

L-1/663/MGP

June 14, 2016

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 30 May 2016

Further to our letter No.L-1/SE/AMP dated 27 May 2016, we enclose herewith transcript of the Post Results Conference Call held by the Company with the Investors, on Monday, 30 May 2016, on the financial results for the quarter and year ended 31 March 2016, 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
Vice President – Legal & Company Secretary

Encl.: as above.



“Bajaj Electricals Q4 FY 2016 Results Conference Call”

May 30, 2016



ANALYST: MR. RAHUL VEERA – EDELWEISS SECURITIES LIMITED

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



Bajaj Electricals Limited
May 30, 2016

Moderator: Ladies and gentlemen, good day and welcome to the Bajaj Electricals Q4 FY2016 results conference call hosted by Edelweiss Securities. 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, please signal an operator by pressing “*” and “0” on your touchtone phone. I now hand the conference over to Mr. Rahul Veera from Edelweiss Securities Limited. Thank you and over to you Sir!

Rahul Veera: Thanks. Good evening everybody. I am happy to welcome everybody to the Q4 earning call of Bajaj Electricals. From the management we have today Mr. Shekhar Bajaj, Chairman & Managing Director; Mr. Anant Bajaj, Joint Managing Director, and Mr. Anant Purandare, Executive Vice President and Chief Financial Officer. We will have the opening remarks from Mr. Shekhar Bajaj, after which we will move on to the Q&A session. Thank you and over to you Shekhar Bajaj!

Shekhar Bajaj: Thank you. Good afternoon to all. Let me start by saying that there is an impression that the fourth quarter results are not as good as the previous quarter. So let me clarify that our profit before tax, PBT against last year's 52 Crores is 53 Crores this year, so it is flat. It is not down. Last year there was a lower tax provision and this year because of the new rules some additional tax has been levied. That is why it is showing a profit after tax lower, but profit before tax is what really matters, tax rate can be plus and minus but the operation profit before tax is improved.

The other interesting thing is that in the quarter the interest cost has gone down by 4 Crores, which is very, very critical. That means we are managing our working capital much better. If you look at our capital employed which is the EPC area, which we have now been able to reduce from a level of 690-odd Crores to a level of 633 Crores which is a substantial reduction in spite of a 17% increase in sales. So therefore from a return on capital employed against -12% which was there in case of EPC it has gone up to 15%.

In case of all other businesses also we are controlling our capital employed, our working capital has been substantially reduced. That is why the interest cost has come down and therefore in spite of profitability in the consumer durable having come down, if you look at the return on capital employed, it was 189% last year, which this year is still 167%. So when you say consumer durable is not doing well, I think a return of 167%, I do not think is such a bad number that you can be clinging that consumer durable is not doing well. The other aspect is that we are now concentrating for the last few quarters on secondary sale. And when we do secondary sale, we must create a consumer demand and to create a consumer demand, you need to advertise and therefore we have spent almost 25 Crores extra this year on the consumer durable side only for creating that particular demand by spending that much more on our publicity.

Then when we look at our HR cost, there is a 30% increase in our employee cost. What was being done is that normally we give our increment incentives all in the month of July and therefore in the second quarter there was always a jump in our employee cost, because all the incentive was being taken in the month of July, so as per the suggestion of the auditors and the

Bajaj Electricals Limited
May 30, 2016

board of directors, we have decided to spread this all over the year and therefore in this particular quarter we have taken, last year we had not taken in the last year, this year we have taken 7 to 8 Crores extra incentive provision, which we have to give in July this year. So July our incentive, which we will pay out will be much lower, much more less provisions, the physical payment will be made in July, but the provision has already been made in this quarter, next quarter, every quarter, we will be making a provision and to that extent that 7 to 8 Crores otherwise would have been a higher profit, if you have followed the last year's level.

So this I thought was very important for you to understand that really this quarter has been a good quarter. Also, we have been very clear that we have not given any special schemes and incentives and pushing at the end of the year which was being done earlier. That is why in case of all the businesses including consumer durable, our first level margin is higher than last year. Only because of the additional publicity on one side and the employee cost because when we do our secondary sale our employee cost goes up because that employee cost 7 to 8 Crores, which I was mentioning, all that is adding up to may be anything between 1% and 2% and therefore when we say margins has gone down in case of consumer durables, it is basically because of these factors and not that the margins are under pressure. We are hoping that with the secondary sale picking up, we will be in a position to improve our margins and therefore for the next year, our objective and direction is that against 4600 Crores that we have done, we hope to do around 5400 to 5500 Crores. Against 1100 Crores we should do about 1300 Crores in lighting, though in case of lighting the margins will be under pressure because the government orders we are getting, numbers will come but we expect that we will be making much lower margin and therefore profitability of the lighting segment may get impacted.

As far as consumer durables, with the improved sales that will take place, we can have improvement and therefore against 2000 Crores that we have done this year we are looking at 2200 Crores. EPC against 1600 Crores we are looking at around 2000 Crores and therefore a total of 5400 to 5500 is what we are looking at. The market has clearly improved. The demand for consumer durable has gone up. Luckily for us the demand for coolers because it is very hot it was very good, our fan sale has already picked up well, and therefore you can expect from the next quarter onwards we can expect a double-digit growth coming up as far as consumer durable is concerned I think 10% . We are hoping that growth rate will improve every quarter as the year goes by, more and more secondary sale, RREP, TOC implementation will take place and which will result in a much better bottomline.

With these words, I would like to now hand it over to Rahul to open it up for the various people who have logged in. Thank you very much.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Renu Baid from IIFL. Please proceed.

Renu Baid:

Good evening Sir. Sir, my question for you is just to understand a little more on the consumer side since TOC is now at the peak of execution and more and more geography will be covered.

How do we see apart from the sales side, how do we see the TOC coverage in the next 12 to 18 months from the company and at the EBIT level we understand on the gross margin front margins are improving for the business, but given that we have next budget, how do we expect the margins to improve, because overall for the segment the margins are still relatively weak and aligned with this if you can also highlight how is the B2B sales for us doing with respect to government sector supplies for fans and otherwise. Thanks.

Shekhar Bajaj:

Number one, as far as our coverage is concerned, we are still only around 30%, and I would say 30% is our RREP coverage. We are hoping by the end of the year it should be around 60% to 70%. More importantly for the investors it will be interesting to understand that we have decided that specially in the interior markets when we are going, it does not make sense for four different teams to go and sell lamp separately, appliances separately, fans separately, and appliances, DAP and CAP separately. So we have now called it a Consumer Product or CP business. So consumer products is going to be a single segment, which will cover the rural markets. So one person from the consumer product will go and meet the customer and mostly the rural customer or even the rural distributor and dealer mostly are dealing in all products. So therefore instead of four people going there, will be a single person going there so to that extent in the long run, when our volumes go up, we will not have to add too many people and therefore to that extent our percentage of fixed cost, employee cost will come down. Other thing which I have already mentioned is that 6, 7 Crores is an extra burden that has come up in this quarter because we have decided to spread what we give as an incentive and increment in the month of July, so we were putting all into one quarter of the July-September, we are now splitting it up over quarter-to-quarter and therefore to that extent in the second quarter of current year, you will find that the increase in the employee cost may be go down rather than going up because here only one quarter hit will be coming in that quarter and that is why actually in terms of consumer durable and most of them is consumer durable only, so when you add another 6 to 7 Crores there and for the year we have spent almost 25 Crores extra on publicity, if we add both of them on this particular aspect, you will find that in terms of our margins there is not too much of drop coming in, in spite of no growth in sales. That is why I said our margins are okay.

Renu Baid:

But Sir with this if we see the multiplicity of efforts that was there earlier will now be eliminated. So this should ideally bring a good 100 to 200 basis point of higher savings for us over the next couple of years as the new program is implemented?

Shekhar Bajaj:

After a couple of years you are right. Employee cost will go down because we will not need to add that many people. What we are doing is we are doing more deep coverage. To do that deep type of coverage we would have to need maybe 100 to 200 more people and now with this new set up which we are talking about with the existing people we will be able to cover and go into deep markets without adding too many people. So, therefore we have said very clearly to our people, you do not need to worry, we will absorb all of you, because in our growth we need more people, so luckily with this situation we will have enough people available to take care of our strategy of growth.

- Renu Baid:** So, no significant savings per se expected at least in the current financial year FY2017 from this?
- Shekhar Bajaj:** No, I do not think in terms of employee cost there will be a reduction, but with the same number otherwise there would have been a 10% increase in employee cost which would not take place, so indirectly there is an employee cost saving, but it would not come in terms of numbers because numbers are going to remain the same.
- Renu Baid:** Sir, not just employee but also the sales and distribution expenses that people would have ideally spent?
- Shekhar Bajaj:** Travelling cost, everything will come down. That is absolutely true, but we are doing much more market coverage.
- Anant Bajaj:** By the third and fourth quarter, by the time we will have that 60%, 70% 80% kind of coverage. This is the time when actually the number of people will start becoming more effective as a percentage because for example say you have those people in the system and they are obviously doing that first session of the implementation where the volume is not there, but the penetration starts happening and then the larger part will take effect later but importantly what will definitely happen is that the number of active SKUs will increase, the number of physical reach will increase Presently it is about 17% to 18% of the market which is fully covered, 30% is what is currently already allocated for the first quarter to make the reach happen, so that number what CMD said because actually the 30% which we will cover by end of June. So far 18% is fully achieved, 30% could be the game by the end of June hopefully because obviously certain markets have been a little longer to get into the details but the important thing is that the new formats which required a CP will actually able to get a very good mix in the rural market because as we call it rural one, actually we make this thing happen. On the other related to those EESL very clearly that is not our big-ticket focus right now. If it works out well, because clearly the kind of prices the government expects the orders to come, we cannot necessarily make any real money out of it, and even otherwise it is not a very permanent business where we can really make a business model to it, so it is more like an additional business over and above our regular business we can get, very good, but we are not going to push hard to get an EESL order because we obviously even if you are L3 and if you have to match up and get the orders, you would have to match the L1 price, so which does not really happen.
- Renu Baid:** What is the proportion of the EESL sales that we have had had in the fourth quarter or the financial year 2016 overall if you can just give the percentage in the mix?
- Anant Bajaj:** In the lighting part?
- Renu Baid:** Lighting and fans, both if there was anything in that in fans?
- Anant Bajaj:** As a company we have a much larger exposure to EESL but specifically you want for this part, I do not have the off-hand number, but as a company we have about 150 Crores exposure to EESL so specific to the quarter we will have to get back to you. I think about 30 Crores approximately



Bajaj Electricals Limited
May 30, 2016

was for the Q4. Because we also have which I think which is in the EPC side and the fan side, EPC domain also we have done an EESL orders so if you consider that also for in the Q4 we have done about 30 Crores. So out of that nearly 150 Crores, 30 Crores was done in Q4.

Renu Baid: Thank you Sir. That is useful. All the best.

Moderator: Thank you. The next question is from the line of Bhargav Budhadev from Ambit Capital. Please proceed.

Bhargav Budhadev: Good evening Sir. Sir just wanted to clarify a few things. One is your employee cost has increased from around 52 Crores it quarter last year to 80 Crores. So apart from that 7 to 8 Crores provisioning which has been done related to your full year bonuses is there any other provisioning which is being done?

Anant Bajaj: There is only pure addition of people which took place which is there for getting this RREP done a lot of ground level people have added up. For example, we are going to get in these very specific people who are into trade marketing which are roughly totally new people added into the company, plus there are people which they are keeping as buffers. If someone actually leaves in the field, at the salesman level then we instantly got a fill up. So we have got that as a provisional space. So clearly the main part is that the whole bifurcation of the costs which otherwise would have come in second quarter, has been shifted around, otherwise it is the same cost. In the power distribution, there is a main number of added people we have taken because we do have a lot of fiercely good projects going on and for that to finish it faster we have got to add more people in so that we can do it faster, better and get on to the next place and in fact as we speak, we are working with one of the big project which I think this week we should get the official thing in hand, so for that also we are doing a lot of pre-gearing up because one of the big aspects for PD is about mobilizing the site as fast as possible. So one of the key aspects for that is to have the best mobilization in teams as well. So one of the things which is happening is that the people cost although may look higher it is actually going to become more useful because they are not going to be just doing one project. They will be doing multiple projects only because of the whole cycle and here also once this RREP gets more and more entrenched the same cost, we will do much more.

Bhargav Budhadev: Is there any provision related to any retention bonus because what I understood was that for two years you had told the employees that you just stay around for two years they will be given a retention bonus. So is there any provision pertaining to that made in this quarter?

Anant Purandare: There are a couple of crores. One is that we do actuary valuation of gratuity and leave encashment I, so unfortunately for the fourth quarter the provision, which has actually worked out, is a little higher than as compared to the nine months. So that is one addition. Another thing is as we said we want to roll out the RREP. We want to retain the people, so we have made a little more provision so that the incentives are given a little higher so that people will stick around.



Bajaj Electricals Limited
May 30, 2016

- Bhargav Budhadev:** Sir what is that amount? Can you quantify?
- Anant Purandare:** Total incentive provision has been made. So there is no such a break up because these are all estimations.
- Bhargav Budhadev:** So is that amount apart from 7 to 8 Crores which you have mentioned?
- Anant Purandare:** No, it is including.
- Bhargav Budhadev:** So total provisioning is about 7 to 8 Crores?
- Anant Purandare:** Yes.
- Bhargav Budhadev:** Secondly, what is your ad spend for the full year and for this quarter and also if you can give the corresponding figures?
- Anant Purandare:** Full year we have spent around 86 Crores. For the quarter it is 23 Crores against last year it is 10 Crores.
- Bhargav Budhadev:** Full year last year?
- Anant Purandare:** 56 Crores.
- Bhargav Budhadev:** Sir the last bit is that now given that you are changing the model from a push mode to a pull mode, are you doing anything basically to revamp your product portfolio on the consumer side, meaning any incremental focus on R&D or just to improve your product portfolio.
- Anant Bajaj:** R&D of course we have been running it for a while now that there is a comprehensive R&D center which is expected to create a lot of patents and interesting new products for the consumer and so we are looking at few new areas once it is ready and it is good enough to talk about we will certainly tell you, but at the same time, good existing product we are revamping some of the product which I think will be out by Diwali hopefully and otherwise, there is I think we have enough products already in hand which we can do a lot of good work with and we have got 800 SKUs in CP that is in B2C and we got about 2800 products in B2B. So I think we have got more than enough products to deal with currently. The full opportunity has not been converted, so I think we have got enough chance to do much more on there as well, but nevertheless next six to eight months we will be seeing a lot more good products coming up and lot of youth connects specially which has really changed the game, because I think the company might be old, but the people in it and the people it serves are not very old, so I think we are definitely clubbing towards the better social media connect and the ground level connects with the younger consumer because we clearly want the 20s and the 30 year olds also to be excited about Bajaj.
- Moderator:** Thank you very much. The next question is from the line of Ankit Shah from Vallum Capital. Please proceed.

Ankit Shah:

My question is pertaining to the consumer durable section. What I would like to know is consumer durables being highly competitive market and players like Crompton now having a more focused approach, Havells continuously binding their products, so except for advertisement and branding what is our strategy to maintain the market share?

Shekhar Bajaj:

Basically, all of them are doing the same thing, which we were doing earlier in terms of having wholesalers, and we were going around getting orders and creating a consumer pull, or pushing, whatever it is. What we had realised was that in case of FMCG companies like Hindustan Levers and Proctor & Gamble, if you are going to be able to service your retailers by giving them home delivery and having a regular beat and giving them supplies to them on a week-to-week basis, then you will have loyalty, you will have regular feedback and then you will not be depending on wholesalers, so therefore we are slowly going towards the distribution model which we will be the only company today in India who is trying that FMCG model for a consumer durable. Everybody does for lamps and tubes but nobody does for appliances and fans, so therefore initially that is where we think that in the short-term when we took this decision, we realise that it is going to have an impact because the number of people required for distribution will be much more than if you just give it to wholesaler he will go and dump into the market and that will be the end of the game. While here we have to go door to door and therefore to that extent the number of people required is much more and much more effort of travelling cost, everything will substantially go up, but once this whole model gets established, then the advantage that we start getting is that no new person can just enter. There are two things according to me, which we have good entry barriers for any new person to come in, or existing people to do is one, which I am mentioning is the distribution. Second is the after sales service. Today, a consumer durable in India, people expect the products to last for lifetime, nobody throws away a product after two three years and whether it is fan or appliance and therefore because we are giving home service, last year we did about 18 lakhs pieces service last year and out of that over 9 lakhs were serviced at home, so you imagine when we do online and all they will go into the interior market the product is sold by many inside the interior market and they will find that it is selling it is okay but if they have a quality problem, who has the setup to give them service. That is where we will clearly have a domination on that particular aspect and that is why distribution and after sales service is our area where we are concentrating to see that we have a clear cut edge. Today there is nobody who can come anywhere near us in terms of after sales service. People say that yes we can further improve, fine, but in terms of what is there now we are clearly way ahead of anybody else. So that is our trump card, if I can use the word and there is a cost involved in that, but we will start getting the benefit once this whole RREP, our secondary sales distribution model starts getting implemented more and more. Today 20%, 30% is implemented, 80% is not implemented then they are not getting the benefit of the distribution network. When that becomes 30%, 40% every month about 10% goes up you will suddenly find when it becomes 50% to 60% our growth in sales is going to be not this 5% and 10%, it is going to be double-digit may be 20% we will see, let the time prove it. When the RREP starts going then the growth is much more than this double-digit, it can be 15%, 20% that is why for the year we are looking from a level of 2000 to go up to 2200 for CP for the year. Initial period may be 3% to 4% growth then going to 10% then

15% with a weighted average of 10% plus for every business. That is why we are looking at 5400 to 5500 Crores for the company.

Ankit Shah: So, basically the slow down in the rural over the past two years that we have been witnessing so now with your deeper penetration and everything in place, so you think that would have an added advantage for us going forward with the tier II and tier III?

Shekhar Bajaj: Those who are going to be in the rural markets because there is a lot of money there, lot of people are having aspirations, the younger generation is seeing on television and others whoever can give service, whoever can make a distribution availability easy today a person wants a product he has to come to the city, which is not convenient. If he can get home delivery when he places then it becomes a great advantage.

Anant Bajaj: Actually if we do the retailing of the various places where the company has seen actual growth even in this year, maximum of them have happened in smaller towns. In fact the bigger places have actually not grown at a larger level. Further markets do not have that kind of bandwidth, which does not look like very glamorous looking, but definitely some of the super small towns have done amazingly well and actually a lot of people do not have an attempt to go to that place and that is why it is going to be a major advantage to us and this is where the whole game of Rurban, RREP is going to really give us the edge. It is already giving us an edge, so to that extent, , you cannot realistically be comparable in the same bracket. If they are doing same thing, then you can compare it in the same way, but none of my competition does anything like us so to that extent I really do not know how to really be comparable in the real sense.

Ankit Shah: Lastly, what will be the growth rate for fans?

Shekhar Bajaj: 4.5% is the growth in the fourth quarter.

Ankit Shah: 4% and 5%. This is for the whole year.

Shekhar Bajaj: For the quarter.

Ankit Shah: For the quarter and for the whole year?

Shekhar Bajaj: It is flat, a little negative. At RREP gets going, , you will see the first quarter this year may be 8% to 10% and so on. As the RREP keeps getting as soon as the secondary sale and our distribution model starts getting implemented, more and more you will see the growth coming.

Ankit Shah: Thank you.

Moderator: Thank you. The next question is from the line of Arnav Shah from PI Square Investments. Please proceed.

Arnav Shah: Good afternoon. I just had one question. What is our EPC order book for the year FY2017?



Bajaj Electricals Limited
May 30, 2016

- Shekhar Bajaj:** Our order book as on today is 2480 Crores 680 Crores is TLT, 1660 Crores is for power distribution and 140 Crores is for the Illumination.
- Arnav Shah:** Sir, this would be executed like whatever timeline we are planning like each of this should be executed like an average of two years or something.
- Shekhar Bajaj:** Next 18 to 28 months. We are looking at 2000 Crores topline in EPC coming out in the current year. so out of this 2500 cr, may be around 1200 to 1300 Crores plus some new orders will come which will also get executed this year and things like High Mast and all, there is no long gestation period, you get the order this month, you do it in the next two to three months, some of the stadium orders also you do for three to five months that is why we are looking at 2000 Crores, but 1200 to 1300 Crores will come out this order book which is in hand and another 600 to 700 Crores will come out from new orders.
- Arnav Shah:** Another question Sir, I had was on what sort of margins has been targeted for all the three lighting, EPC and consumer durable?
- Shekhar Bajaj:** We would not be able to give you numbers, but all I can say is that as far as lighting is concerned, our numbers are going to be lower in terms of margin compared to what is the current year's actual. The consumer durable will be slightly better because of the better distribution, which is going to take place. So our margin goes up because it is the same overheads which we are going to do higher volumes, your percentage comes down so therefore to that extent the margin will improve because our first level margins in consumer durable is not lower than last year, so we will be able to do our bottomline as far as that is concerned. In case of EPC we have reached around 6%, I think 6% to 7% is the level is a sustainable level, we hope that we should be able to continue that in the current year also.
- Arnav Shah:** Thank you Sir. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please proceed.
- Achal Lohade:** Good evening Sir. Thank you for the opportunity. Sir, I do not know if you have answered this. What is the growth for fans for Q4 as well as full year?
- Shekhar Bajaj:** 4.5%.
- Achal Lohade:** So that is for fans, 4.5%. So that means the appliances actually declined 3.3%, which you explained because that is more to do with the transient period.
- Anant Bajaj:** 0.2% growth for the quarter is for the appliance. The segment has the appliance fans and then we got this Morphy Richards and Morphy Richard is obviously is very small base.
- Achal Lohade:** Sir, if I look at the fans revenue last year was about 204 Crores this year it would be 212 Crores?



Bajaj Electricals Limited
May 30, 2016

- Shekhar Bajaj:** 210 Crores.
- Achal Lohade:** 210 Crores that means the other appliances are 2.5% decline of the reported 544 Crores. How is the air cooler segment has done for the quarter because we are hearing pretty positive big numbers?
- Anant Bajaj:** Air coolers again a very short season product because right now it still has not become a big product in the export for us. As you know in our competition, people like Symphony's and others there they sell eight months of the year because they also cater to the export market in a big way, actually Iran, Iraq, which we are trying to breakthrough. We have not done that yet. So therefore we only get a 30-day window in Indian market and so to that extent like this year actually after really three seasons, we have had a very good season where our record advances and all of the things in some markets it was stocked out but we luckily managed to make a good amount of creation of new products so that we could actually make sure that the manufacturing could take on that last minute extra requirement because if we do not manage to get a good season, which happened in the last two season then you have to carry the stock through the whole year. So therefore the good news is that this time it was excellent summer and we expect really hot so right now inside the room is hotter than actually outside so we really wish our air cooler was around there.
- Anant Purandare:** Achal, up to March it was 100 plus but the major pick up has happened subsequent to March.
- Achal Lohade:** So 1Q will see a bigger proportion from air cooler?
- Shekhar Bajaj:** Yes.
- Achal Lohade:** Air cooler is part of other appliances only, right?
- Shekhar Bajaj:** Now there is going to be only one single segment which is called the consumer products segment, so there is no cooler, there is no appliances, no fan, no lighting, all will be grouped into one.
- Achal Lohade:** Sir you are talking about the reporting structure going forward even in terms of disclosures or it is the internal thing you are talking about Sir?
- Shekhar Bajaj:** Internal but for our purpose of reporting, we have not taken a decision whether the lighting part every thing is anywhere together the lighting because from a marketing and distribution point of view, it makes sense the lighting must go with appliances when we go to the market place so that is why we have done that. Now whether reporting we have not taken a final view and the board will decide whether we are going to report as a B2C and B2B as a reporting then of course lighting will come with consumer durable and luminaries will go with the EPCs. At this moment lighting and luminaries will come together as a lighting segment. What I mentioned from 1100 to 1300 Crores is on the basis that lighting will remain part of lighting group.

- Achal Lohade:** Last question, other expenses are there any one-off or there are no one-offs because even if I adjust for the higher advertisement expenses, the number seems to have gone up from 150 Crores to 212 Crores YOY.
- Anant Purandare:** There are no one-off kinds of expenses. The promotional expenses which are increased there is increase in site related expenses so those are not one-off kind, but those are regular expenses.
- Achal Lohade:** Thank you so much. Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Dinesh L from Catamaran. Please proceed.
- Dinesh L:** Thanks for taking my question. I have two questions; first you mentioned your coverage is going to be around 30% in the month of June so what do you exactly mean by coverage? Does it mean you are present in a few states and you are trying to expand to a more number of states?
- Shekhar Bajaj:** This 30% at this moment we are talking about, on our total turnover, 30% will be through our distribution setup where RREP has been rolled out. That means the RREP, which is using the distributor is going to cover, if our total turnover is Rs.100 for consumer products, of that 30% will be through this RREP secondary sale route, not the number of distributor or dealers but the amount of total turnover, which we are hoping that will go to 60% to 70% of our turnovers and come out.
- Anant Bajaj:** May be 30% of everyone, which we are going to deal in this RREP mode they will account fully on board with the RREP way such as the new TOC, and the ones where the process has not begun yet, they are coming in this year as the main focus to get it done with. So therefore they have been able to be a larger number of people in the market, which have come into this fold. So basically by the end of the year that 70% to 80% will be the key markets as the 100th markets out of the 80% markets will get covered fully and that is how they will be fully into this process.
- Dinesh L:** Got it. So what is the channel through which the remaining 70% products are sold? Right now 30% is sold through the direct distributor channel.
- Anant Bajaj:** That is very simple. There are three stages. The first stage is that sweet deals have to stop. That is already taken place. So irrespective of anywhere in the country, any markets, we do not have sweet deals. So there are no primary schemes at all in the company and there is only secondary scheme and there are tertiary schemes. So what is just now pending, which is part of phase II is to make sure that this distributors are fully in the market and the wholesalers are fully taken off from the market. So we would not deal with wholesalers or anything else. Today for example, Mumbai market in one shot we stop dealing with the entire wholesale markets. The distributor might deal with a wholesaler, potentially possible, but the chances of us dealing with the wholesaler is zero because we will end up dealing only with the distribution model and therefore the other markets such are currently like the other 70% for which we will convert lot of or change we are selling in those places still probably might have wholesalers but the point is the wholesaler does not get any sweet deal from us anymore, and in the very near future they will

not be dealing with the territory that is why already lot of markets are well organised and this is the way we are going to go about therefore the wholesaler without us getting to tell them the story they themselves are saying that we will convert ourselves to this way or we will go out of business is fine, so therefore the larger picture is that the wholesale is what we basically are trying to move out making sure that the secondary sale is traceable and therefore the range reach replenishment becomes a reality of it.

Shekhar Bajaj:

I think what your question was that at this moment the way we were going about, we had direct dealers, we had wholesalers and those wholesalers will cover a lot of retail shops. So that same thing will be continuing today in 70% of the market at this moment. Now let us for example we have introduced in Mumbai we gave an example, but we have not introduced in Nasik, but we have not done in Kolhapur and Sholapur, so in Kolhapur and Sholapur our existing model, which is giving to a wholesaler in Sholapur and Kolhapur who will in turn will give it to his outlets will continue. So the day we say now Kolhapur, Sholapur also comes under this range and replenishment expansion scheme which is called RREP, which is a concept of secondary sales focus, then we will tell the distributor, the wholesaler there that instead of you sitting in your shops and expecting people to place order on phones to you, you will go shop to shop and give him service like it is being done by Hindustan Levers and Proctor & Gamble they go and sell their soaps shop to shop and we are going to sell fan shop to shop. So because of that once you do that then you will get a great amount of loyalty from them because today most of them are dealing in multiple products shopkeeper. Now he does not have time to keep going and buying from the wholesale market to go there, so instead of that here if somebody comes and gives him home service, he will say I will rather buy from Bajaj who is giving every week of home service and to that extent I am not wanting to keep more inventory also, so if we say reduce your inventory when I am coming every week, I will give you whatever you want, but why do you want to keep high inventory, so it becomes something which is additional cost initially, but long-term will benefit.

Dinesh L:

Sir my second question is within the lighting segment what will be our LED and non-LED split and within the consumer durables what would be the contribution from top two or three products?

Shekhar Bajaj:

As far as the next three years, I think 80% will be LED. I do not think there is anything else left over. There will be some amount of GLS which will still sell because till LED does not become available to the masses in the rural market at a price which is around Rs.10, a poor person in the below poverty line type in the villages and all who do not have money, they say this is great energy saving. It has got long life but I do not have Rs.100 or Rs.70 so therefore to that extent there will be GLS and there will be LED, CFL will be dead in three years, FTL, fluorescent tube will also be dead because there will be LED tube. So this is what is going to happen and long-term is LED, LED all the way.

Dinesh L:

Right now what will be the LED and non-LED mix?



Bajaj Electricals Limited
May 30, 2016

- Anant Purandare:** Total is 385 and out of that government order is 85 to 100 Crores.
- Shekhar Bajaj:** That is ours because they have sold 10 Crores LED lamps in the last 14 months, the Government of India through EESL has taken a total of 10 Crores lamps. 77 Crores in the next three years this is what they have officially announced.
- Dinesh L:** In the consumer durables what will be the contribution from the top two or three products?
- Anant Purandare:** The top products are like water heaters, mixers, irons, coolers, these are the top product, which are 100, 200 Cr kind.
- Dinesh L:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Jinesh Joshi from Asit C Mehta. Please proceed.
- Jinesh Joshi:** Thanks for the opportunity. Sir, in the initial remarks you mentioned that you are going to go a bit slow on the EESL front. Now I understand that ESL is probably a low margin business, but ultimately with a high volume ROCE, and right now whatever is happening in the LED market is predominantly happening in the ESL space. So what I wanted to understand why are we allowing other players by the virtue of not going aggressively in the ESL space to enter into the market and probably capture a market share in the future. So, I wanted to understand the whole thought process of not being through ESL space right now?
- Shekhar Bajaj:** Not that we are going to be aggressive. The problem is that unlike in case of CFL or GLS where the investment is involved, see the assembly operation, you got a small workshop you can open a small LED workshop and you can just assemble the three components and that makes it a LED lamp. So under the circumstances, every second person and therefore unlike in our consumer durables which I have been telling EESLs that you are also selling fan, so please understand that fan is different from an LED lamp and requires after sales service. So somebody wants to sell a fan, you ask where do you have your set up. If you sell it to some villager and then you cannot give service, somebody can give it cheaper because if somebody gives it to me I am suppose purchasing and selling and I am procuring a Rs.700 that chap can give to you at Rs.800 to ESL and ESL says why he is not able to give me at Rs.800. The answer is I have got a distribution to worry about. I have got to do after sale service. I have got a network to worry about. That is where in case what EESL is doing is they are playing the price game over the manufacturer, he says okay, even if I make Rs.2 to Rs.3 also if I sell Rs.50 lakhs I make a Crores rupees and I am happy. So that is where we are not seeing, we do not take it, but we are not going to be aggressive to as Anant mentioned that to go crazy and say okay I am operating at Rs.50. After the order is placed, the government requirement is so huge they will come back to us and say okay can you match L1, we will work out whether it matches, if we match L1 and may be Rs.3 or Rs.4 also if we make we will go ahead and do it but we do not want to go and scoot and then hope that we do not make losses.

- Jinesh Joshi:** Sir, I mean a followup on the LED space. Now there are a couple of lighting players who have started advertising about their LED offering. So how are we positioning ourselves considering that advertising is a critical aspect to get the non-government LED business apart from brand and distribution strength, which we already have? So are we focusing?
- Shekhar Bajaj:** As we have had the advertising campaign called "The Science of Light" which we did in Pro-kabaddi, the amount of advertising we did we have another four sponsors of the Kabaddi Tournament.
- Jinesh Joshi:** Sir, one last bit, now apart from a chip manufacturing and a chip packaging, what part of LED manufacturing that is being done in China currently could be done in India as well?
- Shekhar Bajaj:** Now it is done in India. Now we are not depending on China, only the LED chip is coming from outside, whether it can come from Korea, it comes from China, it can come from USA, it is coming from Hong Kong, everywhere, so basically everything is all made in India. Now everything is India because our numbers are so big we make everything in India now.
- Jinesh Joshi:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Rajesh Kothari from Alfa-Accurate Advisors. Please proceed.
- Rajesh Kothari:** Good afternoon Sir, a couple of questions. The first is can you just guide us what do you think will be the recurring employee cost in FY2017?
- Shekhar Bajaj:** You can take it on an average anything between 15% and 20% will be the increase in the employee cost, 5% to 10% new employees and 10% is approximate increase in salaries.
- Rajesh Kothari:** So despite providing higher provisions from current levels also we are expecting another 15% increase?
- Shekhar Bajaj:** You can take it that is the reality. We want to retain good people, you have to pay for it, but what is happening in the last quarter but what is happening in the last quarter is not a comparable situation, we have to take whatever is going to be the annual cost.
- Rajesh Kothari:** That is what I am asking. On 283 Crores FY2016 employee cost, compared to 226 Crores FY2015 where we have seen a growth of close to about 25%.
- Shekhar Bajaj:** Against that 25%, for the next year you may look at around 15%.
- Rajesh Kothari:** My second question is what kind of brand investment you are looking for in the current year?
- Shekhar Bajaj:** About 100 Crores, this year we did 86, so next year we look at may be 101 sounds good.
- Rajesh Kothari:** Third is just to recap you said that with this new distribution which will come into effect, this will lead to the 4% to 5% growth from 1Q FY2017 current quarter onwards, am I right?

- Shekhar Bajaj:** Double-digit also.
- Rajesh Kothari:** Then it will move to double-digit as we move forward.
- Shekhar Bajaj:** Double-digit plus.
- Rajesh Kothari:** Sir, what is the current secondary sales growth right now because although in primary terms it is reporting like flattish growth or may be negative in few categories?
- Shekhar Bajaj:** It is not easy to really tell because we cannot exactly know, exact secondary sale we are not tracking it we know who are buying it but to say percentage wise it is when we become fully RREP 60% to 70% of the turnover just now only 30% is coming through that. Then also we are not giving those extra discounts; we are not pushing that way, so therefore to that extent the primary sale also gets impacted. Our guys are pushing; extra discount is not being given. All that is impacting. They are getting our inventory levels of our dealers corrected, secondary sale clearly according to me is my guesswork. I do not have data to justify, but I think you would be may be close to double-digit growth, close to 8% to 9% growth should be definitely there because generally nobody is saying that there is no demand or anything like that. It is only that we are not going to push unnecessarily.
- Rajesh Kothari:** When do you think this margins which is around 4% or something like that by when do you think, is it possible to obtain a double-digit margin, because margins has to be very, very low in this business? Do you expect any improvement in margins going forward?
- Shekhar Bajaj:** I think it will only improve not by improving first level margins. The margins will improve when our fixed cost distributed over larger volumes, then our similarly publicity gets distributed over larger volumes, the percentage of publicity and employee cost and fixed cost goes to may be about 12% to 15%, it must go down to 10%, if it goes down to 10%, then certainly you say your margins improve by 4% to 5% that is nothing to do with our margin improvement. Our bottomline will improve by 4% to 5% over the next two to three years once our RREP gets established and we start having the required growth. The growth takes place, our volume takes place and with the same amount of fixed cost, then the whole mathematics changes. Today, it is the reverse. Fixed cost keeps going up, our employee cost has gone up by 25% as you said and our sales is flat or -1%. So that is our problem.
- Rajesh Kothari:** When you say it is 200 Crores, what is that 200 Crores because that consumer durable is 540 Crores in Q4? You just mentioned of 200 Crores of consumer durables, so I was slightly confused?
- Shekhar Bajaj:** 280 Crores were appliances.
- Rajesh Kothari:** 280 Crores, which are right now kind of, zero growth in fourth quarter?
- Shekhar Bajaj:** Correct.



Bajaj Electricals Limited
May 30, 2016

- Rajesh Kothari:** Thanks.
- Moderator:** Thank you. The next question is from the line of Dipen Sheth from HDFC Securities. Please proceed.
- Dipen Sheth:** Sir just wanted a clarification on a small aspect. You have a 2000 Crores consumer durables business appliances in fans as you call it, I specifically remember you mentioning during this call that one of the good and sticky parts of this in terms of franchise and continuing brand strength is the post sale support that we offer. Sir, I just want to know is this the support that we offer only in terms of the warranty support after the sales may be for the first one year or six months or two years as the case may be for specific appliances or is it a continuing stream of business for us and if so, the 2000 Crores annual that we have done for FY2016 does it represent services revenues also?
- Shekhar Bajaj:** Actually the service centers are not only for guarantee period. It is forever. I mean, we are actually looking forward to people coming and getting it serviced after the guarantee period, but unfortunately our experience has been for small appliances and iron and toasters, normally a person after the guarantee period is not going to our service centers, but they prefer to take it from our neighbouring electrician, who takes care of the product and therefore to that extent our after sales service business, after guarantee period is not very great. It is not very, very great because people prefer it to do it from their neighbouring shops.
- Dipen Sheth:** Sir, if that is the case, then why is it a sticky or an admirable business at all, it is not contributing to revenues and except for the warranty period it is not really important for our customers then why is it an important thing for us and what great brand strength does it add to?
- Shekhar Bajaj:** Tell me if you buy a mixie and in some small place or you buy it even in a city and your mixie gets spoilt within guarantee period and you wanted to get serviced, somebody says okay you come to the shop or go to the service center, send your mixie there, and then come after two weeks and three weeks and go and pick it up, instead of that we are saying that you do not need to worry, we are going to give you service, whenever you log into our service network, immediately somebody in the next 24 hours, or 48 hours will call you.
- Dipen Sheth:** That certainly is very reassuring but at least during the warranty period I have somebody who can visit my home and rest the problem that I have with the appliance.
- Shekhar Bajaj:** We are more interested in after warranty period and not during warranty period because during warranty period we do it free of charge. After warranty period when they come and get it serviced, then we make money so we are very much interested in after warranty period but I am saying it is not the amount of business we would like to have warranty period is not that high, which we would love to. We say the amount of consumer durables that we have sold fans and appliances over the last 20, 30, 40 years is so high that there should be so much of after warranty period demand, service is not that high because the people find it convenient to just go to the neighbouring electrician. That is the problem.



Bajaj Electricals Limited
May 30, 2016

- Dipen Sheth:** So there are hardly any material revenues, which are being generated from post warranty services, and you wish it was higher. That was the point, right?
- Shekhar Bajaj:** Exactly and we have a set up and the benefit will go to our service centers. It would not come to company because company is saying we are having this service centers to service you and let the service center make money. They are more interested in doing our business. That is our objective. So we are not looking at that as a revenue source. When we look at possibly like in case of air conditioners if we think of going for AMC's then it is a different matter. Then it becomes a company revenue source. At this moment, we are not looking at that. We are looking at the viability of, we have got about 400 service centers who have got about 2000 service mechanics all over India, so we want them to become viable. They must make money and we want them to give good service.
- Dipen Sheth:** What is implied in your statement? If that these service centers the revenues they make on post warranty support are revenue that they keep; it does not look like we have any lean on those revenues?
- Shekhar Bajaj:** we do not even know because the service center is there, somebody goes and gets it serviced who is going to keep a track, how many people came and serviced and all that, you know what happens is which is within guarantee when they service they will let us know that these are the 20 irons which were spoilt, we serviced it and we therefore they have got per piece service charge which they pay them and if any spare parts which needs to be replaced we give a replacement of that.
- Dipen Sheth:** Sir, just to understand this therefore these service centers are owned by other people, **franchises** to call them what you will so what is the expense that we have incurred on account of these service centers out of let us say last year if I was to ask you for a number?
- Shekhar Bajaj:** Today including our own people, including the service center, including spare parts, including the service mechanics, everything you can take it around 60 Crores in a year. That is about 3%. Now what happens is when we do hopefully we will do 2500 Crores let us say in the next few years then my 60 Crores is not going to go up.
- Dipen Sheth:** Not at least in the same proportion for sure?
- Shekhar Bajaj:** Not only that we are seeing that our quality needs to be improved why should I have so much services requirement, I must reduce my service requirement so that with 60 Crores I can take care of 2500 Crores of turnover., Same thing which we have done in EPC. EPC earlier we had 690 Crores of capital employed and we did a turnover of 1100 Crores this year we have done 160 Crores turnover against 1300 in the previous year and our capital employed has gone down from 690 Crores to 630 Crores that is the same way that we have to reduce our service maybe after two years it may go down to 50 Crores, why should it be 60 Crores plus, we must improve our quality, why should a service be required at all.



Bajaj Electricals Limited
May 30, 2016

Dipen Sheth: That is very ambitious. I take the point.

Shekhar Bajaj: I think we have got another meeting, so let Rahul decide, may be one more last question.

Moderator: Thank you. Ladies and gentlemen we will take our last question now, which is from the line of Harish Biyani from Kotak Securities. Please proceed.

Harish Biyani: Sorry Sir, I joined the call late. If you can give the breakup of appliances into kitchen appliances, domestic appliances, Morphy Richards and fans, the sales break up for the year?

Shekhar Bajaj: For the year, fan is 640 Crores, Morphy Richards is 208 Crores, appliances in kitchen is 627 Crores and domestic appliances 525 Crores, total is 2002 Crores.

Harish Biyani: Sir, lighting the breakup between luminaries and lighting for the year?

Shekhar Bajaj: Light is 601 and luminaries are 456.

Harish Biyani: Sir, how much of our sales would come from cities and tier I towns and how much would come from typically tier II and tier III?

Shekhar Bajaj: No idea. When I said no idea because what we sell somewhere we have got wholesalers that is why we want to stop these wholesalers. Wholesalers sell from Mumbai it goes to Kolhapur, Sholapur, it sells currently anywhere in the world, it can go, so how do you know how much are you selling in the city, if I sell in Mumbai, it does not mean it is selling in Mumbai. It is only sold through a distributor or wholesaler in Mumbai. That is why we do not know about the numbers.

Harish Biyani: Sir, one clarification, when you gave the LED lighting number it was 385 Crores, if I am not incorrect and of which 95 Crores was EESL? This 385 is only bulbs are it correct?

Shekhar Bajaj: Total LED products.

Harish Biyani: Okay including luminaries?

Shekhar Bajaj: Including luminaires altogether.

Harish Biyani: And 95 is ESL portion total?

Shekhar Bajaj: Around 80 plus, because 80 Crores is the EPC part, may be 100 Crores,

Harish Biyani: Very helpful. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen due to time constraint that was the last question. I would now like to hand the floor over to Mr. Rahul Veera from Edelweiss Securities for closing comments. Over to you!

Rahul Veera: Thanks Zaid. I would like to thank all the participants on this conference call and wish the management well for the forthcoming quarters. Thank you everybody.



Bajaj Electricals Limited
May 30, 2016

Shekhar Bajaj: Thank you everybody. Thank you from all of us from Bajaj.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of Edelweiss Limited that concludes this conference call. Thank you all for joining us. You may now disconnect your lines.