Q1 2013 Earnings Call - Bajaj Electricals Dt-26 Jul'12

Operator

Ladies and gentlemen, good day. And welcome to the Q1 FY13 Bajaj Electricals, Earnings Conference Call, hosted by Edelweiss Securities Limited. As a reminder, for the duration for the duration of the conference, all participants line are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to, Mr. Rahul Gajare. Thank you. And over to you, sir.

Rahul Gajare

Good evening everybody. I would like to welcome the management of Bajaj Electricals, Mr Shekhar Bajaj, Chairman & Managing Director, Mr. Anant Bajaj, Joint Managing Director and Mr. Anant Purandares, CFO.

Anant Purandare, Chief Financial Officer

Hi.
On to the first quarter earnings of FY'13. We will have opening remark from the management after which we will move on to the question-and-answer session. Thank you and over to you sir.

Shekhar Bajaj, Chairman and Managing Director

Thank you I am Shekhar Bajaj here and good afternoon to all of you.

First quarter in terms of the total market has been quite buoyant in terms of our top line and we have grown by 22.4% and we have achieved sales turn over 666 crores with 29% growth in terms of our consumer durable and growth of about 19.8% in case of our lightning.

The engineering projects has been flat we have grown by only 8%, 9% but in the engineering projects which I had earlier mentioned that we expect that the improvement over last year will take place in terms of our EBITDA margin have slightly improved it's nothing to shout home about form a level of we have lost 7.5 crores in the first quarter last year it's gone down to 7 crore.

The second quarter also is expected to be weak as far as engineering project is concerned however from the third quarter onward we start looking at improvement but unlike last two quarters when I had mentioned that for the current year the engineering projects would look at our 1,000 crore turn over with our EBITDA of about 80 crore.

Personally looking at market and the type of margins that we are having in our orders in hand.

I think it will be difficult to reach those levels, so it would be lower than that 80 crores which I've projected. It will much better than our current last year's 26 crores but exact number is very difficult by the third quarter we'll have a better visibility as to where we will because

So that have been keep people informed.

As far as the appliances Morphy Richards and fans are concerned last year was very bad for the fans. However, this year the fan market has picked up the summer has been extended and therefore there is a growth of over 20%.

We think that the consumer durable should overall grow by minimum 20% for the whole year as far lightning is concerned the light sources should also grow around 20% with Luminaires grow anything around 15% and engineering projects though we are looking at 1,000 crore against 38 crore, 40 crore last year I'm personally not going to push for the top line I'd rather do a little less business but make sure that we do business with proper margins that's why third and fourth quarter are very critical for E&P to show much more improved performance.

But otherwise generally our trust is in on the rural market and rural markets continue to grow very strong. And with our new initiative by starting the Bajaj World which are exclusive Bajaj product center which is going to sell only Bajaj products and we are going to have we have already opened 15 of them till now.

We are expecting open another 50-55 more so we should have by 70 to 75 Bajaj World at least 50 of them be in the rural markets.

We've decided that is where our exclusive showroom makes all the difference so that the whole range of our products can be available.

And the aspirations were always there but now they want to buy it. Lot of money is available in the farm sector in the rural markets. So we are hoping that the maximum growth will come out of our rule penetration drive.

I thought these are opening remarks which I wanted to start up with.

Now it is open for any questions. Thank you.

Questions And Answers

Operator

Thank you gentlemen. We will now begin the question-and-answer session. [Operator Instructions]. We have our first question from the line of Anubhav Gupta from MayBank. Please go ahead.

Anubhav Gupta

Hi. Good evening everyone. My first question relates to the consumer business. Over there the quarterly revenue increased by 25% on Y-o-Y basis. Can you segregate between the volume and value growth?

Shekhar Bajaj, Chairman and Managing Director

The price increase is between 5% to 10% depending on whether it's a domestic item or it's imported. Imported costs have gone up by at least 20% to 25% because they exchange it alone and therefore because of that increase of 10% minimum has been taken care of. Therefore, one of the reasons why the margins have been impacted is that whenever the import content is higher, in those cases, I can't pass on all the price increase which has overall types of anything around 1%, 1.5% and that is otherwise the domestic, most of the cost increases can be recovered from the market. And therefore out of that 20% growth that we are talking about maybe I would say 10% to 12% will come out of physical growth and 5% to 7% maybe because of the price increase.

Anubhav Gupta

Right. What is import content on quarterly basis in terms of values?

Shekhar Bajaj, Chairman and Managing Director

Import content, okay, as far as consumer durable, if you take fans about 10% to 12% is the imports. We are still talking about not the content means we are buying finished products. We are talking anout finished products which are being brought by us. So about 10% to 12% is imported for fans, about 20% is for appliances, and about 40% is for mufti-rigid.

Anubhav Gupta

Right. Okay. So there was a reason that the EBITDA margin in this business decline by 100 bps on Y-o-Y?

Shekhar Bajaj, Chairman and Managing Director

Yeah, 1.2 yeah, correct.

Anubhav Gupta

Okay. So if we take this import contribution to the total revenue and that would be a new fair -- like 30%?
No. Average would be say 20% and so 20% if I have not been able to pass on the cost increase of about 5%, it means the different of 1%.

Anubhav Gupta

Right. Okay. And sir, why is that the company is making operational loss in Q1 in contracting business like in Q1 FY12, there was loss of 70 million and now it's 64 million?

Shekhar Bajaj, Chairman and Managing Director

No. it's reverse. It was 75 million now is down to 7 million.

Anubhav Gupta

So why is it like the loss gets into only in Q1?

Shekhar Bajaj, Chairman and Managing Director

If you see the statement last year in the final last quarter, we had a turnover of about 325 crores, and there was a positive EBITDA of 20 crores, okay. While in this year we -- our turnover is only I think 123 crores. From 123 crores, our fixed cost remains the same, and also when we do our very heavy billing in the last quarter, the interest burden of the sales which takes place in the January, March comes in April, June. So we have a interest burden of the earlier sales in April, June plus because our turnover is much lower and our fixed cost obviously continues to be strong, that in fact the first quarter is always weak, second quarter is better, third quarter is much better and fourth quarter is the best.

Anubhav Gupta

Right. And my last question is on your statement on Bajaj Ventures, you said you will be filling 51% stake. What is the realizable value one can assume?

Shekhar Bajaj, Chairman and Managing Director

I think we'll keep it - let's keep it in a surprise, it's quite good. That's all I can say. That it is something which we've decided. And we got 50%, not 51%, otherwise it will be subsidiary, it's not a subsidiary, we bought 50% holding which we will...

Anubhav Gupta

Okay. What is the value of investments on book?

Shekhar Bajaj, Chairman and Managing Director

15 crore.
Okay. All right. Thanks a lot.

Shekhar Bajaj, Chairman and Managing Director

It will be more than that, so we will make some money, don't worry. We hope that by end of second quarter, this deal should be through.

Anubhav Gupta

Okay. And what is Bajaj Ventures into?

Shekhar Bajaj, Chairman and Managing Director

See Bajaj Ventures was organically called Black & Decker Bajaj, it was a joint venture with Black & Decker for making power tools. Then later on Black & Decker decided to go out of India and they sold up their 50% to one of our Group company sister company. So we've got 50% -- 50% is held by another Bajaj Group Company.

Anubhav Gupta

Right. Alright.

Shekhar Bajaj, Chairman and Managing Director

We just sold our Black & Decker. Then Black & Decker, they continued through us they were doing the Black & Decker brand continues then they've now decided to commence themselves and this is not our core business.

We are not in the power tool business. So therefore we decided that let them do what they are strong and let us do what we are strong and let's get some cash.

Anubhav Gupta

Alright, thank you.

Operator

Thank you. Our next question is from the line of Sonal Kohli from AIM Capital. Please go ahead.

Sonaal Kohli

Thank you for giving me this opportunity. Hello?

Shekhar Bajaj, Chairman and Managing Director

Yeah Sonaal please go ahead.
Yeah see what I wanted to understand was that what is the the margins we are looking in the consumer business going forward.

And would there be any further price hikes and what are the last price hikes? And I would like to mentioned and I would like to mention that I am no more with AIM Capital.

Anant Purandare, Chief Financial Officer

I can start with starting with the last part of your question first, in fact in the early July in the case of consumer durables specially appliances already been one round of price increases in the market. And there's was another one expected early in the month of August as well. And essentially as far as the margin is concerned, we expect to after doing these prices increases and the prices are stabilizing little bit more, at least couple of percent increase in some of the products in terms of the overall margin.

Although, it may not be a exact situation for all products but it will be certainly for some of the more important products which tend to give good margins to the views especially appliance and as far as the overall product is concerned I'll also like to take this opportunity to announce the fact that we on 25th July inaugurated the glass-lined technology factory in Greater Noida which is a joint effort of the Bajaj Electricals along with its vendor.

And essentially this will in the long run help in import substitution because this product the glass-lined technology water heater at this point of time completely important from China which once this product from the factory actually stabilizes we look at completely eliminating the importing of glass-lined technology, water heaters from China.

So that clearly from China. So that clearly would increase the margins for that product as well and in fact there are many other such products which potentially will come into been made in India for example we are also exploring the induction cooker which right now gets imported fully from China. We are exploring how that could be indigenized. So to that extent that also will become a product which will get an import substitute because once you make it India you automatically will get some amount of benefit in terms of - exchange risk will automatically diminish quite substantially and as far as the product mix is concerned that we are working on quite carefully so that we really try to make a better impact on the products which have a good margin and which are selling well.

And also we are in the process of rationalizing certain SPU's which are slightly slow moving or which tend to not sell often throughout the year and segregate that aspect because we are in the process also implementing something called theory of constrain which automatically here is actually giving us a good idea which product will not sell well.

So we will actually segregate that into ABC kind of categorization so that certain product which really don't send will actually able to we will remove from our portfolio or at least not make it as a focus area.

Sonaal Kohli

Sir the price hikes which you had mentioned about did they happen between the quarter beginning of the quarter?

Anant Purandare, Chief Financial Officer

In the beginning. It happened the first one happened the main one happened in the beginning of July. And the one expected in letters are going out now and around the and it should get fully implemented in the first week of August approximately.

Sonaal Kohli Corporate Participant

Very small one, not a significant one but that was more for fans and more for lighting that is for CFL's. That we had a little bit in June but that will largely happen in the month of July and August. Especially more in August because now we find the pricing a little more stable, and we can try to increase it little better. But of course we will still have a lot more opportunity to increase price because clearly all the raw material pricing might be, I mean stabilizing that the other factors like freight and element et cetera which actually will still effect the CFL pricing.

So clearly, there is scope for increasing price further. But clearly right now, we have only made plans for July and August, certain amount of price increase which the market can observe because we obviously, we clearly look at market operating prices are basis to really do the price increase and not a price increase on our MRP base because end of the day market operating price is pretty much the basis on which stability will come to the pricing.

Sonaal Kohli

Sir, is the entire industry doing the price increase or are with one of the few people?

Shekhar Bajaj, Chairman and Managing Director

Well there is a certain amount of increase in the market for various brands but I mean we certainly can't, I mean speak for the other brands of the market how they would look at their strategy. But clearly there are certain areas where we as a one of the leading brands, looking at trying to see how we can reduce this burden of guarantee which clearly is one of our largest worries when it comes to CFL because it is a big cost of servicing of guarantee which you'll have to give today -- because of how the market forces were.

So, we clearly as a company, are looking at how to reduce the cost of guarantee, and that's something which I believe lot of people in the industry probably in their own silent way are trying to do it. But so far I don't think in industry we have been successful to try, and in fact we did about a year back, we did try to give no guarantee in Bihar and Jharkhand, and it worked for sometime but then eventually when you see that entire market is still giving it, it was difficult for us to sustain it.

So, we look forward at some day if that guarantee aspect can be sorted out, I think overall lot of things can be become more easy for the industry in terms of CFL as our specific product. But the good news is there are products like LED which is making a very good in routes and but the GLS bulb in the form of LED version is now starting to make its way in the market. So the GLS and the CLF is pretty much going to be there forever. But in the long run, they have a good chance that the LED bulb will become a pretty good product which might, because the prices are, a price factor is becoming better and better. So to that extent, a CFL and a LED bulb in the not so far distance may actually compete with each other on price because the difference is quite narrowing down and allowing fast speed.

On the contrary, the CFL pricing has started to rise and the LED bulb price is actually reducing. So to that extent, there might be a time when the customer might choose between a CFL and a LED bulb. So obviously we hope that they will take more CFL because clearly LED bulb world mean that we will have to wait for the next sale for a while because it has a substantially higher number of hours of burning life. So to that extent, it is something which is exciting to sell, but it doesn't sell in that often when to sell it.

Sonaal Kohli Shekhar Bajaj, Chairman and Managing Director

Lighting, the total, you are looking at the margins or you're looking at the turnover?

Sonaal Kohli

Sir, margins.

Shekhar Bajaj, Chairman and Managing Director

Margins, we are looking at may be on lighting about 7.5%, in case of consumer durable 10.5% and engineering projects which earlier we were thinking around 7.5% may be closer to 5%.

Sonaal Kohli

Sir last year on your project business we we had talked about 500 croreGAAP business in a steady state though quarterly we were expecting it could go up and go down.

Anant Purandare, Chief Financial Officer

Correct.

Sonaal Kohli

Considering how the project business is shaping up compared to our early expectations. Have you decided to lower the cap or increase it. What is your thought process on the same. Would you like to lower the capital employed further from the 500 crore target we kept?

Anant Purandare, Chief Financial Officer

At this moment if you see the for this quarter capital employed has gone up to 560 crore and our still objective is to bring it down keep it around 500 crores by end of the year.

Now as I said my second quarter also as far as E&P is concerned which continue to be weak from third quarter it starts improving, when I complete my projects I had 24 TLT sites in the beginning of last year that means in April 2011 I had 24 sites.

By end of this quarter end of the year I expect that the 24 sites 18 of them will be closed as we have only six sites of old left over and there will be another new three or four new orders which may come in during this year.

So we are talking about instead of 24 sites we'll have may be 10 sites approximately at the end of 2012, '13. So once that happens then all the old sites which have been completed funds will start coming in the last 10% which is blocked up will start coming in.

And therefore, our capital employeed should start coming. See if we are going to continuously grow I don't think that we are looking at expecting that we are stuck to 500 crores our objective is the return on capital employed is the critical So if I am going to do 1,000 crore against last year 830 crore I can keep my capital employed at 500 then I would be doubling whatever is my EBITDA margin you can double it -- return on capital employeed.

In next year if I do 1,200 crore then in the next year 1,200 crores it may be difficult to keep 500 even 550 would be perfectly okay.

So it all depends on what is the type of turnover but our objective is clearly the bottom-line not necessary is the top-line which is always earlier we were always saying we must keep growing keep improving our top-line. Now our old focus is gone that we want to have our top-line but not at the cost at bottom-line.

Sonaal Kohli

Sir considering you are paying a very high interest in today's environment interest cost - apparently wouldn't it make sense to for the time being to pay off some of the debt rather than seek a higher growth of project business.

Anant Purandare, Chief Financial Officer

How do save back the debt I don't understand. See here what has happened in the first quarter, is that because our sale is low, our fixed cost continues to be what they are interest cost keeps continuing as they are and therefore it is today not possible for us to return back if you don't do business then you'll have your fixed cost and your losses will go up.

If you are wanting to do it so you must work at better margins but you have to see that you continue to grow. If you don't grow, you'll get in trouble.

Today if we are seeing our capital employed is 550 crore, the total amount of banks drawing is only 300 crores odd, means what that 250 crore is something which we are not using for E&P and that is being actually funded from our own reserves from cash flow which is generating through our other businesses.

So though the capital employed is 550 crores for E&P the bank drawing is only 300 crores. So we already utilizing 250 crores to reduce our financial burden on E&P.

Sonaal Kohli

Okay. Thank you.

Operator

Thank you. Our next question is from the line of Ashi Anand from Kotak India Focus Fund. Please go ahead. Mr. Anand, please go ahead.

Prakash Ramaseshan

Good afternoon sir. And thank you for taking my question.

Shekhar Bajaj, Chairman and Managing Director

Good afternoon to you.
This is Prakash here I've we are sitting together Ashi and me. We represent Kotak India Focus Fund. We were keen to understand sir the degree certainty you have with regard your infrastructure business is adding that's part of the business which most investors are actually trying to see when you get stability and beyond that to EBITDA positive because the other business which is the consumer business, we do understand it has some level of cycles but by and large I think investors are comfortable with that business and with the equity return issues there. So we are trying to understand your comfort and level of certainty on achieving the numbers you put out for this year. And if that doesn't happen, what's the plan B?

Corporate Participant

Okay. Let me tell you that in our total business, if you are looking at 3800 crore business, only 30% of the business and maybe even 27% that means we are looking at maybe a 1000 crore total turnover will come out of E&P. Of that also there are three different businesses, one is the high mast and poles, then there is a special project including rural electrification and third is TLT business.

Our TLT business is the only one which is the one which all of us keep talking about because that's where our money is getting blocked up, that is where our margins are under pressure, which is in the totality, it is only 10% of the total turnover of the company. Out of the 3800 crore turnover in the current year, we are not looking at more than 350 crores, 380 crores coming out of TLT business. That means we are seeing 10% of our total turnover is there.

See even if we are out of 10%, it makes a difference only 1% in that totality. So I'd think we are making too much out of it. What has happened in the last one year is that we have had lot of projects which were in the pipeline which we needed to complete, and for that we have to take a certain amount of hit if I use the word. Because for completion, you have to put in the extra efforts, you have to go and add the extra labor. All those things which have been done which I said by end of second quarter, most of those old projects would be complete, whatever is little left over will be completed by third quarter.

And therefore, there will be no bad history, if I use the word. Earlier this was the most profitable business that TLT business had given us lot of margins because we -- but that -- because cost over run took place, that project got delayed plus the last 10% did not come. Therefore, it is showing to be not a good business, but I can assure you that after the fourth quarter, the TLT business also will be looked at as a nice business to be in.

Anant Purandare, Chief Financial Officer

I'd like to just add on this one aspect. This is Anant here. And that aspect I'd like to add is that once when we did this basically restructuring of the company and created these two verticals of B2C and B2B, very clearly as a company we have seen lot of added synergies which have comes through in the, I mean in the first quarter.

And of course the full effect of that you might have not seen it yet. So, realistically I mean it will take about another quarter, may be a quarter and a half because we really see the true advantage of in terms of number wise, but very clearly like for example, today our high mast which we sell through I mean contractor and through a different basic route. Now one of the thing which clearly is looking as a good opportunity is how to combine that with our luminaire business and that clearly will create a much much better synergy and how we'll actually approach the thing. Because as you well know that the LED for business-to-business that is B2B business is Mr. Lalit Mehta and the fact that both engineering projects and luminaire report into him.

The synergy has clearly starting to show. Of course it doesn't, it's not a magic show so to that extent it takes a little time before it's fully gets the advantage, but clearly the product synergy is very evident and teams are aligning how to maximize that alignment. And clearly even the same case is come for our projects which we are taking. We have made it very, very clear that there will not be projects taken less than a certain margin. And to that extent we are very Because we realize that that really is our situation about closing the I mean projects on time which really eventually killed us when it comes to the bottom-line. It starts off with a brilliant margin and it just gets kill because projects go on and on and on, and don't get closed. So clearly on execution emphasis has been very heavy and that's why lot of the new projects which we have taken are clearly going to complete in time and it will be completed with the correct efficiency.

So that the same team can be utilized in many projects rather than locking too much of resources in one place and to that extent over runs creating that extra interest cost et cetera which clearly does not help anyone.

And another aspect which I would like to just add for your knowledge are may be understanding is the fact that 2nd of April we started exports in the company and we have really done some good stuff in first quarter as you know it was 13 crores plus of exports.

And in fact in specifically engineering project there was a very large order which got delayed due to certain insurgency in the target for market and that in fact also will now help in terms of lot of the orders which were already in hand and did not get dispatched, will get dispatched in the next one or two months.

So that also will actually add to our over all sale because of profit margin in that particular project is very, very good and that will add up in a big way and not only that we also are right now in a major trust on trying to take international tenders in not a big way but at least start off with it which has got good margin.

So essentially it will become a way to really capture the right kind of markets and I mean products, I mean rather than go by every project so have been quite selective and wasn't being selective we have really made it now point to have a very comprehensive review of each site on practically or weekly basis --

So for example I myself actually monitor every side what is up to mark and on a weekly basis. So it's almost like the dash word which is now really keeping us very, very up to date on what is the real situation and frankly it is a situation of not being experienced in TLT before which now over the decade of being in it we have learned what is required and what's not required in those situation and to that extend we've really started monitoring in the correct way.

Because I believe in the case of special projects or Highmast we've been there for a really long time. So we know what is the nuances of running those businesses. And clearly may be we've learnt it the hard way but clearly we know now much more of how to not do certain things so that we really do what is required.

And so clearly what the MD also just said, we clearly will come back strong and I mean along with our B2C businesses which is the other I mean the two segments of lighting and consumer durables we clearly look at the company coming back very strongly even if we don't get our 3,800 crore we clearly look at get in the bottomline.

And I think if you get the bottomline you certainly should be happy.

Anant Bajaj, Joint Managing Director

Sir, thank you so much for your explanation. I think are only constant re attrition is that there is only 10% of the company in the TLT business and that's the only part actually in the overall scheme of things which is not completely kicking for us the investor. We do appreciate all the attention you giving it. And we do hope that over two or three quarters whatever challenges you have in the business will get erased. All the very best.

Anant Bajaj, Joint Managing Director

I think we should see after the fourth quarter results or ever after the third quarter results I think it will be good to discuss the same again, okay.

Anant Bajaj, Joint Managing Director

Thank you so much.

Operator

Thank you. Our next question is from the line of Sagar Parekh from Enam Holdings. Please go ahead.

Sagar Parekh

Yeah, good evening sir. Sir my first question is based on the fact that you mentioned that in that consumer durables, you said that 10% to 12% of fans is imports, 20% of appliances imports and 40% of Morphy Richard, so what do you mean by that is basically the finished products that you import, right? Am I correct?

Anant Bajaj, Joint Managing Director

That is correct. Absolutely correct.

Sagar Parekh

But then there would be some parts of your which would still be exposed to foreign currency for example when you steel and copper and everything is still the pricing is done is dollars, so even when you are doing it in India, the vendors would still be quoting in dollars, vendors buy the copper and steel. They would still be buying in dollars so you would still be exposed to the foreign currency. Am I right?

Anant Purandare, Chief Financial Officer

Correct that is why I said that for domestic items there would be price increase of around 5%, for import is 10% because there is a value added which takes place as far as in the domestic, the copper content, the steel content but at the end of that there is value added where there is Indian rupees, whereas labor other things. While when we are importing from China, the total product when we are importing in terms of dollars because the dollar-rupee has depreciated versus dollar the total 100% of product will get the exchange hit.

Sagar Parekh

Sure.

Corporate Participant

While otherwise only the raw material and some component that means say 50% of the product only gets the exchange hit. That's why I said about 5% increase in case of okay.

Sagar Parekh

So 50% of your...

Corporate Participant

I'm just giving you just a bulk --, but to give you the exact number somewhere it can be 30%, somewhere it will be 60%. But basically in a imported product is the 100% of the product whether it is a labor or whether it's raw material. Whatever is the price we had contracted at $10 which was costing me for Rs. 420 for Rs. 30, now it cost me Rs. 550.

So that's what is happened, so there is nothing to do with the costing. Both are the same, the dollar prices remains the same.

Sagar Parekh

Sure.

Corporate Participant

It is the only exchange rate which has killed me.

Sagar Parekh

Sure.

Corporate Participant

Here, if the copper price goes up only the copper has to give a higher price because of the foreign exchange fluctuation but not for the other cost which is the Indian rupees. That's why I said there it may be 4% to 5%, here it will be 10% to 12%. That is the type of differentiate because of this difference which is taking place.

Sagar Parekh

Sure. Understood. So in the -- basically you said that in early July, you had one round of price increase. Can you just quantify what much was the percentage wise if you can?

Shekhar Bajaj, Chairman and Managing Director

Partly done because there are so many products something...

Sagar Parekh

More than average?

Shekhar Bajaj, Chairman and Managing Director

No, I can't this average business. That's why I give you an indication of 5% and I told you imported 10%, that's approximate can be somewhere 6% depends on competition, depends on how much is the copper content. All those things it matters, so it can be 3% to 5%, it can be 8% to 12% in the imports. Each item wise, very difficult how much is

Corporate Participant

And what we certainly can tell that the product what we have given the price increase in, it has all been completely based on MOP which is Market Operating Price rather then MRP. So which means we have really tried to keep the stability on the actual pricing at which the product would get sold in the market. So to that extent, we have been very sensitive to that factor. And to that extent, each product has been dealt very differently because how our fans sales or appliance sales or even within on appliance, how toaster would sell versus steam iron is very very difference.

So to that extent we've been very categorical on each product and each type of product, what is the treatment required. So to give a specific number as what CMD said correctly, it's not possible to really pen out a specific number to it. But very clearly MOP is our basis which is very important. So that the price does not eventually give too much of volatility in the physical price. Because one of the thing what we certainly like to do in the market is to keep a very stable pricing anywhere on India. So which means that basic price which is the MOP price does not get messed around with anywhere in India.

Sagar Parekh

Sure.

Corporate Participant

So that's very much what has happened very effectively and that's why sometimes we've been little sluggish if it is right to use the word to change the price because we want to see and we absolutely sure before we give too much of a price increase because again and again giving a price increase is again a very dangerous thing to do. So we try to keep less number of price increase and instead try to see how we can make concentrated effort on certain specific product types which give a better margin.

Sagar Parekh

Okay. And in your glass-lined technology based water heaters and your induction cookers, how much percentage I mean if you can give us value also it would be great, how much would that be in sales?

Corporate Participant

Values in terms of the margin or sales value?

Sagar Parekh

No, sales value.

Corporate Participant

Hard to say, I mean what would be the exact numbers for the...
Approximately is also fine.

Corporate Participant

Frankly, we didn't carry that number along. Can we get back to you with that number, we will email it to you?

Sagar Parekh

Yeah, sure. That would be great. Basically, I just wanted to understand that out of your consumer durables business how much if these two would be import substituted that would contribute a lot to your EBIT margin improvement. So I wanted to understand how much of this is as percentage of your total consumer

Anant Purandare, Chief Financial Officer

In fact today in terms of the total sale of our products water heater and category is about roughly 20%.

Sagar Parekh

Okay

Anant Purandare, Chief Financial Officer

And in the 20% glass line is still a very small part of it because as a market in India it is clearly a growing segment but it is not yet a majority segment as in because there's traditionally it has to be copper tank then the copper tank moved over to stainless steel

And now with the glass line it is becoming again MS that is mild steel tank. So very clearly the market is shifting towards this because the global and it clearly on the last line.

And at this present moment what we are getting from China is little more premium end so to that extent it is not something which we are having a big percentage of the total sale.

But now that it would made in India we will clearly have a scope of having multiple segment addressing because once we have the basic price control better, we can always obviously position it in multiple way of thing and also the availability will be much faster so to that extent will able to plan better

Because clearly it is still a relatively new product for the market was there is not enough volumes. But it is clearly a clear sign that it will become a big volume product in a very near future. Because there are two other manufacturers in the market we are not the first to comment

But clearly the technology which we are using but clearly the technology which we are using is the not with the other two so to that extent our technology has a little more advantages in our competition and that's what we are actually putting our money on that technology is going to be our driver and not really the product alone.

Sagar Parekh

Okay.
Because it's a product combined with the right technology at the right price, and the right market is going to make the difference.

Sagar Parekh

Sure so, this is 20% of your consumer durable sales right.

Anant Purandare, Chief Financial Officer

Yeah

Shekhar Bajaj, Chairman and Managing Director

I want to add something see let me give you what is our philosophy so what you are thinking in terms of the calculation may not work out. We are believing that we should not wherever I can do some value engineering, I can do some cost reduction, I must try and see that at least part of it if not most of it should be passed on to the consumer that is our objective.

So if I am in the position to reduce cost currency to 4% if there is a cost increase coming up that will not increase the price. But if there was no cost increase then I must pass on in the market place. Our objective is to increase amount of profit.

We always say I want to increase the amount of profit not percentage of profit. I want to increase by market share. And that is why the growth which we talk about 20% 25% which is happening year after year is because our attitude is we should not become greedy and try to make too much of profit in terms of percentage.

We should have a bigger base more consumers must use our products and to that extend we make more profit. We want to maker more profit but it is not by increasing percentage of profit but to increase my total turn over to give me profit.

But if business is not giving me profit I am not interested in doing that business. But I don't want to profit here if I use the stronger word I want to profit and therefore so I am making a reasonable profit I will like to pass it on to the consumer and say okay if I am number two in the market for induction cooker next two years I must become number one.

For example in case of Luminous for next year we want to be next year this is after two years we will be number one in Luminous. We are clearly number one in appliances, we want to be number two in fan next year.

So our objective is we are looking at market share, we are looking at top line growth at the not at cost of bottom line. But if the bottom line is secured then I would like to do the top line. Like in TLT because I not making any bottom line I am not interest in top line.

Once I have got my bottom line covered then of course I am going to push my top line and see how much growth I can do.

So in induction cooker we are number two in the country we want to be number one. Water heater we are number one, in mixer grinder we are number one, in OTG we are number one. So that we will continue to be number one. But where we are not -- we are number one. Wherever we are not number one and our objective is to be number one and we keep calculating this like part form that 3%, 5%, if I'm working at 20% and I give up 5% deduction, I worked at 15%. So my margin is going down by one-fourth.

Analyst

Sure, understood.

Shekhar Bajaj, Chairman and Managing Director

That's our objective and that's how we've been working over the years and that's why we continue to grow and continue to take care of the bigger and bigger market share.

Analyst

Sure, understood. And lastly sir, if you can give me the value, I mean the percentage breakup of growth of consumer durables in terms of fans, Morphy Richards and consumer -- other durables?

Shekhar Bajaj, Chairman and Managing Director

See, there are three items in consumer durables.

Analyst

Sure.

Shekhar Bajaj, Chairman and Managing Director

One is Bajaj Appliances, then this Morphy Richards and there is Bajaj Fans.

Analyst

Sure.

Shekhar Bajaj, Chairman and Managing Director

So in case of fan, the growth is 13%.

Analyst

Okay. For the quarter?

Shekhar Bajaj, Chairman and Managing Director

For this quarter, yeah. Correct.
Okay.

Shekhar Bajaj, Chairman and Managing Director

In case of Morphy Richards 32%, no, Bajaj Appliances 32%.

Analyst

Okay.

Shekhar Bajaj, Chairman and Managing Director

And in case of Morphy Richards, it is 29%.

Analyst

Okay. And cash and debt balance on your books?

Shekhar Bajaj, Chairman and Managing Director

What's that?

Analyst

Cash and debt?

Corporate Participant

Debts are around 150 crores.

Analyst

Okay.

Corporate Participant

And cash balance is around 35 crores.

Analyst

35 crores. Okay. And your order book in your E&P business breakup and the number?
450 crores is the total order book.

Analyst

How much?

Corporate Participant

450 crores.

Analyst

Okay.

Corporate Participant

And we are in a L1 position in above 700 odd crores of business.

Analyst

Okay.

Corporate Participant

Then lot of I mean unopened tenders are still there. So that number I can't send as right now. And in terms of the break up of orders, we have I mean large chunk of orders in the TLT area and special projects that and essentially high mast and street lighting is I mean relatively less among the three, I'll give you, one moment, specific number.

Corporate Participant

By the time he is giving you the number, let me take you my expectation is that many of these L1s which were supposed to come in the first quarter have been delayed, but they should be finalized in the next couple of months. So by end of September anything between 700 crores to 800 crores should be the order book. This is what my expectation at the end of September. We should have our order book of about 700 crores to 800 crores.

Analyst

Okay. Sure. Understood.

Corporate Participant

And so this is the order book break up. The 450 crore consists of 235 crores of, okay, so 235 crores of, sorry 257 crores of special projects, 136 crores of transmission line towers, and high mast street light is 60 crores.
Okay. Understood. Thank you sir. That's all from my side. And all the best.

Corporate Participant

Thank you.

Operator

Thank you. Our next question is from the line of Rahul Gajare. Please go ahead sir

Rahul Gajare

Thank you. Sir, I have got two questions. One on the growth and margin. On the consumer, you said that you will do a 20% growth. Last year we did Rs.1,500 odd crores. So essentially you are saying that we will do 1,800 crores.

In the first quarter, we have done roughly 400 crores, which means that for the rest of the year, are you looking at growth of 15% in the consumer durable business? That is one.

Second, your margins in the first quarter for consumer durable was 8.5%. For the full year, we are looking at a margin of close to 10.5% which basically means that for the rest of the year, your margins should be significantly higher than 10.5%, 11% level -- significantly higher than between 10% to may be 12%, 12.5%. So these are the two questions.

Shekhar Bajaj, Chairman and Managing Director

Okay. See, what happens is that when you talk about the margin, net margin, it is after deducting the fixed costs. Now what happens is that when your turnover is higher, then your fixed cost percentage comes down, and therefore your margins improved, that's whether you see our TLT or whether I mean the E&P, why is the first quarter so strong, not that we improved our margins substantially but because our turnover was much higher, our overhead got distributed over an ideal volume. And therefore if the fixed cost was under say 10%, now maybe 6%, so 4% you see improvement in margins taking place because our turnover compared to what is the turnover in the first quarter, it is significantly higher in the next three quarters especially third and fourth quarter are very strong quarter and therefore to that extent one is fans, the first quarter is very strong because fan business is very strong.

The first quarter for appliances is more on cooler and cooler normally the margins are slightly lower while compared to that water heater, room heater all those businesses have much better margins.

So our product mix also is going to help us to achieve the numbers which we are looking at.

Anant Purandare, Chief Financial Officer

Rahul just if you see the historical numbers in the first quarter normally in consumer durables we have 9.5% margins, in the second quarter our margins improved to 11%, 11.5% sometimes we are 12% also in September '09 we had 12% margin in the second quarter.

Third quarter again is skewed margin more that 12%. So if you see the second and third quarter give the better margin in consumer durables

First quarter it again comes out because of production is not in favor but of cooler. But now cooler margins are improved because of some re-engineering done. So I think with this we are confident that we should achieve 10.5%.

Rahul Gajare

Right thanks. Thanks on the margins. What about the growth in the consumer business?

Shekhar Bajaj, Chairman and Managing Director

I am saying what we have said is playing conservative what you are saying is that with the type of growth you have had in the first quarter, are you showing a lower growth in the coming quarter the answer is we don't know.

So looking at the total scenario, it's better to say 20% and end up with 22% rather than saying 25% ending up with 22%.

Rahul Gajare

Fair enough sir. Thank you very much.

Shekhar Bajaj, Chairman and Managing Director

Thank you.

Operator

Thank you. [Operator Instructions]. From the line of Kirti Dalvi from Enam AMC. Please go ahead.

Kirti Dalvi

Few questions. I think while answering previous questions you did mention that there was couple of orders. There is one order which got delayed and that's why there is some impact in our turn over margins.

Could you just elaborate in which segment that order was and what was the value of that order?

Shekhar Bajaj, Chairman and Managing Director

Basically we are only talking about orders means E&P. There is no orders of appliances or lighting or fans. Those are all running items so we never when we talk of order book it's only.

Kirti Dalvi

I mean to say sir dispatch I think, Mr. Anant Bajaj had mentioned about this

Anant Bajaj, Joint Managing Director

Yeah, that is the export order which is about 6 crore or 7 crore -- that some huge order 6 crores, 7 crores orders we should be
This was in the market of basically - there was basically insurgency which did not allow things to happen.

Kirti Dalvi

Okay so this was not something large enough to impact our margins or anything of that sort.

Shekhar Bajaj, Chairman and Managing Director

Yeah large enough from the export point of view because if you imagine 13 crore is the first quarter -- and for a single seven crores means 50% extra would have happened in the first quarter.

Kirti Dalvi

Sure, sure.

Shekhar Bajaj, Chairman and Managing Director

So that's why it is significant from that point of view only.

Kirti Dalvi

Okay, and.

Shekhar Bajaj, Chairman and Managing Director

First year -- I mean hopefully in the future years it will not look significant because seven crores -- okay let check - let's hope for that happening.

Kirti Dalvi

Yeah. So for the year whole we are targeting something like 75 crore or 65 crore, 75 crore range for the exports we are on for that target.

Shekhar Bajaj, Chairman and Managing Director

Absolutely.

Kirti Dalvi

Okay. Coming back to I mean this fairly elaborated answers have been given on the ENT part.

The only question I have is on a sequential basis is when we are seen the our capital employed in E&P has gone up almost by 50 odd crores. So we understand that we are closing various sites and probably the efforts are going on.
Because as everybody is saying this is having a little bit of drag in our financials.

Anant Purandare, Chief Financial Officer

I think we are I had mentioned last year and again mention it our objective is to keep it at around 500 crore.

Kirti Dalvi

Okay so we will not see a reduction in this 500 crores number sir.

Anant Purandare, Chief Financial Officer

If I want to increase my sale from 830 crores to even 950 crores that means I am increasing my sales by 20% and keeping the same capital employed isn't that a 20% reduction.

Kirti Dalvi

Which we agree to that but in terms of our returns also it has to reflect in our margin so we believe.

Anant Purandare, Chief Financial Officer

Margin will come as I said first two quarters clearly we had taking a hit, third quarter will be starting to show but all the hits of first two quarters all cannot be made up and that's why our asset gain 26 crores EBITDA last year we can't expect it to jump up I was hoping that first two quarter wont be that weak but they are still lot of work to be done before closing these sites.

So that's why you can see second quarter is going to be weak, third quarter onwards we start showing a better performance. That's why we are saying we are hoping that against 26 crores next year I mean for the current year it will be hopefully more than 40 crores.

But we are saying may be it may go up to 50 crores but as we have spoke to them -- 80 crores, it looks to be unlikely.

Kirti Dalvi

And sir for next year FY14 where do we see this steady state margins in this segment?

Anant Purandare, Chief Financial Officer

I think margin wise at the EBITDA level margins will not be less than 10% for the 2013-14 that's why very clear what will be the turnover we are now going to talk about turnover because if we don't make margins we will not have turnover.

Kirti Dalvi Anant Purandare, Chief Financial Officer

Yes, yes.

Kirti Dalvi

Okay. So we have done debt repayment. So that a working capital in other certain business have improved apart E&P?

Anant Purandare, Chief Financial Officer

Yeah you see that consumer and durable working capital has improved substantially.

Kirti Dalvi

Yeah but that's probably because fans and coolers inventory much have caught in the -- parallel quarter.

Shekhar Bajaj, Chairman and Managing Director

That is happening as also of course we make profit that also comes in to the cash flows.

Kirti Dalvi

Sure. Thank you very much sir and wish you good luck.

Shekhar Bajaj, Chairman and Managing Director

Thank you.

Rahul Gajare

Thank you. Our next question is from the line of Nainesh Rajani from Tata Mutual Fund. Please go ahead.

Nainesh Rajani

My question is being answered. Thanks a lot.

Operator

Thank you. We have a next question from the line of Umesh Matkar from Major Trend Capital. Please go ahead.

Umesh Matkar

So I just need to, just need some details on this.

Anant Purandare, Chief Financial Officer

Two things have happened. One is off course our interest cost rates have gone up from 8.7% to 10.1%. Our average cost of interest has gone up to 10.1% so that is one.

Second is our working capital has definitely gone up. We are looking at our inventories for our fans had got crazy, appliance has gone crazy which is being corrected and we are hoping that by end of the second quarter that means when we see the September quarter closing the inventories would then the outstanding would be much better and therefore our interest cost also will be very much under control.

Umesh Matkar

Okay and sir one more question. Now that you will be introducing glass line technology and also manufacturing induction cooker. So, are you looking to bring down your imports from 20% you mentioned to say 15% or so in this year or next year or so?

Anant Purandare, Chief Financial Officer

Yes. Absolutely. This is something this only what the market wants. We are not saying, we want to import 20%, we are saying we will import what is minimum required we are interested in supporting our Indian manufacturing from Indian manufacturing we don't have to keep inventories, we can buy when we want, we don't have to worry about exchange rates.

So from every angle we would rather pay 2%, 3% higher buy in India made in India rather than buying from abroad but like for example we've got a tie up with the world's number one company in table fan called Mydea. So is the Bajaj Mydea fan now Bajaj Mydea fan I can not make in India it has to be coming from Mydea.

So that importation will take place as far as table fan is concerned but the other Bajaj branded table fans are now mostly being made in India. So percentages are going to come down.

Our total last year 250 crores of importation took place. This year it's won't go up higher than 250 crores, it may go down also. We don't the numbers but our sale is going up. So to that extent if percentage will come down if I can keep it 250 crores level

But what's happened the same quantity because of the exchange rate difference that 250 crores may be some 300 crores. Not because of quantity has gone up but because of the exchange rate.

Umesh Matkar

Exactly

Anant Purandare, Chief Financial Officer

There is so much volatility if suppose suddenly it becomes Rs. 45 or Rs. 50 a dollar everything changes.
Yes.

Anant Purandare, Chief Financial Officer

Okay.

Umesh Matkar

Okay and sir just last question.

Out of this 666 crores in revenue how much would be the exports revenue from exports.

Shekhar Bajaj, Chairman and Managing Director

13 crores.

Umesh Matkar

13 crores so is this does it include Bajaj international.

Shekhar Bajaj, Chairman and Managing Director

No, no there is, see Bajaj International Private Limited used to be the export and import franchise or rather the place of another group company which we use for export and import in 2nd April we have shifted the export, import fully into Bajaj Electricals Limited.

Bajaj Electrical Limited had given the non exclusive right for exports to BIPL that is Bajaj International Private Limited and it was also during the imports for Bajaj Electricals

Which now Bajaj Electrical is themselves doing it.

Anant Purandare, Chief Financial Officer

Okay, okay.

Shekhar Bajaj, Chairman and Managing Director

So basically the there could be arms length transaction with the two companies for doing the two activities which now with the growing and exciting position of Bajaj Electrical we said it's a good time to really put the trust and export and also with the R&D coming up in a big way and which we will hopefully finalize a place by September or so and then basically we ready with at least the prima - first year plan for the R&D center itself by financial year end.

And certainly by next year same time we should be clearly by July 2013 we are ready with our R&D center in a full fledged way.

I mean basically that will become a one stop place in where all our R&D requirement for the company for all business is under one roof which will become much more comprehensive way to derive benefit.

Anant Purandare, Chief Financial Officer

Okay. Thank you sir and wish you all the best.

Shekhar Bajaj, Chairman and Managing Director

Thank you very much.

Rahul Gajare

Thank you. Our next question is from the line of Pranav Gokhale from Religare Asset Management. Please go ahead.

Pranav Gokhale

Hello. Good evening, sir.

Shekhar Bajaj, Chairman and Managing Director

Good evening to you Pranav.

Pranav Gokhale

Yeah, sir just a couple of question from me. First is the -- different businesses will you just give a broad guideline as what the working capitals could be say between the lighting and the consumer and E&T business a broad guidance will work fine. And has it deteriorated over the last couple of years?

Shekhar Bajaj, Chairman and Managing Director

Yeah, please go ahead.

Anant Bajaj, Joint Managing Director

Yeah lighting business our overall working capital required almost one month.

Pranav Gokhale

Okay.

Anant Bajaj, Joint Managing Director

And the consumer durable is less that one month.

Pranav Gokhale Anant Bajaj, Joint Managing Director

And engineering the project division which was seven to eight months which we have said that we will be controlling at around five to six months.

Pranav Gokhale

Okay. So the seven to eight months is now the exit rate as on Q1 FY13 odd.

Anant Purandare, Chief Financial Officer

Yes, we are talking of annual basis. Obviously quarters if the turn over is less it shows our 12 to 13 --

Pranav Gokhale

So earlier it use to be much lower than that say it was four, five months on an average?

Shekhar Bajaj, Chairman and Managing Director

No it is always above 6 months.

Pranav Gokhale

It's above six months. Sir and just on your FY12 numbers between the overall finance cost. Could you give me a broad bifurcation between what the interest cost will be and what will be the other finance charges?

Anant Purandare, Chief Financial Officer

Yeah.

Anant Bajaj, Joint Managing Director

You have any other question by the time he is taking out those numbers.

Pranav Gokhale

No, this is the only question which I have for FY12 and FY11 that's all.

Shekhar Bajaj, Chairman and Managing Director

So you will be on the line so. Let somebody else ask the question.
Sure, sir no problem. Thank you, sir.

Shekhar Bajaj, Chairman and Managing Director

Thank you very much.

Operator

Thank you. Our next question is from the line of Abhishek Raj from Religear. Please go ahead.

Abhishek Raj

Very good evening sir. I have two questions. One, margins in the lighting business has declined by like 100 bps Y-O-Y, any particular reason for that apart from that higher import content and what is the import content in the lighting business.

And second question, since you have lowered your expectations for E&P business from 1,000 crores, what's your guidance for full year FY13 sales?

Shekhar Bajaj, Chairman and Managing Director

As far as E&P we have not really said that we are changing our guidance to below 1,000 crores but issue is that if we are not getting the right margins and we don't get the right orders and we end up at 950 crore, I would not be too much worried about it.

Because we are not committed to top line, we are committed to bottom line. That's what I mentioned. We are still going to gun for 1,000 crores, it's not that we are saying we are not going to achieve 1,000 crores but if we are not getting orders at the right price. We are not to going to say we want to take orders at any cost that was the whole logic it has nothing to do with that guidance we are seeing it won't be 1,000 crores because there is enough orders, there is enough inquiries there is no shortage of inquiries it is only our decision that we will not take the orders for the sake of orders, unless we make a proper margin that is the only thing which I was seeing and therefore if we don't achieve 1,000 crores it doesn't bother me, that's all I was mentioning.

It's not that we are not gunning for 1,000 crores we are still pushing and we are going to push the people to go for 1,000 crores with proper margin both the things I want but bottom line is first because of that if I still do 1,000 crores by now.

And as far as the second question exactly what did you say, I forgot.

Abhishek Raj

Lightning margins

Shekhar Bajaj, Chairman and Managing Director

Lightning margins is got to do with CFL in case of CFL because most of the components are being imported and because of the importation which is taking place in case of whether it's PCP or whether it is founder all those items are be imported in CFL because of that rupee devaluation has impacted the cost and therefore margins have been impacted.

Anant Purandare, Chief Financial Officer

Pranav, your question about a break up or details it's already there in annual report on the page number 75. But just to tell you that interest cost is 60 crores and the foreign exchange fluctuation is 2.4 crores and other borrowing cost is 1 crore.

Shekhar Bajaj, Chairman and Managing Director

Yes, please. Any other question?

Operator

Mr. Raj, do you have any other questions to ask?

Abhishek Raj

No, I am done. Thanks.

Operator

Thank you. We have a follow up question from Sonal Kohali. Please go ahead.

Sonaal Kohli

Sir regarding your transmission business you mentioned it's about 10% of your top-line could you give a sense what is the capital employed in this business out of 550 crore which we have in the project business. This a very large chunk of the capital employed in this part of the business.

Anant Purandare, Chief Financial Officer

Let's say it could be approximately 300 crores.

Sonaal Kohli

So other businesses are not so capital intent.

Anant Purandare, Chief Financial Officer

See what happens in case of Highmast and Poles is like treat business you give it to the market so there the cycle in may be six month maximum.

While in case of rural electrification there are two business one is rural electrification where the cycle is reasonably long like it is in TLT.

Sonaal Kohli

And sir, in transmission business in terms of margins which of the business would make the least margin should be making the highest margin as of now?

Shekhar Bajaj, Chairman and Managing Director

At this moment TLT is obviously the lowest.

Sonaal Kohli

Okay and I would presume rural electrification would be negligible business as of now?

Shekhar Bajaj, Chairman and Managing Director

I'm sorry.

Sonaal Kohli

Rural electrification would be very small business as of now.

Shekhar Bajaj, Chairman and Managing Director

No, it's not small. It's about 250 crore.

Sonaal Kohli

Rural rectification in terms of top line.

Anant Purandare, Chief Financial Officer

Yeah, our top line one 832.

Shekhar Bajaj, Chairman and Managing Director

Out of the 832 250 is --

Anant Purandare, Chief Financial Officer

-- 30% it's quite big -- if we get 30% then transformation would be how big sir?

Shekhar Bajaj, Chairman and Managing Director

30%, 35%

Anant Purandare, Chief Financial Officer

It's spread out well between the three segment

Shekhar Bajaj, Chairman and Managing Director

That's why I said that because of that as per as TLT is concern I think basically we've taken a major hit therefore to that extent as a investor you been worried I don't blame you I would also be worried if I was in your position.

But that's why I said that you have to have a little patience for another one quarter after that from third quarter onwards we would be able to freeze and talk a little more freely.

Sonaal Kohli

Sir actually just correct me if I am wrong we have four segments of this business not three. One is transmission, one is rural electrification one is special projects and the fourth one is Highmast.

Shekhar Bajaj, Chairman and Managing Director

You are right. From your angle you are right it is for different businesses. The special projects and rural electrification is under one head at this moment.

So from our point of view we consider it one but what you are saying is correct. Rural electrification is really nothing to do with power lamp lighting or Wankheda lighting all that.

So that you can definitely consider it as a what we really did was whatever is not transmission line whatever is not transmission line, whatever is not Highmast is special project. We didn't want to have advances and have sub category 20 so we basically say this is Highmast second in TLT and whatever is left over is special project.

Sonaal Kohli

But largely your rural electrification special project business as of today would be the non rural part of the business.

Anant Purandare, Chief Financial Officer

Non rural will about 100 crore.

Sonaal Kohli

And secondly.

Anant Purandare, Chief Financial Officer

And that 100 crores is also much better margins and most of the other business.

Sonaal Kohli

Sir lastly have we grown in line with fan industry or we can less than fan industry for the quarter.

Shekhar Bajaj, Chairman and Managing Director

Last year we grew better we improved our market share by almost 1% point because we grew about 5% last year I am not talking about this first quarter last year because that's a figure available to us.

Last year while the industry was negative 5%. So we improved our market share by about 1%.

Sonaal Kohli

And if I heard you correctly you said fan business growth 13% Murphy-Richard 32% and 29% for other appliances?

Shekhar Bajaj, Chairman and Managing Director

That is the first quarter.

Sonaal Kohli

So sir if I do the math broadly you grew 29% but if I look at the break up -- 29% growth considering fan at about 30% of your business.

So if it is growing at such a lower rate compared to overall growth the entire number can't be 29.

Anant Purandare, Chief Financial Officer

What you are saying, Sonal?

Shekhar Bajaj, Chairman and Managing Director

He is saying that if it is 29% growth in consumer durables fan is only grown by 13% just check out

Anant Purandare, Chief Financial Officer

Appliances is 37%.

Shekhar Bajaj, Chairman and Managing Director

Appliances is 37%.

Anant Bajaj, Joint Managing Director

And Morphy is the 29%.

Sonaal Kohli

Morphy is 29%.

Anant Purandare, Chief Financial Officer

Bajaj appliances 37% and fan is 13%.

Sonaal Kohli

Sure. And sir - how would have your appliances in this growth?

Shekhar Bajaj, Chairman and Managing Director

We mentioned that we're looking at consumer durable growing by 20%, fan grow by 15%, appliances may grow by 25%.

But overall 20% plus is the expected growth in this around 18% to 20% with 20% growth in lighting, 15% growth in luminaire so we are looking at 15% to 20% growth in the lighting segment and E&P should grow anything around 20%.

Sonaal Kohli

Sure sir I understood but what I was trying to understand last year we had de-growth in cooler business significantly so just wanted to understand is this 37% growth happening largely because the cooler growing at may 1,500 or the other part of the approximately business has also grown at healthy 25%, 30%.

Anant Bajaj, Joint Managing Director

Both your statements is correct cooler have really picked up very well. So they have grown by more than 50% and the other businesses has gone by 20%, 25% so the -- average is coming to 37% what you're saying is correct.

Anant Purandare, Chief Financial Officer

So coolers grew at 84% Okay? Then we grew in mixers, we grew at 18%, in toasters we grew at 20%, in industrial cooker we grew at 169% and that's where the overall growth has come 37%

Sonaal Kohli

But EX coolers also had a business would have had grown around 25% is that a fair statement?
Yeah, yeah.

Shekhar Bajaj, Chairman and Managing Director

Absolutely

Anant Bajaj, Joint Managing Director

Because cooler in total turn over is just 28 crores out of 180 crores.

Sonaal Kohli

Okay. Thank you.

Operator

Thank you. Our next question is from the line of Ajay Nandanwar from UBS. Please go ahead.

Ajay Nandanwar

Good afternoon and congrats on good numbers and product side. I just had couple of questions given sort of a scale you are in the market share you have in appliances and fans.

What kind of margins do you think you can pick and command on sustainable basis?

Shekhar Bajaj, Chairman and Managing Director

I think, whatever is our existing margin levels I think plus minus 1% can be sustainable because we are I think really not only market leaders but I think we are cost leaders in the country.

Because our economies of scale setting 3.5% irons and selling 1.2 million water heaters. That numbers are so huge that we can get the economies of scale. So our cost compared to any other competitor is lower by anything between 3% and 5% will be lower. So even if the competition takes place I think we should be able to maintain our margin plus minus 1% as I mentioned.

Ajay Nandanwar

Sure sir. Sir what's the consumer durables your margins are close to 9% to 10% on annual level so what would be your gross margin how much of the fixed cost - in this business.

Shekhar Bajaj, Chairman and Managing Director

See gross margin if we start sharing we've got our competitors who are also over hearing so I am not to excited to share with you.
Sure sir. Sir on the engineering side things are have got delayed and more than you estimated but sir what do you think gives you

comfort that when you say H2, you would see your pick up and

Shekhar Bajaj, Chairman and Managing Director

Yeah H2, correct right. Because our old new orders we know we are taking at good margins.

The old various sites which are closed that is where when you close we may think it is going to close it it may cost you 1 crore, it may end up costing you 2 crores instead of it requiring 1,000 labor it may require 2,000 labors. There may be some shortages which may we may think it's 50 lakhs it may be 70 lakhs.

So, therefore, up to this quarter and partly in the third quarter is where we really, see for the future we know where we are going.

For the past something is two years old, three years old there can be number of claims that may come, there may problems of ROW or something is there because of which things have comes to a stand still. So when we start going in to it then we really come to know this is the reason why this particular project was not completed and therefore this is the type of additional cost which would be involved to complete it.

So, those are the things which can be actually do it when we start then we really come to know that these are the issues which have to be resolved because as soon as anything is present everybody remembers.

If you go after one year or two years, that engineer may have left our own employee may have left. So the date may not be fully available. So many times we have to look at that that's why in the last year the quite a big wright offs and clean up and provisions we have made.

Because we said we find that those money may not come to the be safe and make a required provision after that it will keep following us. If we get it we'll writing it off we are only providing for it.

Ajay Nandanwar

Sir how do you look in even in your new orders what gives the confidence sort of what sort of structurally different about the project that you feel confident that your margins would be significantly higher and you know you don't have similar issues to the extent that you faced in the past?

Shekhar Bajaj, Chairman and Managing Director

See what happens is every thing in life we learn out of your past experiences or past mistake and now we are tracking each project to project and we've got a good software from IT software which is tracking how the moment is taking place. So we are seeing whether the margins are been maintained or not every month and every quarter we are reviewing that project.

My personal views are that most of the time it is the delay in completion of projects that has cost us this bottom-line.

Ajay Nandanwar

Sure.
The project which is supposed to be complete in two years it will take three years or four years obviously site expenses your last 10% doesn't come so and it gives you because in that two three years people change you don't get your last money and all that.

So we are now saying when we are clear that we will take our order we will complete on time. If we complete on time I can guarantee you there is no reason for all these losses to take place because our projects have been delayed and that is what has hurt us very badly.

Ajay Nandanwar

Sir on, coming back to the product side there is some talk about some retail expansions right dedicated Bajaj stores that can you talk about that?

Shekhar Bajaj, Chairman and Managing Director

Yeah, that is something which we already have. Now we have 15 as on yesterday. 15 stores have been opened these are called Bajaj World which are exclusive stores which have been developed mostly for the rural market.

Rural markets we find that there people want to have a single window where they can find the whole range of appliances fans and lighting all in one shop and therefore two things which we are doing we have got a standard design.

So anywhere you can find out this is Bajaj World.

Second is that in those shops we are also financing and supporting them in terms of we are updating or getting it done up. So for the interior and all our designer goes, we spend a certain amount of money to support it to be done.

Plus we are assuring them our minimum guaranteed return on their capital employed.

So but our experience is been in these out of the 1,511 which were completed a few months back all of them started breaking even from the second or third months

So there is no compensation additional to be given because they are crossing that minimum threshold level for them to make profit. So it's turning out to be very good.

And once this works out well. This year we are increasing from 15 to 70, 75 they we may decide to keep it increasing by may be 100 every year for

Because this is something which gives us extra business, it gives us extra brand equity and it doesn't cost you any money anyway.

Ajay Nandanwar

Sure. And sir who are these people that you are franchise are these your long time dealers or?

Shekhar Bajaj, Chairman and Managing Director

No, mostly are

Shekhar Bajaj, Chairman and Managing Director

And then we usually try to give them an area which is not under the coverage of any of our dealers or distributor so that it doesn't come in conflict of interest for example like one Bajaj World which is there in Nashik that is in a very heavily residential area where there is not such kind of shop at all so to that extent it's a very self run situation. But there is a clear guideline Bajaj Electrical has set up for which the person has to of course do his own investment get his own house -- own premises and everything else and then basically they run it with the clear comprehensive guideline with Bajaj Electricals sets up.

It set up almost like any other well known franchise in the planet when example like, McDonalds, which is by far one of the worlds best franchise the world understand, and that clearly is a thing which McDonalds as a company would makes a franchise frame work and then the local or person who actually sets up the office, follows a very strict guidelines and other example would be someone like Hyatt in the hospitality industry.

They are the one who set up the entire requirement of how it should be run then every thing is run by that franchise in a specific format.

And that we are developing at more and more so that it will penetrate in a more correct way but we are basically right now are trying to put it only in non-metro cities

So in that sense it is really going in to a genuine rural markets and on a markets which are not consider cities. For small town like Agra for example then we got Bhuvneshwar. So these Nashik, Nagpur. So these places are clearly still classified as Semi Urban or Urban but which is has not really still a very metro Mini Metro level yet.

Ajay Nandanwar

Got it. So your targeting Tier 2 to Tier 4 with this.

Shekhar Bajaj, Chairman and Managing Director

Yeah, so that's where India's main population is there and then combined with our rural strategy this is going to only enhance our reach because we do have reach but we do not have the actual physical interaction or what we call as customer engagement is limited in that sense. So this we are going to utilize as a way to have a much more interaction and customer engagement very clearly.

Ajay Nandanwar

Sir, it's a follow up on this to meet thing like this this could act as a great tool to enhance your brand because -- will be a dedicated store. And will give consumer experience of all your products.

But at the same time lot of your franchisees and how they run the stores not just the physical look and feel but the service quality and custom orientation would also be a driver of how they represent your brand and

Shekhar Bajaj, Chairman and Managing Director

Correct.
And when you're taking an approach of often reaching out to your franchisees through advertisement where you are sort relationship with them is new to begin with.

How do you get that comfort that they are the right people to represent your brand in that geography?

Shekhar Bajaj, Chairman and Managing Director

See this is something which only time show we have to only look at that credentials look the excitement levels.

Frankly speaking a person who not have done that particular job before but how is his reputation, how is his financial strength and also we have got separate dedicated team of I think about five or six people who only responsible and then head is a very senior levels GM level person who is heading that team to do only this Bajaj World activities.

So each moving around personally to see that this the when deciding on who to be given the franchise and all those things are being done in the very systematic way. But yes it can happen that in few cases. It doesn't work out.

If it doesn't work out because that person is not dedicated he will not make the returns and he would say I want to close down. So have to close that down.

That can always happen out of when you do 100 - of the 70 of them there will two or three failure also but that's part of life.

You can't expect 100% perfection.

Ajay Nandanwar

And sir what is investment from your side in terms of fits out or anything else?

Shekhar Bajaj, Chairman and Managing Director

Yes I don't know exactly but I would say anything may be 3 lakhs to 5 lakhs.

Ajay Nandanwar

Per store

Shekhar Bajaj, Chairman and Managing Director

Per store at one time.

Ajay Nandanwar

And guaranteed ROS how much -- incur losses couple of years incur losses how.

Shekhar Bajaj, Chairman and Managing Director

So there has been never any reason to pay them because we had said that we would making our return minimum return on your capital employed so it depends that why in a the smaller place the capital employed is much lower so then the return on capital employed is much faster because if your going to buy a place where you have to pay huge rents or you have to buy a property for Rs. 20 lakhs or Rs. 30 lakhs then obviously your return on capital employed becomes very difficult but if you take a place which is available for 10,000 or 20,000 rental then your return on capital employed becomes much faster

And therefore we are encouraging this is one of the area. And then let us see how deep we can go.

Ajay Nandanwar

And what would the margin sir for the dealer?

Shekhar Bajaj, Chairman and Managing Director

That we are giving it to him at our dealer price as any other dealer which otherwise other dealers in that area will get disturbed that you know -- special prices. Now you can decide difference between MRP is landed cost we have what we call MOP which is Market Operated Prices.

So that we are circulating and recommending that is the price at which we should fell.

So a person can work between 10% to 15% is normally there but it depends on competition increase in our market where you can get a better price you get the better price, we're not really interfering in this price we give only an indicated MOP which is a market operated price.

So that you the consumer should get the benefit out of that.

Ajay Nandanwar

Thanks so much. And you best of luck.

Shekhar Bajaj, Chairman and Managing Director

Thank you very much. Can we have the last question?

Operator

Thank you. Ladies and gentlemen due to time constraint that was the last question. I now hand over to the management. To Mr. Rahul Gajare for closing comments. Thank you.

Rahul Gajare

Thank you very much to the management of Bajaj Electricals for spending time on this conference call. I wish them well for the following quarters.

Sir, last brief closing comment from your side over here.
For the second quarter other businesses seem to be okay. All our inventor's I request is have a little patience. Bare us for the E&P for the second quarter. After that third quarter onwards you'll smile.

That's what I can say that's all. Second quarter I myself worried because not closures of various sides are taking place. So we don't know what is going to be the hit.

Okay that's all. That's it for me otherwise other businesses are okay there is nothing to worry about.

Operator

Thank you, gentlemen. On behalf of Edelweiss Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your line. Thank you.