

Conference Call Transcript

Bajaj Electricals

Q1FY11 Results

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Corporate Participants

Mr. R. Ramakrishnan
Executive Director

Mr. P.P. Jathar
CFO

Questions and Answers

Moderator: Ladies and gentlemen, good evening and welcome to the Bajaj Electricals Q1 FY'11 earnings conference call hosted by Edelweiss Securities Limited. As a reminder, participants' line will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you need assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being reordered. I would now like to hand the conference over to Mr. Rahul Gajare. Thank you and over to you sir.

Rahul Gajare: Thank you Faizal. I would like to welcome all the participants on behalf of Edelweiss Securities to the Q1 FY'11 earning conference call of Bajaj Electricals. We have from the management Mr. R. Ramakrishnan, Executive Director and Mr. P. P. Jathar, CFO. I would now request Mr. Ramakrishnan to give us opening remarks about the results after which we can move on to the question and answer session. Thank you and over to you sir.

Ramakrishnan: Thank you very much. I want to welcome everyone to this concall. We have had a very good first quarter with sales growth of 35% at INR 484 Crores and a net profit growth of 37% at INR 22.5 Crores. Now these numbers are significant because from a compounded average growth perspective, the net sale has grown 25% during the quarter and the net profit has grown 50% in the quarter on a CAGR basis. The company has done very well in terms of the mainline businesses of the company. The Lighting BU has grown 33% with Luminaires BU growing at 78%. So, together, the Lighting segment has grown 52%. In consumer durables, Appliances has grown by 40%, Murphy Richards by 48% and Fans by 46% and Engineering and Project, , by 8%.

All in all in terms of compounded average growth rate E&P BU has grown 39%, consumers durables by 21% compounded. E&P BU, last year had a fantastic growth of 82%. That is why the 8% topline growth, while some of you may feel that there is a slowing down, but that was largely on account of a base effect where last year we had really done a lot of good sale. So, all in all, it has been a satisfying quarter. In terms of margins, the margin in the lighting BU has improved compared with last year. In consumer durables, margins have come under a certain amount of pressure from about 12.7% last year same quarter to 9.5%, while in E&P because of a better product mix, margins have improved from 9.7% to 10.3% in the quarter. So to that extent, if I look at the overall improvement in margins per se margins have improved 15%. But in terms of interest cost we have had a significant savings. Interest costs have come down from about 2.4% down to 1.18% and, thereby, given us a significant savings in terms of interest costs so the operating profit have gone up from INR 25 Crore last year to INR 34 Crore in the current year, and that is a 35% improvement in terms of operating profit. Various product groups that contribute our business

have done exceptionally well. Compact fluorescent lamp has given a growth of 41%. In the high mass business and street lighting business in the E&P BU, there is significant growth of ~61-62%. Transmission and distribution, which is the power distribution business, which is largely rural electrification as come down in this quarter largely because the project that have to be completed we completed it last year. We currently have an order book in the E&P BU of about INR 810 Crores and we are reasonably well placed in a couple of other important tenders, which are about INR 125-odd Crores. So, these typically, the E&P BU order book has a cycle time. For example, the High Mass and street light part of the order book, which is about close to INR 90 Crores that has a shorter gestation of about anywhere between 4-8 months whereas the special project which comprises of rural electrification in lighting projects tends to have a slightly longer gestation period of anywhere about 12-18 months. Transmission line towers and other latter structures have an execution time of 9-18 months. So, all in all, this INR 810 Crores order book you can assume a 15 months forward visibility and I think that also augers well. What I also want to comment upon is the reason for the margin drop in appliances. Last year the same quarter was extremely benign from a margin perspective. For instance in consumer durables, growth in margins last year was reasonable; however, what we have really noticed is that from a benign situation, there has been a very aggressive cost push in the last quarter of last year and first quarter of this year. The company's performance in the face of severe cost pressures on aluminum, copper, steel, zinc, plastic and etc., I think is really commendable. What we have done is we have grown strongly. Thereby, even though margins have been a little lower, strong growth of 48% in MR, 40% in appliances and 46% in fans has compensated for the margin drop, and ensured that we improve our overall profitability. I thought I will give this kind of a picture right now. Going forward, this second quarter will also witness certain amount of margin pressure. But, in Q3 and Q4, keeping in mind the trends that are prevailing today, I do expect a better situation in terms of margin. And, hopefully, for the entire year, we should be fairly stable from a margin perspective. I think, with this introduction, I will be happy to take on any questions.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer section. The first questions from the line of Mayur Parkeria from Wealth Managers. Please go head.

Mayur Parkeria: Good evening sir and thanks for taking my question. A tough time on the margin side, but overall good performance, congratulations. Sir just wanted to have a few understanding. In special projects, which segment within the special project you feel would drive the performance?

Ramakrishnan: If you look at the order book also we have out of INR 810 Crores about INR 382 Crores coming out of transmission line towers; about INR 340 Crores, which is our lighting project plus rural electrification. I would expect that rural electrification out of this would approximately be 70%. So, approximately around INR 260 Crores would be RE and rest of it, which is about

INR 80 Crores will be special projects in terms of lighting and high mass, streetlight etc., are the balance in terms of about INR 90 Crores. Now the growth will come in the balanced way, like I mentioned during this quarter 61%, 62% is the performance of high mass and streetlight business. That I think is very strong because that is the good margin business that is a highly profitable business and that is the business where we dominate the market by far.

Mayur Parkeria: As on balance sheet, we had INR 932 Crores of order book, which is now 810 after the first quarter execution, so in terms the intake for the quarter would have been much lower?

Ramakrishnan: If I may just tell you we had at the end of 2009-10 about INR 773 Crores. From first April onwards till date the inflow has been about INR 165 Crores. That takes the total to INR 938 Crores. We have expected about INR 128 Crores out of this. That is why we have a balance of INR 810 Crores. There are some new orders where we are L1 in terms of status currently; transmission line towers about INR 63 Crores and rural electrification tenders, where we are L1, is about INR 53 Crores. It is a matter of completing the formalities and executing whatever our obligation to get those orders. So, once that order comes in that about INR 120-130 Crores that will get added. So, the order book will go back to about INR 940 Crores. I do not see a problem in that.

Mayur Parkeria: Sir, in E&P, are we planning any new vertical to be added over a period of next 12 to 18 months?

Ramakrishnan: If you had really noticed in E&P BU we have been adding verticals rather than when the business has grown, originally we were only in to lighting projects, then we took on high masts, then we looked at activities like lighting projects in terms of stadiums, in terms of whatever. Thereafter, we went in to transmission line towers and then we went in to rural electrification, so we keep adding verticals based on needs, in our E&P BU we have the potential to become an energy services company, in the E&P BU we have the opportunity to look at other aspect of the transmission such as substation structures that we are doing, should we do complete substations themselves, we keep thinking about all these things and we execute it as and when time goes by.

Mayur Parkeria: But sir anything concrete in terms of even the actual ground.

Ramakrishnan: Nothing, that I will be able to confirm to analysts at this point in time.

Mayur Parkeria: Sir any outlooks, you were mentioning in your annual report about 'Transform 2010' as vision for this year. Any particular qualitative or quantitative idea of that what it can be?

Ramakrishnan: I think there are number of people holding onto the call. So, I think probably I will just answer this question and then move on to the next caller. Transform 2010 is kind of an agenda for the coming decade, you see in the last decade Bajaj Electricals has moved from being a INR 300 Crore company with a PBT of INR 1.5 Crores and a market cap of INR 20 Crores to a company with a turnover of about INR 2,250 Crores with a PBT of INR 201

Crores and with a market cap of approximately INR 2,500 Crores. So it has been a period of radical change for Bajaj Electricals. We have managed to set right our internal processes. We have become an more outward looking company. We have done a lot in terms of transforming mindsets of our people, our focus in terms of product, segments, marketing, advertising, supply chain, cost management, vendor management and what have you. Probably the time has come for us to take a new guard and look at the next decade, again with the idea of transforming ourselves from what we are today to what we wish to be in the context of tomorrow. Clearly, as a company we have been doubling our turnover every three years. We are hungry for growth we would like to constantly look at new products, new segments, new channels so the Transform Agenda has to do a lot with team work, it has to do with result orientation, it has to do with becoming far more customer centric, it has to do with focussing in terms of our multiple businesses, it has to be in terms of creating a new organization for tomorrows needs and it has to do everything about becoming a better management, being a more responsive company to its shareholders, to its customers etc., so we have painted a picture of Transform 2010 to our employees. As a company, we would like to become a billion dollar company three years from now, may be a USD 2 billion company six years from now and we would look forward to being a 20,000 Crores company by the end of the coming decade, so we are hungry for growth and Transform 2010 is articulation of that and we are focussed on profitability as well.

Moderator: The next question is from the line of Kirti Dalvi from Enam AMC. Please go head.

Kirti Dalvi: Good evening sir and congratulation for a good set of numbers.

Ramakrishnan: Thank you so much. I am glad we have not disappointed you.

Kirti Dalvi: Though margins have gone but because of the interest cost and other items I think we have done a very good PAT growth. Few questions sir, in terms of top line though it is a 35% growth, would you just quantify on a broad scale. What is the volume growth in term of numbers and the value growth?

Ramakrishnan: Very difficult because we are in so many different products but ballpark price escalation you can assume to be anywhere around 3-4% volume growth I think on a secular basis will be approximately 30%.

Kirti Dalvi: Will the escalation continue or do you see the prices coming down as the year goes by?

Ramakrishnan: Escalation will continue at least for the next four months to six months, then there can be a breather; prices may remain stable. I don't see prices coming down. I expect margin improvement, but it is not that we will be passing on all the benefits of that margin improvement to our customer.

Kirti Dalvi: Sir, across the board consumer durables have grown very well in the industry, industry growth as such, do you see this to continue as the year goes?

Ramakrishnan: Yes, of course the festival season is ahead, the festival season

augurs very well for us. Demand conditions are good in India. The Indian stock markets are doing well. There is more disposable income in the pockets of people, salary are going up, people are hiring. India the GDP growth I expect to be about 8 to 8.5%. I expect the construction industry to do well. I expect more people to buy first home or second home as the case may be. I expect people to spend a lot more in terms of doing up their houses and become you know more flamboyant in terms of expenditure, all that augurs well for us you see and apart from that government spend on infrastructure, private sector spending in terms of capacity addition expansion in terms of retail organized retail I think all of that augurs well for us. We are uniquely poised both by being a customer focused, consumer oriented brand and also company which is in the industry infrastructure space, we are likely to get the benefits of both for at least for the 5 to 7 years looks like a good prospect in India.

Kirti Dalvi: Primarily my question was the growth which we have reported was 44%. Would it be possible that we will be able continue this growth traction in the next few quarters as well?

Ramakrishnan: I don't think it would right on my part to say yes this growth traction will continue. You have to keep in mind the CAGR. The CAGR for Q1 is approximately around 22 % of the company. So, maintaining a CAGR of somewhere around 22 to 25 % is what we would like to do. Consumer durables growing at 44% would be more of the seasonal issue rather than anything else.

Kirti Dalvi: Our E&P business margins have improved and currently we have the order book of 810. What are the visible margins we have in this order book?

Ramakrishnan: E&P BU from a margin perspective, I see at this point in time there is a certain margin improvement in terms of the E&P BU. That margin improvement has gone up from about 9.7% to 10.3%, when the RE and TLT part of the business starts kicking in terms of higher proportion of our sale in the coming quarters, to some extent there will be a reduction in terms of this level of margin but what I essentially want you to keep in mind is that last year we had 70% growth in absolute margins and on top of that we have grown margins by 13% E&P BU, 13% growth in margins with 8% growth in turnover has been good and I would expect that the E&P BU should be able to maintain last year margin.

Kirti Dalvi: What is our debt position currently?

Pravin Jathar: Borrowings as of date is around INR 130 Crores plus sales tax deferral of INR 37 Crores and our call is that throughout the year with a borrowing level of INR 200 - 225 Crores, with internal accrual being deployed in the business we should be able to do business during this current financial year.

Kirti Dalvi: What is the Capex for current year?

Ramakrishnan: As a company our Capex is not very intensive. I would say on the whole probably a Capex of about INR 25 Crores, it is about INR 15 Crores in to some manufacturing augmentation and maybe about INR 10 Crores in terms of other facility.

Kirti Dalvi: Sir, if you have seen growth has been phenomenally going forward. Is there any need for us to expand our capacities or require any businesses to grow our business somewhere; inorganic way of our growth?

Ramakrishnan: Inorganic is a very essential part of our strategy. We are certainly on the lookout for synergies and largely India-oriented acquisition. We are going to look at companies, we have short listed about seven or eight of them, but nothing, which is at a stage where one can say that we are still scouting I would say. Our idea would be that pick up a regional brand, leverage on pan-India distribution or supply chain or marketing and or sales logistics. Leverage that brand or products of that acquired company and build the market very strongly, of course integration of brand Bajaj with some of these acquired brands could also give a lot of strength and stability to those brands, so we are looking in our own space, nothing concrete as yet.

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

Renu Baid: Good set of results Sir, couple of things from my side. I just want your view on how the demand outlook has been because you have already seen very strong traction in the consumer segments, lighting, consumer durables, how does the demand outlook from the housing sector and overall consumer segments look like?

Ramakrishnan: I think I am very positive and I am pretty happy with the rains, it is pouring cats and dogs in Bombay and you know I think in the last five days the monsoon deficit, which was there in certain parts of the country has really been set right. I think at the end of the time, it would be a pretty good monsoon, I only hope there are not too much of floods and other ravages in Bihar, Assam, Orissa and Andhra Pradesh or whatever. I am pretty happy with the monsoon as such. Secondly, I would say that consumer sentiment is good, corporate sentiment is good, people are investing, people are growing, and people are planning expansions of capacities. Real estate sector I think is back with the demand coming. People are hiring, there are salary jumps and things are generally very positive. I am confident about the consumer sector growth.

Renu Baid: Sure Sir, compared to last year, the current year's festive season should definitely turn out to be better.

Ramakrishnan: I certainly think so.

Renu Baid: Though we have seen like last year the Q1 overall growth was just about 15-17% to against that our growth has been in terms of volumes about close to 32% levels. So can we sustain this kind of traction for the next couple of quarters given the kind of positive momentum that we have seen on the demand side?

Ramakrishnan: You must also keep in mind that last year's product mix; E&P BU had done a sterling job. We were okay in consumer durables; lighting had gone down a little. This year lighting has grown phenomenally and the consumer durables have grown very well. E&P BU is a little subdued, obviously we have a good order book, so to that extent third and fourth quarters E&P BU

will bat very strongly for us. Frankly speaking if the consumer durables and lighting business, it cannot maintain its growth momentum but if it can ensure that on a CAGR perspective here at about 25% I think the outlook for the year looks good.

Renu Baid: Then there would definitely stand a slightly higher probability that our earnings or the growth guidance that we had given for 25% should be revised to 30% for the year?

Ramakrishnan: I would not like to do that for the simple reason as a company we would certainly say to analysts that we will do INR 2,700 Crores, in the past when I have said we will do INR 2,100 Crores, we have ended up at INR 2,251 Crores, when we have said we will do INR 1850 Crores, we have ended up at INR 2,001 Crores. I am telling you we will do INR 2,701 Crores.

Renu Baid: But how is the environment with respect to competition, specially the consumer durable segment today. Has it again got very fierce requiring higher margins to dealers?

Ramakrishnan: We have lots of pricing power in appliances. We are leaders in water heater, we are very strong in mixer grinders, we are strong in iron, etc. In fans industry we are today number 3 in the industry is fairly let me say cohesive in terms of its view on pricing margins etc. So, I would say that lighting industry is a bit of a free for all in terms of CFL pricing and thinks like that. On the whole, I would say industry is responsible when it comes to pricing and we should be able to in a situation where raw material prices come down.

At least a portion of that price reduction, we should be able to hold on to. I do expect margin pressures to ease in the second quarter and much more in the third quarter. When it comes to the fourth quarter last year, we had to take some one time hit. Fortunately, I do not see that happening this year, so the fourth quarter results will also look better fundamentally because of one time, adjustment may not be there.

Renu Baid: So, basically, if one has to sum up probably current year would be a year where bulk of the growth would be driven by consumer segments and more of volume driven growth margin being moderated because of the import price pressure.

Ramakrishnan: That is right. That is the picture for the first half of the year. Second half E&P BU will come back to growth and there will be maintenance kind of a growth when it comes to our other books (ph).

Renu Baid: Sir just a second thing, we were talking of some new product segment in which we wanted to foray. How is the outlook on the water segment, on the cooker segment where we were looking for entry?

Ramakrishnan: We have done test marketing in places like Orissa etc. The response has been very, very encouraging. Again some of the gas related products we have introduced the response is good, I would say very healthy and possible.

Renu Baid: By when sir, would it probably take another year or so for these

segments to slightly ramp up and see some nominal contribution commitment top line?

Ramakrishnan: I think that is a fair estimate.

Moderator: The next question is from the line of Siddhay Saikar from UTI AMC.

Ajay Tyagi: Just one question which is basically related to your margins in the consumer segment. Now volume growth appears to be very robust. So I am just trying to figure out since we hold leadership position in quite a few products, why could not we take a price hike either commensurate or near commensurate to the hike in the input prices?

Ramakrishnan: You see, it is all a function of balancing our objectives of profitable growth. If I act too much in favour of profit, volumes will dip and the objective in terms of gross contribution that we would like to generate from each of our businesses will get impacted. I will be honest, the consumer is not there as a tap to be switched on and switched off whenever we feel like it. There is a price point in the market. There is inventory in the market. There is inventory in the pipeline and we cannot quite simply because copper and the London metal exchange goes up and down everyday I do not have the flexibility to alter prices everyday. We take a view on pricing and then we take may be two, three price increases in a year depending on what is appropriate, so to that extent I would say we do, our approach to pricing is calibrated at the same time reduction in copper cost does not mean immediately flat prices or increased discount. We do it in a very objective and calibrated way, keeping in mind consumers' interest, their ability to pay, the environment in terms of demand conditions, what is happening in terms of macroeconomic factors like inflation, what is happening in terms of interest rate and what is happening in terms of money supply. Keeping in mind all of that we take our calculated decision.

Ajay Tyagi: Right, so can I safely assume that the absence of increase in realization was not to do with the increased competition and, hence, threat of loss of market share to this competition?

Ramakrishnan: We are conscious of competition. In none of our businesses we are overwhelmed by competition. Frankly, in many of our businesses, probably competition is overwhelmed by us, so it was purely keeping in mind what we believe is the extent to which we can push the consumer and the good news is like this. We already saw signals in terms of commodity prices softening. When we saw that probably even though there could have another price revision of 2 or 3%, we felt there is no point in doing that and then during season time have a situation where we need to discount that. We did not want to do that, so what we are doing is we are looking at our margins in the current quarter, the needed margins in the coming quarter and then taking a call.

Moderator: The next question is from the line of HR Gala from Quest Investment Advisor. Please go ahead.

HR Gala: Hi congratulations for the excellent set of numbers. Just a couple of broad questions, in the past and even in the annual report, we have mentioned about a number new initiatives that company has been taking especially in the

Greenhouse and security related and building management and all that, anything concrete has happened in those projects?

Ramakrishnan: We have come in a few of them, in LEDs we have Green LEDs, which is our own range. We have also tied up with Ruud Lighting, which is a brand called Bajaj Beta LED. Ruud is a very strong company in the US and it is a cutting edge of LED technology, so we intend bringing Ruud products into India, we have already used Ruud products in a few prestigious projects and basically the strong suite is streetlight and LED streetlight and in streetlight, we are number one in the country without a doubt, so that is happening in an aggressive way and the good news is Ruud also now has a good range of products for down lighters and for commercial applications. Similarly, in terms of our integrated building management system business, the delta control for DMS and access control and with Securiton for fire alarm good news is we have got a few prestigious mall projects and in Bombay, in Pune, and in south we have been able to expand our presence. We have hired a good team of people in the IBMS business now, the market is looking at us as a definite choice, now of course competing with the likes of Siemens and Honeywell, etc., is not such an easy task, but we are finding our feet in that business, going forward over the next three to five years I think we will be seen as good players in this segment as well. Pressure cookers we have introduced. We have introduced lanterns in terms of the rural market, LED based torches and lanterns that is a very, very ambitious project for us. We will leverage our super stockist, we will leverage our rural penetration and we really are looking forward to growing the lantern business, LED torch light business, etc., much more aggressively. We are also looking at the water business and looking at what possible solutions we can offer in the water space. We already have some standalone water purifiers, we are augmenting the range of products, we are looking at some UV based products and certain reverse osmosis-based products and we will be announcing our plans in this regard.

HR Gala: But water solution I think is already a crowded market is it not with so many players even Tata Chemicals also entering.

Ramakrishnan: I would not worry about that because the market is way too large. I would welcome even another five or ten players in this segment, because in India water is a dire necessity and clean water is just not available.

HR Gala: Okay, I understand that. Sir any major contracts, which we are executing on this Commonwealth games?

Ramakrishnan: We have done, the first contract was about INR 55 Crores in terms of lighting up of the streets of Delhi, almost about 140 km of Delhi town in terms of street lights has been done by us. Four odd stadiums we have done a lot of work in terms of lighting up of the stadiums and various parts of the stadiums, sometimes the playing arenas, sometimes the non-playing arenas, etc. We are also involved in the Commonwealth Games village in terms of our water heaters and our lighting products as also our fans.

HR Gala: So much is the total value of business that we would be doing by the

time the games start up in October?

Ramakrishnan: Much of it is already executed. I would say very difficult to put a number, but probably all in all we would be benefiting directly or indirectly at least to the extent of about INR 100 Crores.

HR Gala: Okay, INR 100 Crores more to come.

Ramakrishnan: No, total is at INR 100 Crores, at least INR 70-75 Crores already done, INR 20 odd Crores.

HR Gala: Sir one more question. Our capital employed has increased significantly as compared to the revenue growth, so how do we exercise control on that sir?

Praveen Jathar: Yes, your observation is right. Definitely lighting BU has gone up, mainly because we continue to support our associates as the credit period has gone up. As far as consumer durable is concerned, on like-to-like basis if you see it is almost half, but as compared to March it has slightly gone up because of inventory. But overall in terms of number of months we have almost brought it to half and that initiative should continue. As far as the engineering & project division is concerned, reason for increase in working capital, basically debtor it is a phase at which you do the billing, if it is supply then you realize immediately, if it is erection then it takes a long time. So, going forward, as far as the lighting division is concerned, Starlight should be on its own, and over the period, we should be able to control the working capital which has been blocked because of advances, which should come down. Consumer durables is basically inventory management. It is an initiative on and we believe that should also yield results and as far as Engineering & Project Division is concerned, it is basically a business cycle, the supply will start because when the orders are coming, we start with the supply side and overall working capital should come down and should not be cause of worry.

HR Gala: Okay and sir these unallocated capital expense (ph), what does it represent, that has increased to 81 Crores from 33 Crores?

Praveen Jathar: That mainly consists of property advance, we have purchased one property in Mumbai, where we have spent around INR 25 Crores, then we have given one plant and machinery for Starlight on lease, which is a purchase and there are some advances given to the associates, so mainly these consist of these kind of things.

HR Gala: Because even in our balance sheet the loans and advance schedule shows more than INR 40 Crores; INR 44 Crores of capital nature advances are pending. Now just little while ago you said that our capex will be say around INR 20-25 Crores, then what do these INR 44 Crores advance represent?

Ramakrishnan: This property what we have purchased for the new office.

HR Gala: Near Chembur, okay. So then whatever is the total capital expenditure we will incur is currently or next year, it will be over and above that 22 to 25 Crores. Anyway sir I wish you all the best.

Moderator: The next question is from the line of Mayur Patel from Spark

Capital. Please go ahead.

Mayur Patel: Congratulations sir for such a good set of numbers. Also my questions are answered, just a couple of questions left. Can you give us some idea about what could be the sustainable margin level in lighting business going forward?

Ramakrishnan: See the lighting business as such has a margin of about 6% last year, I am talking of full year 2010 and I would say that with the luminaire growth coming in pretty well if in the current year with volumes back and with a little bit of margin pressures easing, we can improve that 6% to around 6.5% I will be very happy.

Mayur Patel: Sir any positive development can we expect on the front of carbon credit?

Ramakrishnan: There are opportunities in that space. Currently, we are bidding for one or two of these kinds of activities where a lot of our CFLs we expect to sell, as and when there is any news in this regard we will make the announcement.

Mayur Patel: Is it possible to quantify the market opportunity in cooker and gas stoves?

Ramakrishnan: Very large, except there are entrenched players in pressure cookers like Hawkins, Prestige, we have a lot of respect for them. I would say that the opportunity is large. It is a huge opportunity, but not that you can corner the entire market, so over a period of time if we get about a 10% market share in that business we will be happy with that to begin.

Mayur Patel: Sir what would be the market size as of now?

Ramakrishnan: Pressure cookers very roughly probably about INR 500 to 600 Crores.

Mayur Patel: The gas stoves?

Ramakrishnan: Gas stoves would again be another INR 300 Crores or 400 Crores market.

Mayur Patel: So this is organized market, right.

Ramakrishnan: No, gas stove is primarily unorganized. Pressure cooker is a combination of organized and unorganized.

Mayur Patel: Which again you are saying they are dominated by unorganized?

Ramakrishnan: Pressure cooker, Hawkins and Prestige are very strong.

Mayur Patel: Would they be forming around 30% of this market?

Ramakrishnan: That's right. May be more.

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

Kamlesh Kotak: Good evening sir. Sir just wanted to understand is the impending implementation of GST going to benefit us in terms of overall market

positioning or getting the competitive advantage vis-à-vis unorganized players?

Ramakrishnan: If you really look at what has happened imposition of VAT, creating excise-free zones in Himachal, Uttaranchal have been one of the significant drivers of organized sector growing of businesses like fans and appliances in particular and also to some extent lighting. So, with GST coming in, I think that will be the next level of transparency which will come in to the system and the whole aspect of evasion and difficulty of evasion will increase manifold. So, I do expect it to be a harbinger of easier way of doing good business across the country. I think it will benefit organized sector.

Kamlesh Kotak: And secondly, we have saying the volume ramp up, how are we seeing vendor development, is it the capacity constraint or how we cater to that new vendors that we appoint or how we expand the market?

Ramakrishnan: See, we have multiple SBUs and vendor development and supply chain is a very critical function. So typically what we do is keeping in mind our own three-year growth plan. If you look at our vendor base and look at what kind of augmentation is needed keeping in mind new products and new segments we are entering and volume growths in the current segment, so it is a very objective and a well drawn out plan and process. And, now with a number of products getting indigenized and standards coming in for some of the categories developing local vendors substituting what could have been imported from China earlier has been done and we have a very good team to handle all of that.

Kamlesh Kotak: Sir, could you give me the break up of the engineering and project business revenue for this quarter across sub verticals?

Ramakrishnan: I will just come back to you on that in a couple of minutes. Just a second, in the quarter I would say broadly out of our turnover of INR 113 Crores in E&P BU, I am talking of gross turnover, approximately INR 23 Crores is high mast, about INR 15 Crores is the street light business, special projects is about INR 14 Crores, power distribution which is probably rural electrification is about 7 Crores and about 52 Crores is the transmission line towers.

Kamlesh Kotak: So, sir the broader growth across this subvertical is similar or can there be some differentiation across them?

Ramakrishnan: Differentiation. For example, I told you that we have grown by about 60% in high mast, we have grown in special projects by about 45% and we have degrown in power distribution and rural electrification. And, there is nearly flat growth in terms of transmission line towers, so there will be a change in the product mix in the quarter.

Moderator: Thank you. The next question is from the line of Tejas Shah from Axis Bank. Please go ahead.

Tejas Shah: Congratulations on a good set of numbers. All my questions are answered. I am just left with one question. You made an interesting and encouraging comment on the future outlook for next decade and following management closely for last eight years, I am sure you must have done some

rough calculation to back such vision of going to double your top line for next three years and next decade, so I was just wondering what would be the composition of growth you see going forward, would it be same or will we have to get in to new completely new verticals for growth?

Ramakrishnan: See I can try and give you some visibility when we are a INR 5,000 Crore company, when we are a INR 5,000 Crore company probably the engineering and project part of the business will be INR 2,000 Crores and the INR 3,000 Crores will be coming from the rest of the business. Organic growth will probably take us to about INR 4,200 Crores, roughly about INR 500-800 Crores will have to come from diversification or acquisition.

Tejas Shah: Sir, another question pertains to your acquisition plan as you mentioned that we are primarily looking for some local or regional brand and to leverage on a distribution channel, just wanted your understanding on this because consensus seems to be building up that India is going to double its per capita income in the next five years etc., depending on whatever growth we take and consensus seems to be building that as we grow the tendency of consumer will be to move towards aspirational brands. So they will move from regional brands to aspirational like Morphy Richards we have. So, I was just wondering like are we going to penetrate into rural market or am I getting right or is there something broader in this regard?

Ramakrishnan: I think our strategy is the combination of a few things. Any company within the next 10 years has to do well in India, has to disproportionately increase its focus on rural India and I think there is so much of demand there waiting to happen. With the rural employment guarantee scheme, NREGA, with the Rajiv Gandhi Grameen Vidyutikaran Yojana, with government policies in terms of focus on agriculture in order to reach GDP growth of 10%, where agriculture has to give minimum 4% growth I see a lot of action happening in terms of rural India in terms of infrastructure creation, construction of roads, spur to rural economy, agricultural based produce and stuff like that. That will mean more rural income. Obviously there are high rural aspirations and a combination of that will be greater consumption particularly for products of necessity like our product. People do need fan, people do need irons, people do need lights, people do need emergency lantern, people do need torches and irons and mixers and what have you. We are in that kind of a space where we can really bring a certain basic level of comfort and happiness in to a consumer's home. Rural is going to be very, very important. Coupled with that the presence of organized format retail in urban area is again an opportunity where already whether it be Future Group or it be Reliance or it be on the other format, Croma we are extremely well placed there and we have an excellent consumers franchise even in these center but we are uniquely positioned to take advantage of the rural opportunity thanks to our multiproduct distribution system and we are seriously looking at what kind of a structure is appropriate to tap into that and a lot of work is going on right now.

Moderator: Thank you. The next question is from the line of Manali Shah from India Advantage Securities. Please go ahead.

Manali Shah: Almost my every question has been answered. The only thing is like if you notice the other income it is almost half, which we had last year and it is almost like the half of the amount, we have like made it up this quarter only. So can you just throw light like what are the sources like from which it is derived?

Praveen Jathar: Typically what happens is that nowadays the auditors take a very strict view and they ask us to provide all liabilities and that goes out of our operating. When next year the view is taken that these liabilities are no longer payable and when those liabilities were returned, they go to non-operating further income, now last year auditors took view to provide for a certain discounts pertaining to our various BUs and for the current year it was abundantly clear that those provisions were not required, some INR 70-80 lakhs worth of provisions we wrote back. When it is charged, it is charged to the operating profit, when it comes back as no longer payable it goes as other income.

Moderator: Thank you. The next question is from the line of Sanket Shah from Sushil Finance. Please go ahead.

Sanket Shah: Good evening sir. I missed out few data points, which I wanted to clarify. First is the growth rate in the lighting segment, which you had have given the sub growth rates about the subsegment. So, could you provide that?

Ramakrishnan: I had mentioned that compact fluorescent lamps in lighting have grown by about 41%, even GLS lamps have grown by 10% even the consumer luminaires have done reasonably well in this quarter. consumer luminaires have grown by approximately 53%. All in all, that is a good solid growth of 35% in lighting business.

Sanket Shah: What was the growth in Morphy Richards?

Ramakrishnan: In Morphy Richards it has been a very good quarter, we have grown by about 48% in Morphy Richards.

Sanket Shah: Sir, I missed out the breakup of the order book of E&P business, so if you could provide that and also the L1, you said in two projects you are in L1, so if you could provide that breakup?

Ramakrishnan: Break of E&P business about 340 Crores in terms of special projects, high masts are about INR 78 Crores, high mat, streetlights and other products are about INR 90 Crores. TLT and other lateral structures are about INR 382 Crores. In case of TLT there is an important tender where we are L1 i.e. about INR 63 Crores. There is a rural electrification tender where we are L1, where we have INR 53 Crores.

Sanket Shah: Sir one last question, if you could provide like interest cost has reduced from quarter on quarter, so is it only due to a repayment of loans or due to any other reason?

Ramakrishnan: You see we have the QIP and QIP proceeds have obviously come in and this has enabled us to repay some of our borrowing so that is one of the strong reasons why interest cost has come down. Interest cost last year

same quarter was about INR 8.6 Crores; it has come down to about 5.7 Crores.

Sanket Shah: What is the average interest rate this quarter and going forward?

Ramakrishnan: 8.1%

Moderator: The next question is from the line of Mehul Mehta from Mangal Keshav Securities. Please go ahead.

Mehul Mehta: Sir, this is about capital employed growth, if one looks at that was the question raised earlier also, but I have a question on sequential growth, if I look at capital employed at Q4 FY 2010 in consumer durable business was about INR 436 million and that is normally a loaded quarter, that is where capital employed I believe is the highest and over that we are seeing about 54% growth, so any specific reason for that?

Praveen Jathar: Specific reason is typically an inventory built up; again it has to go to the sales mix and the type of product, which we expect to sell in the coming festival season. So what type of product, which we intend to sell in the forthcoming quarter, is credited basically because of inventory built up, so inventory to take care of like you know coming festival season.

Ramakrishnan: Sir just to give you a little bit of comfort, the quarter ended June 30 last year we were at INR 98 Crores of capital employed in consumer durable which is down to INR 67 Crores that is a reduction of 32%.

Mehul Mehta: No, that is where I said YOY there is degrowth but when you look at Q4 in normal fans business and all that?

Ramakrishnan: Because in the consumer durable part of the business, it is a function of you know room cooler business by and large we ensure that by March end we complete whatever are the inventories that we have and you know we derisk ourselves a little and now with the water heater season ahead, Onam sales in Kerala ahead and things like that, there is a certain amount of inventory that we need to build up for the future requirement

Moderator: The next question is from the line of Dhaval Gada from Edelweiss Capital. Please go ahead.

Dhaval Gada: Good evening sir, congratulations on good sort of numbers, just one question that is on the fan segment, we reported around 46% growth, so just wanted to understand what the percentage growth would be the industry growing at currently?

Ramakrishnan: Last year the industry had a growth of about 30%, in the current year I do expect that in this quarter we would have definitely gained market share from whatever I hear some of our competitors are saddled with inventory and they have not been able to push off because of the onset of monsoon. We are reasonably okay from that inventory perspective. I think broadly I would say the market would probably have grown in this quarter by about 30% our growth rate would be ahead of the market.

Dhaval Gada: This question was basically that just a couple of days back there was conference call of one of our competitors in this segment and they had

reported a 40% growth so just wanted to understand is it mainly on account of market share increase or is the industry growing at that rate itself?

Ramakrishnan: See some players in the industry are not doing so well. I do not wish to name them here. Some of the weaker players in the fan market are getting a little marginalized. The game is getting polarized between Crompton Greaves, Bajaj, Usha, Orient, and depending on which company does well at a certain period whose models are better accepted whose supply chain is geared better that company does well.

Dhaval Gada: Okay, sir my second question was on the monopole that we had tested, any update on that particular product.

Ramakrishnan: I think it is not something where one can expect miracles, the departments in the government of India or in the state electricity boards or whatever do not take such quick decisions, it is going to be a process of ensuring that monopoles enter specification, convincing engineers, convincing chief engineers, superintending engineers or whoever, to go in for monopoles in preference to conventional TLT poles like we built up the high mast business over a period of time when we dominated with a 65% market share, we will have to do a lot of legwork to make this happen that process is on.

Dhaval Gada: We are not expecting any orders in this fiscal for of monopole?

Ramakrishnan: Of course there will be orders but I mean they will not be earth-shaking orders.

Dhaval Gada: Would we require any debt in this fiscal because last year we had a very sharp increase in our working capital, so any requirement of debt this quarter?

Praveen Jathar: I already told that our total funded debt should be around INR 200-225 Crores and mainly for working capital so those should get funded by our regular consortium of bankers and that is all about it.

Moderator: The next question is from the line of Aakash Manghani from Girik Capital. Please go ahead.

Aakash Manghani: I just want to know what is the market for LED based torches and lanterns, and what kind of growth prospect we expect?

Ramakrishnan: I do not have a number right now to share with you readily, but to my mind today a company like Eveready is doing extremely well in this segment and they are dominating these days. I think one of the key issues in rural India is maintenance and life from that perspective LED is a very good solution, rechargeable LED lanterns I think are going to be very, very important, later solar based lantern which can be useful are also going to be part of our range and I think it is reasonably good market opportunity I would estimate the market size to be about INR 300 Crores presently and probably it is growing at about 30% per annum.

Moderator: The next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: Thank you once again for taking my question. Actually my call got disconnected when you were talking about the Transform 2010, the question that I asked. I will again not go through it, just I wanted to confirm, what is the number you shared, is it INR 5,000 Crores?

Ramakrishnan: In a nutshell as a company in three years we would like to be approximately a 5000-Crore company, in six to seven years we would like to be a 10,000-Crore company and may be by 2021 we would like to be a 20,000-Crore company.

Mayur Parkeria: Is there any opportunity in the fans export market?

Ramakrishnan: Exports are handled by a group company Bajaj International and Bajaj International handles exports for Bajaj Electricals that business is looked after by Mr. Anand Bajaj who is also an executive director in Bajaj Electricals. It is not done directly by BEL.

Mayur Parkeria: Sir, for us it will be all sales but domestic sales.

Ramakrishnan: Bajaj international procures it and sells it directly and they have a licensing arrangement from us to be able to do that.

Mayur Parkeria: Sir out of the total fans portfolio how much would be Bajaj international?

Ramakrishnan: We do not sell to Bajaj International; it is an independent company that handles exports under Bajaj brand. Whatever we sell is domestic sales, pure domestic sales to direct customers of Bajaj electrical and not Bajaj International.

Mayur Parkeria: But do they have their own manufacturing set up?

Ramakrishnan: No they procure from our vendors

Mayur Parkeria: Sir fire alarms and security system, one would be the project kind of business.

Ramakrishnan: Bulk of it is project kind of business. We are not in retail currently in fire alarms and security systems.

Mayur Parkeria: But would we be there.

Ramakrishnan: At some future point of time, yes there can synergistic product.

Mayur Parkeria: What would be market size for CFL as of now?

Ramakrishnan: I think it is very huge market probably about INR 400 million CFL. I would broadly put it at about I do not know I cannot, may be about INR 1,500 Crores or so.

Mayur Parkeria: Sir, 1,500 Crores and we are broadly up 10% of the market, that is it.

Ramakrishnan: That is right, we have a 10% market share,

Mayur Parkeria: So any particular market share target, which we will try to achieve in the next two to three years.

Ramakrishnan: Very tough to say over a period of time, if we are at about 15% market share in this business I will say I will feel happy about it. Thank you very much Rahul.

Rahul Gajare: Thank you very much sir and all the very best for the following quarter.

Ramakrishnan: Thank you so much, I appreciate and I want to thank everyone who has been on the con call.

Moderator: Thank you very much sir, on behalf of Edelweiss Securities Limited, that concludes this conference call thank you for joining us and you may now disconnect your line.

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