right?

Anant Purandare: No, we don't share because obviously, it is liking is different appliances and they have different, different gross margins.

Anuj Poddar: Let me just tell you that it is improved.

Bhargava Buddha: Okay. And is it fair to say large part of the EBIT margin improvement would be operating leverage or driven by gross margin improvement?

Anuj Poddar: No, so all three, one is gross margin improvements, second is operating leverage, third is I would expect operating leverage in terms of because of volume versus actual improvements in the operating cost or overheads. So even if we didn't have operating leverage, we would have had gross margin improvement and operating margin expansion because of overhead efficiency that we've talked about. So I'll put that in three buckets here.

Bhargava Buddha: Okay and the last question is, you mentioned appliances growth has been 36%?

- Anuj Poddar:** Yes.
- Bhargava Buddha:** Is it fair to split this into water heaters and kitchen appliances?
- Anuj Poddar:** No, we don't split that up.
- Bhargava Buddha:** Okay, because a lot of kitchen appliances.
- Anuj Poddar:** But both have grown very strongly. So let me tell you that.
- Bhargava Buddha:** Because kitchen appliances companies haven't registered such a stellar growth, so I was wondering whether it's driven by water heaters or?
- Anuj Poddar:** No, so both have, though to my knowledge other kitchen appliances also have registered good growth but anyway to answer for ourselves it is across kitchen and water heaters. And just if I may say that again, that's why my opening comments that, why I find it satisfying that it is not lopsided performance driven by something, it's fairly secular performance on almost all operating dimensions that we, that I see here.
- Moderator:** Thank you. The next question is from the line of Manish Sonthalia from Motilal Oswal. Please go ahead.
- Manish Sonthalia:** Just have a strategic question, what are you going to do with the EPC business after you execute this 1200 crores of orders, is it the continuing business or you're going to stop bidding for projects because obviously, the quality of business is not that great with a huge amount of receivables and EBIT margins also, in the negative terrain and we really don't know when the state governments are going to pay you money. So what's the strategy on the EPC side, is it going to be a continuing business or whether you will discontinue it?
- Anuj Poddar:** So, Manish I'd like to split up a question in two different parts in terms of the business going forward, and the legacy receivables. And I don't think the legacy receivables are a function of the future business. Then let me answer the legacy receivables part first, of course we are collecting that in cleaning up. And, by timing we cannot predict because it's not in our control. We are aggressively working on that we will keep seeing quarter-and-quarter improvement and you will see significant annual improvement, that's my commitment to you. So that will get cleaned up without too much hit or without any hit hopefully on the P&L.
- On the continuing or futures strategy on EPC, maintained in the past that, we have intentionally descaled that and calibrated that purely from a capital employment perspective into that business, and the total quantum of risk that we wish to take on that business. Today at a revenue level, we are at a revenue level of the EPC business at which we are comfortable, if we look at Q3 EPC is about 25% of our P&L. Now the thing that we're working on, so from your I don't see the need to descale, in absolute terms the EPC business, but what we are changing is the composition of

that EPC business. So, whether that includes the illumination business is also reported in that, that is something that we will continue to drive growth on. It also includes a transmission business that is fairly healthy, we will hold that business and includes the distribution business, which is the one that is most challenged and unless we see compelling orders or profitable orders, we are being very, very careful in taking that part of the business. So net, net going forward EPC business at a revenue level may sustain and these absolute aggregate numbers, but the composition of that will be much healthier, at the top line or even in terms of product or business mix and at the bottom line level, you will see a healthy, profitable business on the EPC also, even on these numbers. So that's the future business, the balance sheet cleanup we will continue to see that will deliver improvements for you.

Manish Sonthalia: Which means that power distribution is not what you're going to be, to be gung-ho about but the rest of it will continue?

Anuj Poddar: Yes, and my view on power distribution also, if something changes dramatically tomorrow, why not, but to me, we are a businessman, we have capital, we have alternative uses of the capital. So, unless I see a compelling tender, compelling margin, and not just tender and and margin, but the risk covered, payment risk covered we have alternative uses of our people and our capital.

Moderator: Thank you. The next question is from the line of Akshay Bhor from Premji Invest. Please go ahead.

Akshay Bhor: A couple of questions from my side. First one, just wanted to understand in terms of product strategy from here on, are there any white spaces, within the existing portfolio or there are newer opportunities that you see from a two year perspective that you're looking at?

Anuj Poddar: So, Akshay, like you said while spaces, we're not looking at it across into newer categories, but focus on our categories because we believe there's enough room to grow in the existing categories. In the existing categories, it's a mix of white spaces, versus improvising our product offerings, white spaces there is clear whitespace in our for example in premium fans, we have not, we are traditionally been very weak in that part. We have already launched products but it's yet to relative whitespace in terms of our presence in that segment of the fans categories. In overall fans, the category is something that we lag in. So clearly fans as an overall category is something that we're focused on driving growth for. Similarly, in some of the other product categories, I would not say absolute whitespace, but our trajectory will be more towards premiumization because, our anchor point is on the median or lowered median and therefore, we do want to improve our anchor point of offerings upwards on many of these product categories. But, I don't think they're absolute whitespaces, we absolutely virgin where we are not present, but there is enough scope for us to have better offerings, and better range of offerings, and more compelling contemporary products there. So that's the way we're working on, a more important strategy for us is faster churn of products. So that's what R&D is working on a number, number of SKUs that we launch every year and have a much faster churn of products and offerings in the marketplace for the consumer to choose from there.

- Akshay Bhor:** Okay, great. Just want to understand on the EPC side, how big is this B2B lighting, which you call the illumination, there and what's the size of that, either in terms of F20, or this year, nine months and what is the kind of margins that you make on that, if you can share any indicator number as well?
- Anuj Poddar:** Sure. So we can give you a number, illumination traditionally is between 600 to 700 crores, had this been a normal year we would have delivered double digit growth on that. Now, we'll see how that trends out for a full year basis. On our Q3 particularly we have grown at 11% in illumination, that is about from 135 crores last year to about 150 crores this year Q3, that's a Q3-to-Q3 comparison. But on a normal year, full year basis we should be topping 700 crores in that business going forward. And it used to be a loss making business, this year again because of COVID impact, it may not be profitable, but next year it will be profitable.
- Akshay Bhor:** Was it profitable in F20?
- Anuj Poddar:** No, it was not. So that's why that's one more turnaround business for us here. Had it not been for COVID, we would have been profitable this year itself.
- Akshay Bhor:** Okay. And this business is largely EESL or this is?
- Anuj Poddar:** No, so EESL is very small, though we've got a recent order which is why it's there. Otherwise, it's mostly non-EESL and by illumination we mean, everything is outdoor lighting it is stadium lighting, it is industrial lighting, a lot of the industrial lighting is private sector, it is metro. So DMRC the client of ours, it's commercial lighting, so it's solar panel lighting it's a mix of many different applications there.
- Akshay Bhor:** Okay, just one last question Anuj if you, in the past indicated that about 10% margin on the consumer side, in F23. Now, you have given that you are back-to-back, +10% and you are also indicating that this, that this should sustained. Is there a change in the stands on the 10% or how should we understand that?
- Anuj Poddar:** So, Akshay this is what you call the problem of plenty, what do you do when you're two year ahead of that target. In a way, that's a problem on the board also right, because they want more?
- Akshay Bhor:** Anuj we are still behind, right?
- Anuj Poddar:** I know, absolutely. So my point is yet, as management of course if you're ahead of that we're not going to say that, so let's sit tight for two years and not do anything. Job remains to continue improve and find those improvements. So that's all I can say, will 12.3% sustaining next quarter, not how does it operating, leverage play out we don't know, but in terms of our own actions will cost efficiencies, et cetera, we are committed to keep driving that and not just when I say cost efficiency is not only overheads, but including our primary driver for targeting improvements or margin was also a COGS of sourcing side efficiencies. So, we will keep working on all of these

things and then my belief is always one way or the other, they come into the P&L. Only thing cannot time when they will happen, but as long as they are doing the right things, I have every reason to believe that we will keep improving on this. So if we are ahead of the curve on that, maybe you slip one quarter or not, I don't know but we will keep improving on these things.

Moderator: Thank you. The next question is from the line of Hitesh Taunk from ICICI Direct. Please go ahead.

Hitesh Taunk: Sir, my question pertains to our gross margin. Sir, is it right to assume like the price hike what you have taken from the Jan onwards which is around 5-8% which is sufficient to cover the cost margin of and we can see kind of improvement going forward from the base quarter. This is my first person and the second question is pertaining to our dealer edition, which has happened nine months, vis-à-vis nine month FY20, this is my second one and third question, sir. What is your take on a e-commerce front, it was earlier around 12% to 13% kind of contribution. Are we seeing kind of improvement on that side, or what is your take as far as increasing our revenue contribution from that segment or from that trade channel? Thank you sir.

Anuj Poddar: So, on your first question, which was price hike a little early to say, but like I said earlier and my hope is that it should cover our cost side impact but, we always remember we have to balance our price hike with the demand elasticity judgment and therefore, that's how we try to balance that out, we will not want to protect margins at the cost of losing total sales and total profits. So, there's a balancing act on that, but I would yet thing, for a large part we should be, fine on that part let's see how that judgment plays out.

On the dealer additions, Mr. Purandare, you can give the exact number we've had certain dealer additions or increases is because for some other product categories, we are looking at we appointed differentiated, dealers and trying out some other concepts on that. So to that extent, we've added dealers, but otherwise we're fairly covered in terms of dealer, network size and reach, etc., Mr. Purandare do you have that number handy right now?

Anant Purandare: Yes, so FY20 third quarter of previous year, we had 501 distributors, which have increased to 530.

Hitesh Taunk: Sorry 501 to 530, right?

Anant Purandare: Yes.

Anuj Poddar: And the e-commerce question, if I may answer that to the channel. So online continues to grow very aggressively for us. We've had a strong growth at about 79% on online business in this quarter, our share of business from online this quarter has been about 11%. It's not down versus the previous quarter because e-commerce is down but, the previous quarter you had some other channels that were very soft, and those have all come back. So it's really a function of, because all the channels are fired in this quarter. The only channel that is not firing for us right now is

the government channel, which is primarily the canteen stores department and the police canteens here.

Hitesh Taunk: Sir my last question, if I may ask sir, what is the contribution of premium fan segment in our total fan category?

Anuj Poddar: I'm sorry, I didn't get the question.

Hitesh Taunk: Sir we are going to focus on premium category of products going forward as per your comment. And just wanted to know, what is the contribution of premium category of fans in our total fan revenue?

Anuj Poddar: Okay, so we don't split that figure up. But to be honest, it is very low today. So we are not recognized for premium fans we are recognized for sub economy fans here. So it is very low right now.

Moderator: Thank you. The next question is from the line of Manish Agarwall from Edelweiss. Please go ahead.

Manish Agarwall: So sir firstly on the consumer business side, you have said that the margins are mostly sustainable on a long term basis, you will not submit on the quarter-and-quarter part. But there are headwinds, as you directly mentioned with the cost side and the season coming up, we will have some pick up from the seasons as well, plus the ad expenses will go up in the Q4 as well. So sir in the near term, is it fair to assume that we might not be able to maintain maybe at 12% margins in the CV segment asset. And sir the second question is on the EPC side. So sir you have given that there is accurate level of the business will remain same, sir any any target mix between the three segments that we have, maybe the distribution has to be brought down to this particular level, maybe two to three years down the line. These are the two questions from my side.

Anuj Poddar: So on the cost side or the margin side, again my micro answer remains that long term doesn't mean five years but it is one, two years, we will work on continuing to expand the margins. Particular quarter it's very hard to project and predict it's a function of many things. But directionally, we will continue to expand our margins. And, I do believe a lot of the measures that we've taken are sustainable and structural changes that are here to stay. Just a particular quarter sometimes quarter-to-quarter when we have some things. My commentary at the end of Q2 also was that Q3 margins will be less than Q2. But fortunately Q3 margins are higher, so to that extent I can be wrong positively or adversely either which way. But otherwise, I'm not worried about it.

In terms of EPC split we do have an internal metric that we're targeting. But it's not fair for me to put that out externally in terms of the mix. But, what's important for you is to understand that, that metric is driven by capital turns on working capital turns and ROI on that capital. So if it meets that then, it should not matter what business we do. But if it doesn't meet that, we don't

bid for things. So, that's the more important metric that we're tracking for each of our sub segments in EPC also. And that's reflected in the order book that you seeing why it's taking a certain shape here.

Moderator: Thank you. The next question is from the line of Sanjeev Goswami from Fractal Capital. Please go ahead.

Sanjeev Goswami: I have got a couple of questions. The first question is with regards to the consumer products segment. So, traditionally our company has relied more on outsource manufacturing, as against some of our competitors who have preferred within their own manufacturing. Now, historically both the models have worked fine for both types of companies, but off late we are seeing that the economy and regulatory environment seems to be building up. It seems to favor the domestic manufacturing as against outsourcing, especially inputs. So keeping these things in mind, is there any change of strategy that we have from medium to long term in terms of looking at more of our own manufacturing?

Anuj Poddar: So Sanjeev if I may nuance what you're saying, government action is only on domestic versus imports. But there's no difference whether, a third party manufacturer makes for me domestically or I make internally. So, it's clearly we are also working on greater indigenization and more local import substitution that is already on, we've had some early success. And some more that will happen over the next one year or so. That's when domestically, whether I manufacture myself or do it with TPM to me, that's a function of capital allocation and whether, setting up CAPEX and manufacturing facilities is a good use of my capital, or can I just add a small margin payout to a vendor get the same product, same quality. So there quite frankly my thinking has not changed significantly, we have a certain model that is working for us. I do think the model that our competition uses is also working for them. So, I have no complaints against that. But, I don't see any regulatory other change that is forcing me to change our sourcing model domestically, only thing that we're changing is doing greater import substitution.

Sanjeev Goswami: Can you give us some idea in terms of how much of our consumer products that we sell is manufactured or how much is imported and how much is domestically outsourced?

Anuj Poddar: Purandare can you share that number please?

Anant Purandare: Give me a second.

Anuj Poddar: So, I'll just give a ballpark because that varies based on product categories and what's selling more at a point of time, but more than 85% is domestic and less than 15% is imported. In similarly, our manufacturing internal versus external it's almost the similar footprint. Only changes again happens month-on-month based on the volume off take of different SKUs.

Sanjeev Goswami: If I may have one more question I have actually that's on the EPC side, of the receivables that we have in the power distribution can you give us some idea how much was receivable which is

more than six months old. The idea is to find to how much receivables because of COVID which has stalled have been or are disputed?

Anuj Poddar: Mr. Purandare. Sorry, just to close the previous one the numbers I've given you on sourced versus manufacturing and import domestic are correct okay so that's fine. Mr. Purandare on the receivables and power distribution?

Anant Purandare: So, receivables out of the 1600 crores almost 615 crores is retention money and as far as UP receivables are concerned which are 680 crores, most of them are more than six months because the billing had happened, now a lot of certifications and the other activities which are there for approving the payments which are there, then there are theses which are already approved and there for the payment So, the majority of them are more than six months.

Sanjeev Goswami: Okay, but most of the receivables, project which are still on ongoing, not from the stalled project?

Anant Purandare: Projects are not stalled, these are on various stages.

Moderator: Thank you. The next question is from the line of Bhargava Buddha from Kotak Mutual Fund. Please go ahead.

Bhargava Buddha: Just one data point, I just wanted to know what has been the operating cash flow generation for the nine months?

Anuj Poddar: It was 467 for six months and 142 now, right Purandare, so just add that up.

Bhargava Buddha: Okay.

Anuj Poddar: It should be 467+142 if I am right.

Anant Purandare: I will just confirm that, Yes, YTD 609 crores.

Bhargava Buddha: And closing debtors I mean, you mentioned for the EPC business, which is 1600 crore, but overall receivables would be how much sir as on December?

Anuj Poddar: 2208.

Anant Purandare: Overall receivables are 2114.

Anuj Poddar: Yes, 2114 crores in total and consumer is 516.

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

Renu Baid: Sir actually most of my questions are done. If you can just help me with the split of the order book that we have for the EPC business between the three sub segments?

Anuj Poddar: Yes, Purandare.

Anant Purandare: Yes, transmission lines are 388 crore, power distribution is 501 crore, and illumination is 331 crores.

Moderator: Thank you. The next question is from the line of Rahul from Haitong. Please go ahead.

Rahul: So now most of my questions are also answered, couple of things maybe you can just touch upon. Now in the second quarter, y'all had guided cost thing like 3000 crore of the revenue, going by your nine month performance, I'm sure you're all set to beat that kind of numbers. And on the EPC side, also it looks like you're maybe falling short of the kind of numbers that you had 4000, which was about 1800 to 1900 odd crore. Do you want to touch upon these, both segments the kind of numbers that you could do in this year and how do you see this business going in the next year, given that you have 1200 crore of order backlog in the EPC?

Anuj Poddar: So first on the CPE guidance Rahul my point really was to touch last year's number on a full year basis, so do in 10 months basis what we did in 12 months last year, as we are currently positioned for nine months, we made up for nine months despite not having this two months this year. So as long as we deliver growth in Q4, you will have an overall growth for the full year basis. I don't want to put a number out there on that right now. But we do expect now to deliver growth on a full year basis. On the EPC, unlike consumer it is a far more lumpy less linear, business based on new orders, sometimes the execution issues which do continue including for illumination. So business may be perfectly fine, projects may be perfectly fine. But it doesn't move in a linear fashion, so sometimes it becomes hard to split that up at a quarter level. So that's my only point and therefore Yes, we are lower than our full year guidance numbers on that. But we make up for that at the bottom line level. So because it's project based accounting, that doesn't really hamper us so much. So we are more or less comfortable where we are with that. My only other comment I want to make is post the budget which seems to be focused significantly on infrastructure spending in highways, etc., I would hope that some of that should also indirectly trigger into spending on lighting solutions, etc., And therefore next year it will give us a little boost on the EPC, particularly in illumination business, maybe some amount of the transmission line business. That said, that is not going to take us away from our stated strategy of yet being selective on the orders that we take. So as long as the pool is becoming larger, and the total spending is becoming larger. That yet allows us to optimize a strategy of being selective, but being selective out of a larger pool, which is a win-win for us.

Moderator: Thank you. The next question is from the line of Darshan Engineer from Karma Capital. Please go ahead.

Darshan Engineer: I just had one question, in our segmental reporting normally we allocate the corporate expenses based on the sales breakup between consumer and EPC. So, is it the case because in earlier quarters, you alluded to higher margins or low margins in the respective segments to some bit of this mix between the two segments? So, this 12.3% EBIT margin that has come in consumer durable has some of it been also because of the much higher revenues in the consumer durables business or is it purely because of the operating leverage and other efficiencies that you talked about?

Anuj Poddar: So, if I get your point right Darshan, but higher revenues and operating leverage is the same thing. In terms of allocation of cost, in fact if I'm allocating more cost to consumer that would, decrease my margin but, despite higher allocation of cost which are in the proportion of revenues, these margins are despite that, so not inflated by that, but despite that so which means healthier position to be in.

Darshan Engineer: So, it means the inherent margins are actually even higher for consumer business, then what is being reported right now?

Anuj Poddar: Yes, if I would compare that to historical trends two years ago, but quite frankly as management, I would not want to be feel happy about versus two years ago, we are much better, let's take this as a base and I would yet want to improve on this, because it's never going to go back the other way around, we will start seeing allocations move away from consumer. So, improvements will have to happen and will happen further on this itself here. So, we are much better than we were two years ago. But, rather than be complacent about that, I'd rather believe this is the base that we will improve on.

Darshan Engineer: Sure. And my other question is on the R&D spend and the premiumization strategy, I remember two years back when we first started interacting, at least I started interacting with you, I remember very distinctly that you had plans for a good R&D approach, leading to a lot of new product innovation. But in between, there was a slight shift in strategy to suggest that time in the premiumization will be only to showcase that Bajaj Electricals also has premium product, but the mainstay will be your mass segment product. So if you can just throw some more clarity on how exactly will the R&D help in getting the premiumization strategy going. So, what kind of shares should we expect from say the premium or the innovative product and by innovation, what kind of innovations can we expect across your product portfolio.

Anuj Poddar: So let me clarify all what I've shared and of it is true. When I say premiumization, I'm not driven by being the absolute top premium in terms of the most edgy products out there. Some of that may happen for optical reasons for demonstration. The current premiumization I spoke about today is just about, moving our brand and products slightly more aspirational, but not losing sight of the fact that bulk of our business in scale and volumes will come from the median space or medium positioning. So it is not the very artificial, high tech, IoT kind of stuff we will do some of that stuff. We've already done it, we have IoT water heaters, et cetera we will do that. But I just mean, better quality water heaters not necessarily the IoT heaters. So, the difference

in premium water heater versus IoT heater. So that's the premiumization that will be more impactful, then some of the absolute edgy premiumization which is innovation, that will be more for brand above and product above. And therefore, in terms of a question on R&D spends or other elements, the way we're looking at that is to make sure that is self-funded. So look at the brand space for example, this quarter we've had a one percentage expansion on brand spends, one percentage point, but it's self-funded so that margin does not get impacted, because we've made sure that the overheads or the improvements, more than make up for that. If you look at employee cost, we are continuing to be very smart on employee cost for the last one year, etc., We will make sure that we will make invest in the right clients, right cost price but also take out that money from the other cost lines that we need to take it out from.

Moderator: Thank you. The next question is on the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth: Most of my questions have been answered just one question on fan. You mentioned that we are largely known as a mass market fan category player. So, do we wish to increase our share in the premium fan and are we watching anything towards those lines in terms of introducing new products or we are happy to be in the space we are in right now?

Anuj Poddar: So, let me start by saying we are a number five player in the fans category, we do intend to grow that both in terms of rank value and volumes and share. And therefore, if we have to grow that, of course we have to grow in the premium segment also and therefore we will. And premium is a relative whitespace, like I mentioned in response to the earlier question, therefore, we will target to be that. But will we do that at the cost of losing our space in the existing sub economy fans no. So, we will defend that and continue to do that, but in general, our trajectory will be slightly more upwards because that's where our gap is here.

Kunal Sheth: Sure. Sir and would it be possible to share what could be share of premium fans in our total fans portfolio right now?

Anuj Poddar: No, so we don't give that out. But it is very, very low right now.

Moderator: Thank you. The next question is from the line of Amit Mahawar from Edelweiss. Please go ahead.

Amit Mahawar: I just have one question, what's our capital allocation strategy for the next two, three years the kind of cash flow we are generating and end-consumer if you see in FY22-23, where will most of the generation go. That's the only question I have, thank you.

Anuj Poddar: Thanks, good evening Amit and thank you. So very valid question, we will make the right use of that capital. There's enough room for us to grow in our business even in organically and deploy certain capital for that, if the question is alluding to, sorry, I meant organically. But if the question is alluding to inorganic growth, if you know today, we are pretty much actively

defocused from inorganic growth, because I thought that would be a fiscal, imprudence for us, if two years from now we have sufficient extra capital, and then we'll be a little more open to inorganic opportunities, but at the same time, I am personally very, very driven by it has to make financial sense on the P&L and not be driven by vanity and typically large scale acquisitions, hard to digest, derive adequate value from, so just because we have extra capital, I would not want that to lead us into making any less considered, inorganic kind of use of that capital. So, our capital will be sufficiently adequately employed organically, but we will be open to inorganic in a measured evaluated manner.

Amit Mahawar: Thanks Anuj. I'm saying basically, do you think in the next one to two years the board might think about separating the two businesses because consumer is getting far bigger, far more opportunistic and that was maybe five years ago, that is for a little weaker, but do you think maybe in the next two to three year, we'll head in that direction. I know, this has been a question you've been facing for many years and Mr. Bajaj for last decade and a half, but do you think we are heading towards that, because the kind of growth we are sustaining might need a much better focus for both the businesses. I don't argue that the second business is not important, but do you think we are moving in that direction. That's my second question on this. Thank you.

Anuj Poddar: So, Amit I know that yours and everybody's favorite question, have no answer but to tell you that, it's a speculative question at the right time we will do what we have to do. But irrespective, the one thing I want to tell you is that we will not suffer for lack of focus or bandwidth, and that I think we are demonstrating even now, as we clean that up we are, the process of cleanup of one side of the business is not diluting our focus or ability to deliver on the consumer business here.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Deepak Agarwal for closing comments. Please go ahead.

Deepak Agarwal: Thanks, everyone for joining the call. Sir any closing comment that you want to make?

Anuj Poddar: Thank you all for joining in, I hope you are happy with the performance. As management, we are committed to doing what we can do and do it to the best of our abilities and keep delivering, execution. So our strategy we've laid out long ago, but our commitment is to also execute to do that strategy and not stray from that course and keep delivering on operational excellence. That's all. Thank you.

Deepak Agarwal: Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.