

L-1/1494/MGP

November 17, 2017

To,

BSE Limited : Code No. 500031  
Phiroze Jeejeebhoy Towers  
Dalal Street, Mumbai 400 001

National Stock Exchange of India Ltd. : Symbol: BAJAJELEC – Series: EQ  
Exchange Plaza, Bandra Kurla Complex  
Bandra (East), Mumbai 400 051

Dear Sirs,

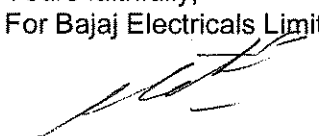
**Sub: Transcript of Post Results Conference Call held on 9 November 2017**

Further to our letter No.L-1/1478/MGP dated 7 November 2017, we enclose herewith transcript of the Post Results Conference Call held by the Company with the Investors, on Thursday, 9 November 2017, on the financial results for the quarter and half year ended 30 September 2017, which was hosted by Edelweiss Securities Ltd.

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

Thanking you,

Yours faithfully,  
For Bajaj Electricals Limited



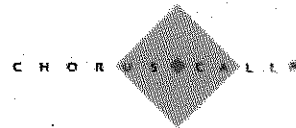
Mangesh Patil  
EVP - Legal & Taxation and Company Secretary

Encl.: as above.



**“Bajaj Electricals Limited Q2 FY 2018  
Earnings Conference Call”**

November 09, 2017



**ANALYST: MR. AMIT MAHAWAR – RESEARCH ANALYST - EDELWEISS  
SECURITIES LIMITED**

**MANAGEMENT: MR. SHEKHAR BAJAJ - CHAIRMAN & MANAGING  
DIRECTOR – BAJAJ ELECTRICALS LIMITED  
MR. CHETAN BHANUSHALI - BAJAJ ELECTRICALS  
LIMITED  
MR. BINDA MISRA - BAJAJ ELECTRICALS LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Bajaj Electricals Q2 FY2018 Earnings conference call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. I would now like to hand the conference over to Mr. Amit Mahawar from Edelweiss Securities Limited. Thank you and over to you Sir!

**Amit Mahawar:** Thank you. Hello everyone. I welcome you all to Bajaj Electricals Q2 Fiscal 2018 results conference call. From the top management, we have Mr. Shekhar Bajaj, Chairman & Managing Director. Without further delay I now hand over to the management for opening remarks post which we will open the call for Q&A session. Thank you and over to you Sir!

**Shekhar Bajaj:** Thank you and good afternoon to all. This is the first time that both the Anant’s, Anant Bajaj and Anant Purandare, both of them are missing, sometimes one is missing, but another was seen, both of them missing, so I am Shekhar Bajaj here. I will take care. I have got two people in the finance who are as competent as Purandare except that he is the one who has been our spokesmen, we have got Chetan and we have got Binda Misra both of them are very qualified. If there are any questions or any details are required they can immediately get it. Let me start by how the quarter has been.

The quarter has been very interesting according to me because this GST has created some positives and some negatives. The positive part is that because of GST, on our inventory and all we have got some additional credit because of which our profitability in the consumer product business has gone up from 2% to 5.6% and therefore because of that the profitability has substantially gone up in the consumer product. Personally I think 1% to 1.5% I would say is our improvement in real margin for the current quarter, remaining has come because of which that means for the future quarter, you should now expect the improvement of 3% to 3.5% being sustainable, 1%, 1.5% over the previous year is sustainable but because of the higher volume that will happen in the third and fourth quarter we can still get 5% or 6% EBITDA levels. Margin will still come, but if you compare to the previous year it would not be an improvement of 3% to 4% so that is one point.

Similarly, in our EPC business, we have to make certain provision and because of that 7.5% in case of EPC has gone down to 3.5% which is a drop of 4% that again is something which has happened as an one time in this quarter. We do not expect the same thing to happen in the coming quarter, so I expect that from third and fourth quarter we should go back to the 7%, 7.5% level in EPC. So therefore overall, in the consumer product, the margins have been improved because of GST. In case of EPC, the margins have been impacted certain provisions, in our RREP model, which we have been talking for last two years, it has reached a level that now in the month of October we had a secondary sales but that is what we are now monitoring in case of consumer product has gone up to 81% in the month of October which is a very good news. That

is why we said that in March we should be completely going into the RREP mode and in the month of October, we have shown some positive growth coming in the consumer business. Now one thing which has happened which is very important to note that because of the GST coming in, we have decided that we will not increase our net prices to the customer.

Consumer price will remain flat whatever it was pre-GST, so earlier suppose there was 18% which was the VAT and service tax, so it was coming to 100 plus 18% was 118% now because of 28% which is the GST which is coming, it is now the prices at 90% plus 28% coming to 118%. So the result of that is for the same item which earlier I was selling for Rs.100 now I am selling it Rs.90 plus tax and therefore to that extent when you look at the revenue if you show a zero growth revenue which means really that the growth of 10%. So therefore for the October if it is flat sales, then I am seeing it is the good news that means it is a plus 10%. So that is something which we must remember and therefore that is another reason why our margins are better because if your savings to 100 is going to be 90 and you are going to have the same profit, because profit is not getting impacted. So it shows a higher percentage so that another reason why the consumer product, the profit percentage is showing a better number but because of this every quarter we will be showing a better performance and we will show a better growth but whatever is the growth shown you add another 10% to it really come to a topline growth, but bottomline clearly will be a substantially better number and therefore we are very clear that in the next two quarters will be substantially better and in another year, the company's profit will be far better then it was in the year which has gone by, so that is where we are.

Now I think GST is behind us. I do not think now when we go in the market place, any of our dealers or retailers or anybody talking, there may be few of them who are not registered and all but in terms of working there has been no issue. So in the month of July, we had a substantial negative sale because after June there was lag which took place because people were trying to still understand what this GST is all about, but we can look forward to a very strong third and fourth quarter and in terms of our cash flows there is no problem. Luckily our interest cost is coming down, we have been able to reduce our interest cost in every quarter and therefore against last year from a level of Rs.100 Crores we have brought it down to level of Rs.80 Crores. I think this year it should be about Rs.50 Crores, Rs.55 Crores. It is the level it should be. So there will be further improvement in terms of interest cost. So we are very bullish about the company. There will be no major issues that are now pending and the roll out is taking place very well whichever states we have rolled out fully, the growth have started and we are showing good growth between 15% and 30% in all the states where we have rolled out our RREP. So with these words, once again welcome to this concall and now I will open it up for any of your questions. Thank you.

**Moderator:** Thank you. Ladies and gentlemen we will now begin with the question and answer session. We will take the first question from the line of Nilesh Bhaiya from Macquarie. Please go ahead.

**Inderjeet:** Thanks for the opportunity. This is Inderjeet here. My first question is on the pricing strategy you mentioned that you tried to keep the end prices for the customers at a stable rate pre-GST and

post GST, but you have also seen a fairly significant increase in input prices, so if you could just throw some light on what the pricing strategy has been regarding some of these key inputs by our company and also by our key competitors in that?

**Shekhar Bajaj:**

We are waiting for the announcement likely today evening and we expect at least in fans and some of the items, the GST will go down from 28% to 18%. So our situation is that if it gets reduced, then today it was 90% plus 28%, now if it becomes 18%, it will be 90% plus 18%. At this moment we will not play with the price, otherwise government will say we reduced the GST rates and you have picked up out of the 10% reduction, 2%, 3% you have taken it for improving your profitability and therefore to that extent, we are not planning to do anything for at least next couple of months so that if you want to do it we will do it in January or whatever it is so that it does not look as the GST has been reduced and you have gone and pocketed from part of the margin that is one. Second is, though the input cost have gone up, our strategy has always been that we must try and see whether we can manage to absorb through improved productivity, reduce our financial cost, reduce our carrying cost, all those things which we have done. That is why in spite of no price increase that we have taken across the board, still our margins have not shown negative, otherwise in this quarter there should have been negative situation compared to the previous year, but it has not shown, because what we have done in anticipation that GST is coming, we went down to all the vendors, sub-vendors and we went and negotiated with them that if you are going to charge the GST you will get a set off, so please pass it on to us and therefore because of that though we have not increased the pricing, we are still trying that we are in a position to be able to offer at a price which still gives a little positive margin only. Initially we were looking at 2% to 3% negative possibly, but by the time we negotiated, maybe we got further reduction from our vendors and sub-vendors and because of that I think we are at par or maybe in some items, we will need to increase price, but I think we will have to delay it by a month or two till this gets stabilized, because I know copper prices have gone up and therefore to that extent there is a pressure of price, but we will try to see if we can delay it further.

**Inderjeet:**

Okay. Is that also consistent with what our competitors are doing, the reason I am asking that is, is there a case that we might actually have gained market share because we are not increasing price and others having done that or our price actually is very similar to what our competition has done?

**Shekhar Bajaj:**

No, I heard that some of them have increased it and personally I think there was no need to increase those type of numbers, but I think market share, at this moment we will start gaining market share this quarter onwards. Next couple of years, we will see, we will keep increase our market share because now our distribution model is in place. For the last one, one-and-a-half years, we have been trying to build up the distribution model, so we were actually losing market share, we were not gaining market share in the last one-and-a-half year because every time we stop our wholesaler, obviously his sales comes down so to that extent we lose out on our market share but wherever we have now reached the distribution, our market share is going up, but in terms of pricing it is dynamic thing. Personally I think if somebody has increased the price and

he finds that we have not done it and others have not done it, we will have to come back and reduce his price. At the end of day if he keep his price outpriced over a few months or few years, he will lose the market share unless he has got 'wow' product. It depends if you got a product which is really worth a premium, he will get its premium, but if he has just priced it higher because he says my cost has gone up, we also are looking at our cost, we are saying that I think we can manage it and if we increase also, it will be couple of percent, it would not be some 5%, 10%. That type of cost increases have not taken place. In the totality, we are saving on freight because obviously earlier there was Octroi and all which has all gone and therefore to that extent, we can do a much better job plus because of the redistribution that is being done, the retailers are much more happy to deal with us because they get home service. So I do not see.. we have not really gained much market share, but we will gain market share in the next few quarters and next few years because this distribution model is something which others cannot easily copy.

- Inderjeet:** Thanks a lot Sir.
- Moderator:** Thank you. We will take the next question from the line of Bhargav Buddhadev from Ambit Capital. Please go ahead.
- Bhargav Buddhadev:** Good evening Sir and thank you for the opportunity.
- Shekhar Bajaj:** Good evening to you. Individually you are always there.
- Bhargav Buddhadev:** As long as the Bajaj Electricals is doing well, we will always be there as well.
- Shekhar Bajaj:** If I do not do well, you will stop coming?
- Bhargav Buddhadev:** More and more people will be there. First question Sir what would be the one-time input credit on the opening inventory Sir. Is it possible to quantify?
- Shekhar Bajaj:** Exact we will not be able to quantify what is the benefit because of GST, because there are some negatives, positives, so I do not think we will be able to answer this question.
- Bhargav Buddhadev:** Okay. Secondly you mentioned about one-off provision in the EPC business, can you quantify that Sir?
- Shekhar Bajaj:** I think it should be around Rs.7-8 Crores is approximate,
- Bhargav Buddhadev:** And all of this is the one time?
- Shekhar Bajaj:** Yes, this is one time.
- Bhargav Buddhadev:** So have you also provided for the orders which are not executed still?
- Shekhar Bajaj:** So we are discussing. Most of the parties have agreed to compensate us for GST because when they compensate us, they will get a set off themselves, so therefore they say it is not going out of their pockets, so they say it is okay. So they most of them have agreed that is where for two

months almost July, August we did not do any billing at all because we wanted this clarity should be there before we start billing them and therefore some billing even in the month of first quarter, we have not done because we could not execute it because this clarity was not there. But most of our Rs.3400 Crores projects are there, so most of them we have got confirmation. By end of December we will get everything in writing. Just now they all have verbally agreed, but in the next two, three months we are following up to get it in place.

**Bhargav Buddhadev:** Sir, would it be fair to assume that some bit of this provision would also be pertaining to the unexecuted order book based on your judgement?

**Shekhar Bajaj:** Partly, a very little, but we are hoping that most of it we will get early, but there can give few more Crores for which further provision may be required over a period, but luckily we have sufficient provision that we have made as per A7, which is much more than this, it is like for example which I think I mentioned in some of the earlier meeting that it is in our project when we took the order we took in 10% and at this moment the way things are going we will end up 12%, we do not change the 10% to 12% till the project is over. For example,, if we are expecting for projects will be over by March, so when the project is over then if it is 12% or 2% comes, the provisions still getting reversed as per A7, So we think we are reasonably conservative in terms of not making that differentiating and saying okay now I think it is going to be 10% to 12%, let us make it 12% and then if suppose something happen and again you take a reversal, we do not like that. So we say whatever when we took the order you took at it 10% let us keep it 10%, on that basis the whole A7 had been working and whatever remaining we are making a provision. So we will increase some additional provision which we require to say there is sufficient provision which has been made can be adjusted against that.

**Bhargav Buddhadev:** So what it would be the CFO generated in first half, is it possible to know cash flow from operation?

**Shekhar Bajaj:** About Rs.60 Crores but partly it is because of the cash flow in terms of operation but lot of it is because we have gone for channel financing and for dealers now outstanding has gone down to only 30 days because most of them are going for channel financing, so to that extent my money is not locked up there.

**Bhargav Buddhadev:** And lastly Sir we said 81% of the area TOC has been rolled out, so which areas are pending?

**Shekhar Bajaj:** It has not rolled out, I was surprised it was 65% in September. The secondary sales number which came out was very, very exciting, 81% of our sales turnover was secondary sales. If you see, areas give me 81% of my turnover and they were established because their stock levels must be low so therefore they took more material than the market base, which was not rolled out. The roll out is only 65% to 70%, it is not yet 81%. From 65% secondary sales in September, it went to 81% I do not know whether 81% is sustainable but in the next two, three months it will become 81% anyway.

**Bhargav Buddhadev:** Yes, I understood and Sir lastly you mentioned that we have not gained market share in the consumer business, but you also highlighted that we have seen 15% to 20% growth in areas where TOC has been rolled out. So is it fair to say in those areas we have taken market share because I am not sure that market has grown in the range of 15% to 20%?

**Shekhar Bajaj:** What has happened in those markets where we have grown by 15% to 20%. actually I am not very excited about it because we have been in that last one-and-a-half years we have got substantial market share in those markets, so it is possible that I may have lost 3% market share gain back gained back 2% maybe. Because of the TOC we have been losing market share, all others are growing by 10% we were showing -10%, so we were losing market in the last one-and-a-half years we have been seeing. There we have been losing market share. We have done it consciously that okay we stop wholesaling, we are losing market share. Now we are saying that wherever there was a wholesaler, now we have got our distributor there. They are gaining back that market share. Therefore to that extent, we are still according to me, compared to what may be two years back we had 15% market share went down to 12% maybe we have come to 13% or 14%. I do see we have seen 15-17% but we are gaining back market share, major market share gain will come in the third and fourth quarter according to me and then next year will be substantially better because then TOC will be fully rolled out.

**Bhargav Buddhadev:** Last final question. So what has been the growth in ad spend?

**Shekhar Bajaj:** Growth in?

**Bhargav Buddhadev:** Advertisement spend Sir.

**Shekhar Bajaj:** Advertisement has gone up by Rs.12 Crores. It is hurting us because all things happened at the same time. We have sponsored the Justin Bieber show, and then we had Kabaddi, which went on for two months, we launched that B2B digital marketing on You Tube, Facebook and Twitter, probably all the theatres we showed that B2B Magic Of Light. I do not know whether you saw that advertisement, where we had twinkle stars and girl, then we talked about how he goes to his villages because all the villages are lighted, 25000 villages we have lighted, 7 lakhs street lights, we have done through first time B2B advertising, always we have B2C advertisement this was the first time we have tried and they liked it.

**Moderator:** Thank you. We will take the next question from the line of Renu Baid from IIFL. Please go ahead.

**Renu Baid:** Good evening Sir. Couple of questions, A) as an overall if you see adjusted for 10% impact and probably we would have been flattish in the consumer segment for this quarter, just the GST impact and broadly fans have been an off season for this quarter, so can you help us to understand what was the kind of growth that we saw in the water heater and the kitchen appliances which would have seen seasonal impact as well as Diwali helping it through, just broad understanding.



- Shekhar Bajaj:** For the quarter, fans, actual numbers, -15.4% Appliances is -9.8% and lightning is -12.3%, MR is plus 13.6%, so we are -9.2%. So actually fans -15% means -5% and Appliances is flat. MR 13.6% means 23.6%.
- Renu Baid:** And MR there were new launches which we had done our new variance for kitchen appliances in the higher-end segment. So the overall performance or the offtake from that category seems to have picked up well for us?
- Shekhar Bajaj:** Frankly speaking this is more image building up. For me I do not see that that is going to give me some fantastic traction ... frankly speaking in India, unless you yourself using it, why should I go for, for my servant I am going to go for Rs.20,000 mixie or Rs.10000 toaster or Rs.15000 toaster, it does not make sense. So it is only going to be very high niche market, that this is the type of premium products we have, say why not India... Anant, JMD has been always saying, why should India not have the world class products?
- Renu Baid:** That in the premium segment, now you have a sizeable good show in terms of products?
- Shekhar Bajaj:** Those 10 products which have been introduced are the ones which have been introduced in the world recently. They say that these are the product which even in the world, our competitors, there is nobody whose got product range of this top 10 item anywhere by any competitor in the world. It is a world class product that we have introduced. we say why should Indians not also enjoy the best products where there a lot of people who do their own cooking, for them it will be a great thing to have. Like you have a toaster, we have which has got four toaster, each of the toaster can be browned differently, so each one has different control. All those things, there is a toaster which you can see where it is being toasted, it is transparent toaster. So you put it and you see the toast getting brown I mean all those type of thing is fine. So, let people who have got money like you, you can buy it.
- Renu Baid:** Yes, it is differentiated products in the premium segment of the market for that matter.
- Shekhar Bajaj:** Absolutely.
- Renu Baid:** Second is in the EESL segment if you see, EESL has been now slowly withdrawing or reducing the its intensity of sourcing in the fan segment. What would be your comments with respect to how positive this could be for us given that sub-economy segment was getting impacted because of EESL. Should one assume that growth in this segment or the decline which is happening in sub-economy for us should start reversing now?
- Shekhar Bajaj:** EESL has not taken that much quantity. They have not really picked up that much quantity this time. What they did, they were in lighting, they completely messed up the market. Fans, it did not really pick up?
- Renu Baid:** Which is good for you that they did not take off as successful in the fans category, otherwise economy side would have got hurt.

- Shekhar Bajaj:** Reason is very simple, a light is a light, once you have supply that would be end of the game. In fans, it requires after sales service, so if they go and buy from somebody who does not have a service set up. Here, if I am giving for Rs. 900 and somebody offers Rs. 800, my manufacturer can offer Rs. 800 easily because I have got overheads to worry about, now he does not have service network. If you cannot give the service, obviously the customer is going to scream. So that is where they found they were losing out and also with Piyush Goel it was a different ball game. Piyush has gone to railways, the new minister is not that dynamic to take the steps. He is a businessman, he went and said I do what as a businessman he were looking at it very, very clear and I must look at the consumer interest. Actually the industry and the retailers has substantially lost out because of this and actually it is not a good thing for industry because finally nobody wants to spend in the R&D, nobody wants to spend on the services, because nobody makes money. If you make money then you spend money to develop new products, new variation like it happens in Appliances, lot of new products keep coming because I am making some money.
- Renu Baid:** If you can just help us to understand what was the absolute spend on advertisement in this particular quarter, you mentioned Rs. 12 Crores was the increase for the previous question, but what was the absolute amount spend that was the last question from my side?
- Shekhar Bajaj:** Rs.31 Crores.
- Renu Baid:** Thank you so much Sir.
- Moderator:** Thank you. We will take the next question from the line of Rishikesh Bhagat from LIC Mutual Fund. Please go ahead.
- Rishikesh Bhagat:** Good evening Sir. Your short term borrowing had increased, so what do they pertain to and number two, if our execution in EPC business picks up, then do we see this borrowing to sustain at this level?
- Shekhar Bajaj:** No, what has actually happened is our total borrowing has come down when you look at bill discounting also. What we found that our bill discounting first was coming to around 7.5% and we were able to get commercial paper at around 6.5%, 6.7% and therefore what we have done that all our vendors who are supplying us material instead of accepting the document and asking bill discount it and ending up paying 7.5% what we did is we will pay you directly. Therefore we took commercial paper from the market and paid them directly so to that extent our interest cost went down by almost 1%. So our total borrowing has not gone up but it is instead of bill discounting which indirectly is a borrowing or indirectly financing our vendor, we were directly paying them by borrowing, so instead of bill discounting has gone down from Rs.400 Crores to Rs.180 Crores that means Rs.220 Crores our bill discounting has gone down and we have raised as short term borrowing like commercial paper and other borrowing of about Rs. 250 – 260 crores. So Rs.260 Crores is something which we have taken short term which is at a much cheaper rate and at this situation, we keep looking at how do I reduce my interest cost, so our treasury found that today commercial papers available around Rs.6.70%, so we said okay just

take commercial paper and bill discounting is up to us, tomorrow if the commercial paper rate goes up to 7.5%, we will stop commercial paper, go back to our bill discounting because that limits are anyway available.

**Rishikesh Bhagat:**

Thank you.

**Moderator:**

Thank you. We will take the next question from the line of Achal Lohade from JM Financial. Please go ahead.

**Achal Lohade:**

Thank you for the opportunity Sir. Would you be able to give us the revenue mix between fans appliances, lighting and Murphy Richards for the quarter?

**Shekhar Bajaj:**

Our lighting, previous year was Rs.105 Crores has gone down to Rs.92.7 Crores, appliances from Rs.300 Crores has gone down to Rs.270 Crores and fan is from Rs.108 Crores has gone down to Rs.91.5 Crores and MR has gone up from Rs.52 Crores to Rs.59 Crores.

**Achal Lohade:**

And is it possible to estimate the excise duty component in these total revenues for Q2 FY2017 so that we can make up in terms of product wise I know you said 10% you can straightaway add I was just curious if you could get the excise duty for those products for Q2?

**Shekhar Bajaj:**

It is just estimate because excise duty is the known factor, Now we are only talking about the selling price and 10% here our actual cost which is excise and VAT was a little lower, may be 25%, 26% which now it became 28% and therefore we had to reduce our price may be excise for 7%, 8% and net 10%, 9%, but our realization has gone down to 10% that is a factual situation.

**Achal Lohade:**

Fair point. Coming back to the input credit the one time you booked for consumer product, you said about out of 3%, 3.5% , above 1%, 1.5% is sustainable while 2% was one time, is that right understanding Sir. So that is about Rs.10 Crores right?

**Shekhar Bajaj:**

I am trying to see that in terms of our operation, how the things are. So I am saying 1%, 1.5% is the sustainable margin improvement others is something which according to me may not be sustained, if we end up at 2% positive you cannot complaint, but if you say last time in the first second quarter you have 3.5% better what happened to you why have you now gone down to only 1.5%, I am giving you a warning in advance, whereas this 1.5% you should still say well done.

**Achal Lohade:**

Fair point. No, the reason why I am asking Sir is basically there are three, four variables which have played out for the quarter (a) is the early festival better revenues (b) is the denominator is deflated because of the GST and (c) because you have the input credit. So what I was trying to figure out is basically what is this one-time credit what we have booked, so that is about 10 Crores?

**Shekhar Bajaj:**

I do not know exact number. I am saying only in terms of sustainability. How much is the amount of credit has been done. We do not have it and there is some positive, negatives so that is why this is a net situation you are talking about 5.6 is net after all the plus minuses. Some of

them we have taken a hit. In the Q1 we took a hit because we had to give compensation to our retailer, dealers. We gave them almost Rs. 9 Crores. In the last quarter, we gave an additional credit to them because we said we are not going to compensate you, but towards that we are giving on whatever you purchase, I am going to give you, that amount came to some Rs. 9 Crores.

**Achal Lohade:** Got it. Just a clarification Sir, you said 1%-1.5% is sustainable so 6%-6.5% is a number to go with for consumer durables, consumer products division because it was 5% in FY2017?

**Shekhar Bajaj:** For the year?

**Achal Lohade:** Okay, I will come back in the queue. Thank you so much.

**Moderator:** Thank you. We take a next question from the line of Anshuman Deb from ICICI Securities. Please go ahead.

**Anshuman Deb:** Thanks for the opportunity Sir. I had one question regarding the relative performance of the products in your consumer durable segment. So the number that you showed even if you adjust for the GST part, your lighting appliances would be better than your fan so I just wanted to understand the entire transition into LED and the growth that some of your peers have shown in lighting has been excellent so what are your and how has our company particularly taken this LED transition now and what is your take on that?

**Shekhar Bajaj:** See as far as LED is concerned, LED is doing extremely well. Suddenly we did not expect the type of demand. Earlier we have got some good orders from EESL. So our factories were all busy trying to meet that demand. Then suddenly EESL order dried up. For last one year, we got zero order, so our factory which had a capacity to make 50,000 LEDs per day, suddenly got zero order. So the result was that we have to get rid of all the labours, because there was no business and suddenly now this trade has picked up, because now the gap has reduced so therefore now nobody is very excited to go to EESL. Earlier the trade was much higher. Now the trade is gone below Rs.100 so therefore there is nothing exciting for Rs.10-Rs.20 a person does not want to go to EESL. You have to go and meet them, you have to sign some document and also people say we want to go to our neighboring shop and buy it. Therefore now trade has picked up in the month of October, we have sold almost 25 Lakh LED lamp. So it is picking up very well.

The issue is now that we think the market is still growing and now EESL for all title purposes almost whatever they have taken they slowly sold it off, now I do not think any new major amounts are going to be taken because now there is nobody coming to them to buy. Personally I think they have an issue where they have got too much of stocks which they have bought out of excitement and now they have to get rid of it so they are now going the trade way, they are going in petrol pumps and all that. I had personally talked to Saurav Kumar also who is the EESL MD. He said we would not sell in the petrol pumps and all, because they announced that Piyush Goel

went and did an inauguration that we are going to sell to petrol pumps and all. We said you decide are you going to be a distributor of all LED in all India basis, then we will let you take over a distributor, we are all going to be a vendors to you, we will supply to you. ESL becomes the All India distributor of all the brands.

So frankly speaking, the only problem which is happening is that the CFL, from a level of Rs. 300 Crores 2 year back, it will go down to below Rs. 100 Crores this year. So whatever is the LED growth that is being nullified because of the negative growth in case of CFL and GLS is still going to continue for next at least for five years or even longer according to me, but LED, CFL also and GLS and fluorescent tube all are going down, all are showing negative growth, CFL of course is more than 50% down, maybe 60% down, all others will be 10%-15%-20% down.

**Anshuman Deb:** Thank you Sir. One last question, what is our share of LED?

**Shekhar Bajaj:** I think now we will be at least 7% or 8%, I do not think more than 10%.

**Anshuman Deb:** So we have 10% of our lighting as LED right now?

**Shekhar Bajaj:** Means of the market share you are talking about?

**Anshuman Deb:** No I am saying our lighting segment what will be the portion of LED?

**Shekhar Bajaj:** Our lighting segment will be at least 60%-70%.

**Anshuman Deb:** That is what I am saying Sir, going ahead with the transition for us would be higher, the growth for us will be already higher because we already 70-80 and now so the transition should be higher for us?

**Shekhar Bajaj:** Yes absolutely. that is why I said minus 12.3% in the lighting growth because we are finding CFL is de-growing and now...let us say next year, next year anyway the CFL would be so low that there will be nothing negative about CFL. So CFL already have taken a de-growth and it will be all LED growth, only coming, and therefore what you seeing is absolutely correct, And now the pricing of LED has come down substantially, so I do not see further downturn, otherwise Rs. 150 became Rs.100 so even if your quantity went up by 100%, your sales went up by only 50%.

**Anshuman Deb:** Correct. Thanks a lot for the details.

**Moderator:** Thank you. We will take the next question from the line of Jinesh Joshi from Asit C Mehta. Please go ahead.

**Jinesh Joshi:** Thanks for the opportunity. I have one question. One, Sir entire sales get covered by RREP model what kind of sustainable margins are we targeting from the consumer division?

**Shekhar Bajaj:** See by simple logic, unless you are going to have an EBITDA level of at least 8 to 10%, it does not make any sense, because our first level margins are not a problem. Our problem is when we

introduce this RREP model, it has got a very high fixed cost element because you are going down and covering... now we are covering 110,000 outlet. By March, we will cover 160,000. So 160,000 outlets to be covered every week, the number of people required is so huge so our overheads initially very high. Now when the same distribution model starts improving its productivity, by instead of somebody buying 10,000 units, he starts buying 15,000 or 20,000 and therefore each one today...today on an average, a person can cover 100 outlet per week and therefore used to four cycles every month. So you imagine that if you are covering 160000 outlets, you need 1600 sales people. So you imagine that that type of cost is there in the distribution.

**Jinesh Joshi:** Right, so we are targeting at our RREP model we get over by say end of FY2018 so in FY2019 can we expect this 8% to 10% kind of margin which you just guided right now?

**Shekhar Bajaj:** Absolutely, it has to be because there will be no further major fixed cost and we start having growth of 15% to 20%. See the point is just now, because our fixed cost is getting divided over a negative growth. Now we are looking at secondary sales. Secondary sale is anyway having already positive happening but because our primary sale is what you keep looking at and therefore our fixed cost divided in the primary sale. Now once our RREP is through, our primary sale and secondary sale there will not be much of difference because we are not going to dump anyway which is our system of RREP, there is no dumping they take what is required, it is a replenishment model and therefore primary and secondary sale will start matching and that is what we are expecting that we will start having 15%-20% growth and therefore if your fixed cost was 13%, it will go down to 12% then immediately your margin goes up by 1%, that is how it works.

**Jinesh Joshi:** Sure. In which the wholesaler goes out of the system post RREP, will the retail margins increase or will we pocket the difference?

**Shekhar Bajaj:** For whom?

**Jinesh Joshi:** With wholesaler moving out of the system after RREP, the wholesale margin, will we pocket that difference or will the retail margin increase?

**Shekhar Bajaj:** No, we have already done most of it so therefore what we are giving extra discount therefore if you look at my margins compared to last year or year before it has already gone up. Now problem is not that our margin is down, margin is better because I am not giving those extra discount, I am not giving that extra wholesale discount, all those things have been removed. So therefore our margins have gone up. First level margin has gone up across. What has happened is that because of this distribution model, my fixed cost have gone up by 2% to 3% so whatever improvement in margins will keep eating up by fixed cost. Once I start having my growth coming and I do not need to add any additional too many people in my fixed cost, then approximately substantially start going up and then that 8% to 10% type of EBITDA level is

something which is absolutely possible, 2018-2019 is something which we would really look at, I do not see if we do below 8%, I would be very disappointed.

**Jinesh Joshi:** Sure. And this capital employed in this division has gone down substantially post implementation of RREP, so what kind of sustainable ROC are you targeting from this division rather what kind of capital employed will be there in this particular division?

**Shekhar Bajaj:** Two things have happened one is because I have gone for channel financing, because of that in this RREP model frankly speaking I do not need any funds because most of the dealers will be except for my inventory, the outstanding will be almost negligible except for some markets or some other dealers we may have to give credit, otherwise most of it will be all financed by the bank. The second is if I bill discounted then I get 30 days a normal trade plus 90 days, so I will get 120 days and my cycle is not 120 days so I really do not need any capital at all, except for if I got some money blocked up in my factories or something then it is a different ball game but otherwise for my operation for what I am buying outside and selling it I do not need any fund so therefore the Return on capital employed will be in the current year in case of consumer products will be anything from 80% to 100%.

**Jinesh Joshi:** Okay Sir, thanks a lot.

**Moderator:** Thank you. We will take the next question from the line of Nilesh Bhiaya from Macquaire. Please go ahead.

**Nilesh Bhiaya:** Yes, thanks a lot again. My question is on this whole market share thing, once our RREP program is done, which segments you are most confident about in terms of gaining market share and if you can talk about that in context that in the last two three years, you saw a lot of new players new organized players coming into various segments and so are we going to take market share from them or there is still lot of unorganized players where we kind of regain some market share?

**Shekhar Bajaj:** There are two three things, No.1 our focus is not on the main metros, okay. We are not saying we are not going to sell in the metros, but our emphasis is on what we call is 'Rurban' that is nor Rural nor Urban, we call it a Rurban, that is where the market is and that is where the money is and that is where the presentation is going to takes place and those are the dealers, retailers who are one-man show. See in Bombay you may have a fan dealer, you may have appliance dealer, you may have a lighting dealer, but once you go to a rural market whether it is Nasik or anywhere the person is dealing with all products. So he finds as a retailer, when I go to the market and I will buy in that, here is a company who is offering me full range, all appliances, all fans, all lighting, so he says great. One person come if he gives me all the requirement, he comes to me every week here I have to go and talk to the wholesaler of Havells or Usha and all, have to place order, have to send in the money, keep a track. Here I do not have to do anything. The distributor comes with his van. He takes the order, supplies to me, within 48 hours, maximum 72 hours we deliver those goods, that whole cycle is something which gets him very excited, he says

why should I deal with any other company, I am very happy because here somebody gives me home service, and I know that he is going to come on Monday 10.30, so I will say 10.30-11 is Bajaj time, finish. So our people time is they still ...otherwise if I go to a market and I go to a shop, he says sorry I am busy I have got some other customer, he has gone to the market, he has gone to the bank or whatever it is, so our people are waiting sometime two to three hours waiting for him to come. Here everything is pre-planned he knows that he is coming at 10.30 to 11 for me. So he keeps it ready, this is my order, this is my payment and that will be end the game. So life becomes very easy. The distributors are very happy because they say we are not dumping we say whatever you want, you want 100 take 50, we are again coming back next week why do we want to buy 100. So he can pay on time because he has not been dumped what has happens is why people do not pay because they need 100, you give him 200, he cannot pay because money is blocked up, lying in his godown. We say in the godown you should not have materials what you do not need, whatever you do not need send it back to us, That is our objective.

**Nilesh Bhaiya:** Just a follow up on these kind of markets currently what are they being serviced with, are they smaller unorganized dealer, very, very strong presence you believe in these markets or it is basically just a trickle from the larger brands and distributors kind of coming there?

**Shekhar Bajaj:** No, they have local brands but frankly speaking, over the period, these local brands, especially GST coming in they are mostly dying out. There would not be too many unorganized brand because the volume gain, their quality, their service all those aspects which are there and people keep rotating, now if I am in Bangalore and I am buying something from a local vendor who is in Bangalore and I get transferred to Chennai or I get transferred to Delhi, who is going to give me service. So you know people are very worried about the service setup. So we are giving home service, we are giving you home delivery, we are giving you products in a competitive price, what else you want ? You have a good brand equity, we are creating a consumer pull, all those things which are required for a retailer to be able to sell their product. We are offering him the full range of items that we have got for the retailer bonding scheme we do not have time to really discuss which is something bind them to us so that is something we introduced recently which is also exciting the retailer, he says with this bonding scheme, I will only be bonded to you so I am not interested in dealing with other companies, so that is what we are hoping, so next two quarters you would see the positive results and of course 2018-2019 would be a Wow year.

**Nilesh Bhaiya:** Thanks a lot Sir.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Amit Mahawar from Edelweiss Securities Limited for closing comments.

**Amit Mahawar:** On behalf of Edelweiss, I thank you all, I thank the management for giving us an opportunity to host this call. Sir do you have any closing remarks.

**Shekhar Bajaj:** All I can say is that we are very fortunate that like in case of those who have been following us for a few years that in EPC I had said it will take us three to four years to clean up the system and



therefore from that just we got old legacy problems so those legacy has been cleaned and now EPC is working well. Similarly in case of RREP we have made out a plan of action and we are hoping that we will be able to successfully do so and we are very happy that it is moving ahead of our schedule. We have now covered as I said 1,10,000 outlets, we have covered about 310 or 340 districts. We are hoping by end of March we will be covering 1,60,000 outlets, we will be able to cover almost for 440 districts in the country, so with this situation I think you can keep making experiments, having a vision you may keep having a thought, but at the end of the day whether you succeed or not only time shows so in case of EPC we succeeded in cleaning our past legacy. Similarly in RREP now we recently where I can say we have succeeded because now we have reached 70%-80% level and therefore by March, we will achieve our objective and then we have to just regularly make sure the outlets keep increasing, each outlet keeps more and more product and more and more turnover per outlet so the 1,60,000 outlet is the average selling 10,000 a month can become 20,000 a month the market is growing, in the rural they have their money, they have their aspiration and we are hoping that that will be the market where easily other new comers are not going to be reaching the multinational brand because it is very expensive situation to go there and therefore that is what I feel that we should be in a position to take care. So with that let me thank you all for joining in this concall and I hope I gave you some ideas to give you an idea where we are moving. Thank you very much.

**Moderator:** Thank you very much Sir. Ladies and gentlemen on behalf of Edelweiss Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.