

Conference Call Transcript

Bajaj Electrical

Q2FY11 Results

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Corporate Participants

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Questions and Answers

Moderator: Ladies and gentlemen, good evening and welcome to the Bajaj Electrical Q2 FY'11 Results Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participants will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's opening remarks. If you should need assistance during the conference, please signal an operator by pressing "*" and "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to handover the conference over to Mr. Rahul Gajare, of Edelweiss Securities Limited. Thank you and over to you, Sir.

Rahul Gajare: Thank you. I would like to welcome all participants on behalf of Edelweiss Securities to the Q2FY11 earnings call of Bajaj Electricals. From the management, we have with us Mr. R. Ramakrishnanan, Executive Director, Mr. P.P. Jathar, CFO and Mr. Lalit Mehta, Executive President (E&P BU). We will have opening remarks from Mr. Ramakrishnan after which we will throw the floor open for question and answer. Thank you and over to you, Sir.

Ramakrishnan: Thank you very much Rahul. I want to welcome all the investors who are on this particular conference call. At the outset I just wish to clarify that whatever are the figures in numbers it needs to be understood appropriately. In terms of revenues what needs to be kept in mind is we have grown our revenues this year by about 16% whereas last year, growth in revenues was about 34% for the quarter. That is why the compounded growth in revenues is 25% which compares very favourably with historical compounded growth of 26% in terms of revenues that we have add of the company. For the half-year mark, revenues have grown in the current year by 24.1% and by about 24.7% for the half year.

From a PBT perspective what needs to be kept in mind is last year in the same quarter we had a PBT growth from INR 19.1 Crores to 44.4 Crores, which was a growth in PBT 133%. PBT percentage last year grew from 5.05 a year before to 8.79%, whereas this year PBT percentage is at 6.15%. So while the PBT number appears to be -19% (minus 19%) what needs to be kept in mind is from CAGR perspective the PBT has grown 38%, so 25% revenue growth, 38% PBT growth compounded whereas 15% growth year-on-year and -19% (minus 19%) from PBT perspective.

From a PAT perspective for the quarter is -20% (minus 20%) but that is because last we grew 139% in terms of net profit. The CAGR in terms of net profit it is still 38%, so 3.23% a year before at grown 5.77 for the quarter and currently it is about 3.95%. For the half-year mark, PBT stands at 6.54% against 8.06% last year and 5.05% year before. So, while PBT had improved by 3% in the last year same quarter, largely driven by a very, very modest and a very benign kind of a commodity pricing situation in a extremely grave,

extremely difficult commodity situation, this quarter we have still managed to achieve PBT at the same level as the last year half year. So PBT as flat at about 0.7% growth but CAGR in terms of PBT stands at the solid 43.1%. So, for the half-year mark 24.7% CAGR in terms of revenue 42% in terms of PBT , 43.5% in terms of PAT 44% in terms PAT in CAGR terms.

Now, in terms of all the businesses that we are in, the good news is that the revenue growth that we have achieved in terms of the half-year mark our appliance BU is growing at 32%, our fans BU is growing at 40%, our Morphy Richard's BU is growing at 39%, the Luminaires BU is growing at 28% and the lighting BU is growing at 19%. Even from a CAGR perspective all these businesses have got very healthy CAGR.

The engineering and projects BU has had a half-year growth of the both 2% and the CAGR is 32%. That is largely because last the E&P BU during the same period had recorded a fantastic growth rate of about 79%, naturally because that is a very high base. What you are seeing in this particular quarter and half-year is the base effect in terms of the E&P BU and for the quarter also E&P BU has grown about 76% last year whereas in the current year the growth rate is relatively flat given the CAGR in the quarter of about 33%. So net-net revenue growth in the quarter if I look at it about 10% in lighting, about 32% in consumer durables, about 0.3% in E&P and as a company revenue growth of 16.22%.

In terms of segment level performance for the quarter consumer durable business, which is appliances and fans has grown 27% over the previous year. The good news is in a very adverse commodity cycle situation margins have been taken care of exceptionally well. Margins from 11.79% last year are at 11.35% in the current year for the quarter whereas for the half-year the margins in the consumer durable business have against 12.2% last year are at 10.5% giving a growth in margins of about 18%. For the quarter, if I were to say, the engineering and project BU has had a disappointing quarter from a profitability perspective. Last year their operating profit was at 8.62% against a year before of 8.62%, it has gone up to 11.2% whereas in the current year is at 3.1%.

I would like to go a little more in detail and explain this. Typically, the E&P BU has multiple businesses. One is transmission line towers, other one is rural electrification, other one is high mast and galvanized poles and then there are lighting projects. Now, typically, what happens in a project such as TLT or rural electrification, there are certain times when we supply all the items that we manufacture or we procure and against supplies we get a significant amount of money from the clients for whom we are doing the work. Now, there what happens, margins are very high but over a period of time when the cost kicks in, in terms of labor, in terms of erection, in terms of commissioning, and in terms of site management, etc., that is when the margin pressures come in. So, somewhere from a product mix perspective what I would like to say is - in this quarter and in this half-year what we have done is quite a bit of execution job, we have kind of completed whereas new projects in terms of supplies relative to

what projects have been completed from an execution perspective we find at the mix has been a little different.

I will also now turn a little bit and try and give you a little bit feedback on what has happened on the commodity front. On the commodity front copper is a very, very critical commodity for us. What needs to be kept in mind I mean I were to just give you some numbers in Q2 FY'09 and FY'08 Q2 copper was almost USD 7.62 per kilo, in FY'09 that dropped to USD 5.98 per kilo that was a sharp reduction of about 22% in terms of the copper price as against that 5.98 we are currently at USD 7.28 per kilo with this sharp increase of 22% in terms of price of copper for the quarter. The corresponding figure in terms of prices of copper in the first quarter of this year from 8.44 in FY'08 in came down to 4.55 and now which is it 6.98. That is a sharp increase in the first quarter of about 53%. So the copper being very important from our luminar business perspective, from our fan's business perspective and to some extent of the E&P perspective, copper has really played havoc with our margins.

Aluminum is other critical commodity. In aluminum for the quarter, we had FY'08 2.75, which came down sharply to USD 1.82 per kilo. That is a reduction of about 34% for the quarter in terms of prices of aluminum. That 1.82 has climbed to 2.08, which is a sharp increase of 15% in terms of prices of aluminum and in the first quarter the figure was about 40% over the corresponding first quarter figure in terms of the aluminum price last year. And, similarly, when I look at zinc, which is the very important commodity from the point of view of our E&P BU, the zinc prices in the first yearlast year was very benign, from 2.11 it came down 1.48; it has climbed back to USD 2.1 per kilo. So that is coming to an increase of 42% in the first quarter and 1.71 to 1.77 to 2.02, i.e. an increase of 14% in the second quarter. So, fundamentally what you are seeing is the impact of certain global situation in terms of critical raw materials that have been unique in this quarter in the sense last year extremely benign, this year extremely hard and obviously that has had a certain kind of an impact.

Now businesses like consumer durables, which are appliances and fans where we have a certain degree of pricing power, we have been able to pass on the burden and thereby protect the margin. What I am expecting going forward is in the third quarter there will be some signs of these commodities easing, we are seeing first signs in terms of that. But, in the fourth quarter, we expect a relatively better situation from the commodity perspective and so profitability in the fourth quarter is likely to be really strong. In the third quarter, while we are sitting on amount of inventories, which is at a higher price and we are already taking some pricing revision, the full impact of the margin improvement may not come around. But, it is definitely as we speak better revenue growth from the E&P BU and it will also see better margin improvements terms of luminar. Having said this, I believe that the company has been always steady in terms of its annualized performance. There can be quarter or a half-year, where there are margin pressures but usually there is compensation factor in terms of the next quarter or the next quarter, half-year where there has been a substantial

improvement in the company's operating performance.

All that I want to convey to our investors is that the company we are extremely conscious of our commitment to enhancing shareholder value. I do not think I would worry at all about the health of the company because what has happened is fundamentally a part of the commodity cycle, a part of the product mix in terms of the E&P BU. The good news is the order book currently in the E&P BU stands at about INR 11, 50 Crores, special project and rural electrification is about INR 370 Crores, high mast and steel furniture is at about INR 110 Crores and transmission line towers and other lattice structures is about INR 670 Crores. So, this kind of an order book is healthy. It augurs well from the company six months and visibility is for the next 15 months more or less from an order perspective so all in all probably the most difficult quarter that I have encountered in Bajaj Electrical.

I have conveyed in last quarter's conference call that this is going to be difficult quarter from a margin perspective. I would have the E&P BU to grow its revenues a little more, probably cushion some more amount of product supply, but for various reasons relating to approvals, relating to client specifications, relating to design approval that did not happen to the extent we would have liked it to happen. But, hopefully the coming six months will be good E&P BU also. I think with this I will stop my talk here. I will be very happy to questions and respond.

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

Renu Baid: Good evening Sir. A challenging quarter for you indeed, right?

Ramakrishnan: Yes, it was anticipated. I had mentioned it in no uncertain terms in my last concall, I did not expect it to be as tough as it turned out to be, but I would say it was not unanticipated.

Renu Baid: Sure. I think broadly that the volume is more or less in line but then I think the only factor or the only variable, which we would like to understand, would be from the perspective of E&P margins. As we understand there were pressure in terms of execution as well as commodity price push, but since the margins were very muted just about 3% levels what I would like here to understand is to what extent of E&P projects are covered under the price variable clauses, because as far as we understand TND go through electrification as well as the TLD are covered by they we process for aluminum, steels, and zinc so to what extent have we been hit on commodities on a TND projects?

Ramakrishnan: As a broad point, I want to comment it is not really relating to the commodity cycle, it is also related to what phase of the curve are our projects. For example Commonwealth Games we had a lot of projects. Those projects needed to be completed and so we needed to ensure that it happens in time and we hand it over as whatever are the deadlines and schedule. A very often getting those projects themselves, getting the clearances etc., had got badly delayed, but the Commonwealth Games would not wait, so we had to incur some amount of higher operating expense. I have Mr. Lalit Mehta with me

who is the Executive President in charge of the E&P BU. He has built that BU almost single-handed. Lalit Ji can you answer the call?

Lalit Mehta: Good evening. I would like to mention two or three important aspects of E&P BU business. One is that all these long duration projects will cover almost 8-10 quarters in the financial year, it runs over two to three financial years and make it cover, 10 to 12 quarters. So initially like a mountain the margin will start rising, supply will be there and then the execution part the expenses are on more on site establishment, labour, so it is always we can never have a very straightforward curve in the margins quarter-to-quarter. Of course, we try and maintain the margins for the projects, but quarter-to-quarter it is difficult. Then, unfortunately this quarter was heavily bent on the execution and completion side. We had about 8 to 10 jobs in the Commonwealth Games. We had a very important transmission line job, supplying power to the Commonwealth Games through the power station. There were heavy monsoon and it was just not possible to do a transmission line project in monsoon, because of the time constraints we had to hire extra manpower, machinery cranes and then all, but somehow we could not miss the deadline, so that was one aspect. The other aspect is our product mix. Just for example between the first and second quarter I will just to tell you that our power distribution that is rural electrification contributed only 6% of the turnover in the first quarter and 32% in the second quarter whereas the transmission line was 47% in first quarter and only 27% in the second quarter. There are huge variations quarter-to-quarter and of course the margins also vary from business-to-business like high mast, this is a good margin business. Others are moderately lower margin, so all these factors do play an important role to see it from a quarter perspective and unfortunately this quarter was heavily loaded towards the execution side.

Renu Baid: So given the kind of what we have already seen in the three to four months, we have seen good inflow of new orders. So, again we would expect that there would be some lag by the time we start booking revenues on these projects.

Ramakrishnan: In these large orders, the first three to four months go in just the design, engineering, approvals we have to make prototypes, get them tested, we have to survey the route, finalize the lines. So, first five to six months all the engineering work to be done then only the manufacturing will start. That is why you will see typically most of the financial years we have a ratio of almost 33% turnover in the first two quarters and almost 60-65% in the second half. I think that is what is going to happen this year also and the way things are I think the fourth quarter will be very nice. Third quarter will see some improvement and that is how it goes. Most of the government jobs are awarded in late March when their financial year is ending and then the engineering will take four to six months.

Renu Baid: But sir, if you look at the existing mix I mean in the first half it has been almost flat and last year again we had seen a reasonable good growth in second half then do you think for full year given the way order inflows had

happened in the last three to four months can we expect second half growth to be close to 25-28% in current financial year or overall it could be slightly lower?

Ramakrishnan: I think I am expecting it at almost two-thirds of our turnover will come in the next two quarters may be 30:70 we are supposed to complete most of the rural electrification job by March 2011. So, all the supplies will be completed. Another thing is that we were waiting for some order amendment; some quantity variation was there which was delayed, we have just got the amendment, so now the supplies will start for those jobs now so I think the third quarter will be good, but fourth quarter will be if not excellent it will be very good.

Renu Baid: Probably, we should see it on a full year basis is not quarter-to-quarter basis that profitability should be line at 10.0-10.5% not lower than that?

Ramakrishnan: Yes. Projects business I think it is a little unfair to go on a quarter-on-quarter basis, because these run over eight quarters, 10 quarters, 12 quarters and the supply and installation is almost 80:20.

Renu Baid: Right. Sir, just want to know on the current order book that you have a close to 1150 to what extent of the projects are covered in the price variation clauses?

Ramakrishnan: Transmission lines almost 70% of the jobs are covered in the price variation, rural electrification the cables and conductors are covered only the cement poles are not covered.

Renu Baid: In percentage terms of the (indiscernible) 22.42 business?

Ramakrishnan: Are we almost 40% covered under the price variation and then transmission line towers almost 75% is covered end of the price variation.

Renu Baid: Just one more thing on the project side the order that we have seen the last quarter from Sterlite Technologies; how is the order progressing in terms of execution with respect to getting designs, approvals in other site, because that is again a project with a very tight execution schedule?

Ramakrishnan: Yes, but that is a fully design based job, so we have completed survey of half of the line. We have posted our people we have got two-tower designs approved. Now we are to make the prototype tested, so that will take another two months and then only the supply will start. So I think the real thing will start only in the fourth quarter.

Renu Baid: This is a fixed price project, correct?

Ramakrishnan: This is our fixed priced project.

Renu Baid: Okay. I think that should be broadly on the E&P side, and just coming back onto the business as a whole. Sir luminaires segment was among the segment, which was not picking up well for close to 9-12 months perspective and I am sure last quarter we had seen some good traction there. Sir, if we could just throw some specific light on how has the performance been 2Q and how does that outlook in start business?

Ramakrishnan: That is right. The good news on the lumBU is the growth rate

in terms of the half year is approximately 28%, 28% growth for the half year is strong for this BU. Fortunately some of the segment in which we have achieved growth. We have achieved a 31% growth in area lighting, 32% growth in modern workspace lighting, 22% in industrial lighting, roadway lighting is the little soft at this point in time because not much of government spending is happening in terms of municipal corporations or other parties in terms of roadway lighting. I think generally the businesses is currently quite robust, but what has also happened in this particular business is because we quote at a certain point in time and very often these are fixed prices in a kind of a situation where there is increasing pressure on account of copper and aluminum and these are very critical for the luminaires business. Margin tends to get impacted. Now we are hopeful that with the slight change in the commodity cycle that we are expecting the fourth quarter should be relatively large quarter for the luminaires BU, the Q3 and Q4 we should be able to tangibly improve our margins in that business.

Renu Baid: I think that should be probably from my side. Thank you so much. All the best for the year to come. Thanks sir.

Moderator: Thank you. The next question is from line of Kirti Dalvi from Enam Asset Management Company. Please go ahead.

Kirti Dalvi: Good evening sir. Though you have given a fair bit of idea about the performance, would it be possible to get how much was our volume growth in the second quarter?

Ramakrishnan: Broadly, I would say, the value to volume difference could be approximately around 3%. It is very difficult to speak of the volume growth because our products are so different. I mean we have a bulb, we have a compact fluorescent lamp, we have a water heater, we have a micro wave Oven, we have a High Mast and we have a transmission line tower. So very tough to talk volumes. On an average, I would say that cost should have taken about 3% to 4% in terms of value the rest of it would be volume and some substances like compact fluorescent lamps etc., where prices are coming down, I would say volume would be ahead of the value.

Kirti Dalvi: Sir, this question was because since the raw material prices are moving up; do you see any kind of price rise in many of our products going forward?

Ramakrishnan: We take those decisions almost consistently on every two-month basis or a quarter basis as the situation demands. Let me assure you our performance in appliances and fans we would not have clocked them this kind of a performance if we had not taken the right pricing decisions at the right time. I mean in fact quite gratified that despite the price hike that we have taken, we have recorded solid numbers in terms of revenue growth. The 32% revenue growth in consumer durables I think is very strong, in the current circumstances in the quarter 10.1% in lighting and about 24% for the half-year in lighting, 37.5% in the half-year for consumer durables is I think an outstanding performance.

Kirti Dalvi: But, sir given this scenario is there any kind of revision, means topline definitely will we be able to do it given our Q3 and Q4 performance, but in terms of margins would it be possible to maintain, whatever we have achieved last year?

Ramakrishnan: I would not like to comment upon that. You are aware that we do not make forward-looking statements, but I will be quite honest with you, it all depends on what happens in terms of the commodity cycle. See if the commodity cycle corrects itself very sharply then for us to be able to improve our margins significantly is not a problem, but if let us say the commodity cycle for whatever reason, call it speculation, call it demand elsewhere or whatever, fortunately the growth rate in China is not too much of a cliff. I do expect commodity prices to stabilize a little bit and that would have a good impact in terms of our bottomline and the third and fourth quarter.

Kirti Dalvi: Sir, primarily this question was our E&P business division because the first half we have done only 6% would it be possible again to that double-digit margin. I purposely understand given an explanation, which has been given, earlier for whatever the supply is or the execution jobs we have done in the first half that quantum was more but yearly basis would it possible to get to that E&P margin?

Ramakrishnan: Yes. I think, it will definitely be much better then what we have today and we have some good orders. I think we will have a good show the end of the year, but I can not tell you in terms of percentages we should be a very satisfying performance.

Kirti Dalvi: Okay. Sir one more question in our balance sheet the capital employed in our E&P division as well as has been this is other in the unallocable part of the business as gone up. Primarily on account of what?

Ramakrishnan: Mr. P. P. Jathar, our CFO will answer the question.

P. P. Jathar: As far as the BU is concerned the capital employed has gone up mainly because of debtors and other unallocable if you compare, which is September 09 and September 10 it would not be really comparable because these are all our assets, if you see between March 10, June 10 and September 10, there was hardly any increase. They are around INR 100 Crores, of which, INR 50 Crores is for an office, which we have purchased and very shortly we will be taking the possession and around INR 20-30 Crores is for another branch offices in our premises, so that is where unallocable capital is.

Kirti Dalvi: But, Sir how is the overall working capital situation?

Ramakrishnan: Overall working capital situation as far as our marketing is concerned at net level it has remained more or less with previous year around 1.5 months, so that is where it is. Engineering and products division has gone up mainly because sales remains stagnated while debtors have gone up and moving forward if you need more in terms of months, which is expected to come down.

P.P. Jathar: Dalvi, if I may respond further in the consumer related businesses

against whatever revenue growth that we have achieved, which is strong working capital deployment has gone up by about 19% and in the engineering and project business, working capital deployment has gone up by about 17%. At the company level, we have had a total increase in working capital deployment of about 17.6%.

Moderator: Can we request you to come back in the question queue later for the questions?

Kirti Dalvi: Sure sir. Thank you very much and wish you good luck.

Moderator: The next question comes from the line of Misal Singh from Religare Capital Markets. Please go ahead.

Misal Singh: Yes sir. Sir wanted to understand of the growth trajectory of various. I wanted to understand on the growth trajectory of the consumer durable business and the lighting business, you believe that the robust growth that you have seen in the consumer durable business that can be maintained over the next two years or so?

Ramakrishnan: On the consumer durable side quite clearly if you look at it currently we are having a CAGR of 24% in the appliances, fans is 32%, lighting and lum put together CAGR is approximately of the order of about 10%, lighting and lum CAGR will definitely improve. Appliances and fans historically, appliances has been at a 30% CAGR, fans has been at about 28% CAGR. I think both these businesses achieving a CAGR of about 25% if I look at the next two years it is certainly possible. Probably luminaires and lightening together to CAGR and lum will be about 20% the CAGR and lighting will also be about 20%.

Misal Singh: You think the growth will be higher in the E&P segment over the long-term going ahead?

Ramakrishnan: See, quite frankly if you ask me from the E&P BU side in terms of consequent growth, is only how much of risk we want to take and how much of growth we want. I mean the power sector in India is going to see about USD 200 billion of investments in the next five years. Quite clearly we are in the distribution end in terms of rural electrification. We are in the transmission end in terms of power transmission and we are there in lighting projects in terms of whether it is power plants or actual lighting and we are also in terms of roadways lightning fairly strong player in India. So quite frankly we are in a unique position to take advantage of the growth opportunities that the power sector shows up in the context of India, but what we are doing in the E&P BU is playing a calibrated game in terms of managing the risk with whatever rewards that we are seeking. As you notice in this particular quarter somewhere the entire performance of the company has been kind of turned topsy-turvy because E&P BU has not grown and it has taken a dip in margins because last year they did exceptionally well from a margin improvement perspective. Particularly, when you are having the slightly commoditized kind of a business and the certain business where the pricing is a function of what is happening at that point in time in terms of competitive pressures, new entrants coming to the business so we do not want to overdo the risk. We would like to do calibrated

profitable sustainable growth over a period of time and hence we are cautious. Currently, E&P BU does about 33% contribution to the company turnover and has been on record to say that may be in the next five years that number might be looking more like 40%.

Misal Singh: So on the margins front for the long-term on the consumer durables business what makes you believe that these margins are sustainable, what would be the entry barrier essentially I am trying to figure that out whether this margin that you have on the consumer durable business of around 11-12% sustainable over the next two to three years?

Ramakrishnan: See one is I draw some lessons from history. As a company we have been improving our EBITDA margins by about half a percentage point each year for the last quarter four or five years even in the consumer business. In the current year when we are faced with so much of odd from a pricing perspective I think we have not done too badly in terms of the severity of the raw material situation which I have covered a little while ago, I think we are doing fairly well. When there is a commodity decline in terms of pricing, we will maintain our pricing in terms of the market to the extent we can and thereby we will improve our margins and bounce back to the level at which we are. Quite frankly, I think the Indian consumer story is very strong, built on consumption, built on lifestyle aspiration, built on new construction in terms of housing, built on upgradation and we are there clearly covering the entire spectrum whether it be fans, whether it be appliances, whether it be kitchen, whether it be the bathroom, whether it be water heaters, whether it be room coolers or microwave ovens or whatever. So I am confident that I really do not think there is any concern that I have in terms of the consumer durable business.

Misal Singh: So, essentially believe that these levels of (indiscernible) 37.12 consumer durable and sustainable for the next two to three years?

Ramakrishnan: Sustainable and the commodity cycle plays havoc. When I say copper, which has in the past touched about USD 9000 a tonne for some reasons it goes to USD 12,000 a tonne. Obviously you do not have the pricing power to go ahead and pass on the entire burden to the consumer in one shot. We will do that in a phased manner but is not a switch-on-switch-off kind of a thing that can happen in the laptop. Even those who are dealing in speculation and commodities are taking calls are doing the best to try and improve their funds, profitability or whatever by resorting to indiscriminate kind of speculation and commodities. That is not something that we do business in the real world can really do much above. We do have hedging strategies in place and I think we will protect ourselves.

Moderator: Sir the line for Mr. Misal Singh has been disconnected shall we move on to the next question? The next question is from the line of Rupen Rajguru from DSP Merrill Lynch. Please go ahead.

Rupen Rajguru: Hi sir this is Gaurav here. Just wanted to know on the E&P BU going ahead what do you expect should that steady state margin on a full year

basis?

Ramakrishnan: I think I will give a range. On a full year basis while in the past we have achieved 10.62%, which was our full year basis margin last year I would say on a sustainable basis if I were to look at it, in 2008 it was 9.35, then it became 10.62 for the half-year and currently it is at 6% for the last year. I would say that sustainable would be anywhere between 9% and 10.5 %.

Rupen Rajguru: Can you also repeat the order book break up for our E&P segment?

Ramakrishnan: As I mentioned earlier approximately INR 370 Crores in special projects and rural electrification. About INR 100 Crores in High Mast and street light furniture that is road furniture about 110 INR Crores and about INR 670 Crores in TNP and other latest structure total approximately INR 1150 Crores.

Rupen Rajguru: What is the average execution per year?

Ramakrishnan: Lalit Ji will you respond?

Lalit Mehta: In the High Mast and street light furniture business, it ranges from may be two months to four months, unless it is the NHAI street lighting project, which could be about six months. Rural electrification will be about 18 months to 24 months and the large transmission line will be around 24 months to 30 months.

Rupen Rajguru: That is it from my side.

Moderator: Thank you. The next question comes from the line of Sangeetha Saranathan from IIFL. Please go ahead.

S. Saranathan: Hi good afternoon. Thanks for taking my question.

Ramakrishnan: Always a pleasure Sangeetha, I am glad you are on the call.

S. Saranathan: On the E&P BU, could you give some sense on when we take fixed price contracts how do we manage our raw material cost, do we usually immediately enter into some kind of a forward contract to cover it or do we partly keep that open?

Ramakrishnan: Normally, we cannot buy the material in bulk or book it, because after we design the tower then only we know what sizes to buy. So in a fixed price contract, we have some cushions built in, we have an idea that the steel price could go up by may be 5%, zinc price could go up by so much and we also look at the competition who are the people who are competing, because we also have to be L1 to get the job.

To respond further typically what we do. We look at the firm price contract and we look at visibility in terms of order book. We look at what does the company need in terms of copper, aluminum, zinc, etc., from a three-month perspective and keeping in mind the forward rate three months ahead we have a proper hedging policy. We have a hedging committee. The hedging committee has advised some advisors outside and we look at we try and link it up to the real world in terms of what is happening. So typically in the commodities what we do is, in a situation where we expect certain stability or we are not clear about which way the market is likely to move, we cover about 50% of our future

demand and 50% we will leave it open. In a situation where we expect prices to rise in the future, we cover 75%; we will leave 25% open. In a situation where prices are coming down, we cover probably 25% and we keep 75% open. So in a manner of speaking, we look at our hedging strategy in the context of expectation in terms of price going forward and take appropriate call.

S. Saranathan: Okay. On the execution versus new projects point that like you rightly mention perhaps looking at it on a quarter-to-quarter basis there could be a lot of anomalies. But, if one looked at it, say on a full year perspective, would it be fair to assume that the execution part as to the new projects part in the E&P BU should be fairly similar in proposition in FY'11 as compared to FY'10 should it sort of even out?

Ramakrishnan: Well, I will be quite honest with you. In the past, there was a certain period where the TLT part of our business was significantly higher in the other part of the business. When we entered special projects and rural electrification in a bigger way and the ratio changed. So quite frankly it is a function of what proposition is TLT, RE special projects, High Mast, galvanized poles, etc., what is the total bundle, lot of business that is being done under E&P BU. Clearly, growth revenues are strong in TLT, in RE and there are steady profitable growth steam in lighting projects, in High Mast, in galvanized poles, etc. So, to be frank with you it will be very difficult to generalize, but yes our endeavor is to ensure that the overall mix in terms of the business has the profitable part of it, has a revenue part of it and we arrive at a weighted average margin, which is suitable from our objective of profitable growth. So give or take a percent here or there, I would say that on an annualized basis margin tend to be somewhat comparable.

S. Saranathan: Okay. Yes that pretty much answers my question. Thank you.

Moderator: Thank you. The next question comes from the line of Amol Rao from Antique Stock Broking. Please go ahead.

Amol Rao: Good evening, Sir. Couple of questions on the project business, are our projects primarily covered under the purview of RTG?

Ramakrishnan: Yes, the rural electrification is covered under that.

Amol Rao: Sir is there any other schemes on the state level or any other central government schemes, which have the same scope?

Ramakrishnan: One very important scheme called APDRP project. APDRP, but the revised one, the earlier one did not do so well, now they have revised and I think they are looking forward to that. In this line it does not involve the connections to the BPL household, they are going to divide the transmission line into power and lighting. So the power part will go to the farmers for their pumps and the other line will go to the lighting segment.

Amol Rao: Basically, it is to cut down transmission losses right Sir if I am correct?

Ramakrishnan: Not transmission losses because it is at a low voltage more to divide and ensure that the farmer get power during his farming time and thefts are less.

Amol Rao: Sir, just another question on the payment disposal under this scheme. How does the payment take place after the work is completed we get a certification of

completion and then we get our payments?

Ramakrishnan: Against the supply, we get some advance initially and then we get about 70% against supply and the balance 15% we have to do it village wise, every village will have some BPL connections, so now we have to complete 10 villages and hand it over and we get the last 10%. Last year, we are doing in MP (Madhya Pradesh), where we get 100% against villages.

Amol Rao: Sir one last question on this aspect, are you noticing any trend in the geographical implementation of this project Sir, is there any particular region in the country or is it happening all across the country that this implementation is taking place?

Ramakrishnan: In most of the forward states like Maharashtra, Gujarat and all, there most of jobs have already been completed. What we are doing now is in Murshidabad like East and Chattisgarh and now MP, there a lot of work is still pending.

Amol Rao: So basically it is the East and let us say the North-East?

Ramakrishnan: Yes, North-Central and there are some jobs in Bihar and all which we do not quote very aggressively because it is little risky to work there.

Amol Rao: Sir, this next question is on the consumer electronics business. Sir, with festive season approaching is the stocking already over or we in the process of refurbishing stocks of our dealers right now across verticals?

Ramakrishnan: Pardon, I did not get that question.

Amol Rao: Sir, is the stocking for the festive season over or it is underway right now?

Ramakrishnan: Well, see it does not depend on the pattern, wherever we have depot headquarter town to some extent dealers take the liberty of buying even at the last minute, but typically in the upcountry market fair amount of purchases would have happened in the month of October particularly there is a short period (ph), then there is a Dasara period and stuff like that. So, broadly, because Diwali this year is around 4, 5, 6 around that time, I would say not by September end, but definitely in the month of October we have seen a fair amount of stocks in the primary sales.

Amol Rao: Just one last question, it is a house-keeping question on the marketing spend, do we intend to maintain our trend on the marketing spend, because I see a lot of ads in the electronic medias so I just asking?

Ramakrishnan: We have come up with new commercial in terms of Morphy Richards, a new commercial in terms of lighting, we have come up with a new commercial in terms of fans also and of course appliance commercial "Rock star mommy" is doing exceptionally well. Then as a company we are very confident notwithstanding what happened in this quarter and I really do not think if we look it from the CAGR of perspective. I cannot take care of commodity price fluctuations in this world that is beyond my brief as I told in direct in Bajaj Electricals. We will play the cards appropriately we believe in building our brand, we believe in expanding our distribution, we believe in adding to new products, for example last quarter we have introduced pressure cooker we are looking at water purification as the possible business opportunity in the future. The IBMers business in terms of fire alarm, security systems is again something, which we are investing in and we have got a very response in terms of initial projects that we have entered into. I believe there is a strong opportunity for us to grow and sustain in the current businesses that we are in. So we will continue investing in terms of advertising and building, distribution expansion, new product introduction, we are not going to be shy about it.

Amol Rao: Sir my question was more from the angle of whether we maintain marketing or we increase marketing as a percentage of expenditure or sales if you take it?

Ramakrishnan: Yes definitely going to increase the quantum of advertising as we have noticed in the context of the current year, because we ultimately believe that having the stronger brand along with all the other strengths we have in terms of physical distribution, the quality of people that we have in the company, the Oracle ERP that we have implemented, Dmantra for demand planning ASCP for supply chain, Siebel for CRM, I think some total of the strengths we have as a company an outstanding vendor base, etc. We can leverage it and we can kind of become a stronger, more attractive brand through advertising and through promotion. We will certainly do.

Amol Rao: All right Sir. Thank you so much. All the best.

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

Achal Lohate: Good evening Sir. Thanks for taking my question. I think most of the questions are answered. Just one question pertaining to the balance sheet, if I see the loans and advances it stands for about INR 260 odd Crores. Just wanted to check what were these advances if you can just break it up broadly?

P. P. Jathar: Advances typically between last September and current September remains the same, whereas between March to September they have gone up. They are typically the advances which we have given to the vendor because most of our vendors are small scale vendors from there in anticipation of the type of growth, which are achieving it is upon them to do a capacity addition and do some sort of modern equipment to be put and then there is some initial funding we are doing it on a temporarily basis, internal loan we give them and that is where we see the increase in loans and advances between March and September and normally by March end we do the recovery so this is what has always been the annual trend.

Achal Lohate: Thank you so much Sir. I wish you all the best.

Moderator: Thank you. The next question comes from the line of Kamlesh Kotak from Asian Markets. Please go ahead. We will move on to the next question. The next question comes from the line of Anubhav Gupta from Kimeng Securities. Please go ahead.

Anubhav Gupta: At the end of Q2 the total inventories on book are INR 282 Crores. Out of this, how much is the high cost inventory, which could pressure the margins in the coming quarters?

Ramakrishnan: If you look at the half year and the last year inventory was INR 250 Crores and current year is INR 282 Crores. Now that marginal growth in inventory saw approximately 24% increase cumulative up to half year margin in terms of sales and even the fact that October, November, December are important selling season for us from a seasonality perspective, etc. So I would

not really be worried too much about that. I have covered the inventory question a few minutes ago. Just to give you a little more granularity I would say that the inventory, which is there in our consumer related business has gone up by 24%, inventory in the E&P part of the business has in fact reduced marginally and aggregate the company level inventory is that about inventory growth is 12.3%. The outstanding in the consumer business has grown 15%. The outstanding in terms of the E&P part of the business has probably grown 25% and aggregate for the company is it about 19.7%.

Anubhav Gupta: It has grown because of high inventory cost?

Ramakrishnan: No, I think I understood your question correctly. The typical inventory buildup is done on the basis of lead time, where the lead time is high we tend to keep inventory of those at more like typical imports which come in container load, we do not go by the value of that. I do not know whether I answered your questions.

Anubhav Gupta: Actually, I was asking how much proportion of this inventory is the high cost compared to last year?

Ramakrishnan: Very difficult to say because see we buy mostly in our consumer businesses we buy finished products. Obviously, higher cost gets built into the product as and when we buy and you know in the kind of commodity cycle that we have had, there will always be product that we have purchased in recent months which are at the higher cost. So, I am not able to understand your question, if there is a cost push of about say 5% then the inventory we are holding today is 5% costlier for the same volume then what would have been applicable say three months ago. I am just giving that as an example. But we are holding good volumes also do not worry.

Anubhav Gupta: All right if we look at H1 FY'11 earnings have been flat YOY, so for the full year do we expect earnings to grow or I mean they should remain flat on full year basis?

Ramakrishnan: Earnings have been flat for which period you are saying?

Anubhav Gupta: Half year, this year compared to first half last year?

Ramakrishnan: Yes, earnings have been flat at this point in time most definitely. But earnings compared to a year before as a CAGR of 43%, which is exceptional and very healthy. I have mentioned earlier that there are time, I will just give you an example, our net profit stood at approximately around 3.2% of sales in 2008 up to September, it was 5.27% as on September 30, 2009 and March 30, 2010 it was at 5.25% in terms of net margin. Now current year September 30 it is at about 4.27%. Now the question is whether in the balance six months of the year can a profitability be better than 5%, so that for the year we are somewhere in the vicinity of 5.25%, 5.5%. I do think that the last quarter we had some exceptional items of about INR 7 Crores in the last quarter of the last financial year. That is unlikely to be there in the current year. So that will give us a bit of a boost. Apart from that I do expect the last quarter of last year was an extremely tough quarter from a profitability perspective. I certainly think it will be far more benign this year and we will be clocking record margin

in the fourth quarter.

Anubhav Gupta: My last question is on LED lighting market. I just want to checkup how Bajaj Electricals is geared up to take on this segment because I just read last week that Philips came up with very low cost LED lamp for just INR 650. I just wanted to have your sense what do you feel about this upcoming market?

Ramakrishnan: Honestly a low cost lamp at INR 650 again a GLS bulb, which is at about INR 8. I really do not know what we are comparing. LED as a substitute for a lamp in home is a quite dream which is quite some distance away, it is a few years of away if I may say, but LED for streetlights, LED has a substitute of fluorescent lighting in terms of office space. LED for floodlight, LED for walkover, LED for landscape lighting, etc., and LED for special application such as museums or display area or retail, I think it is definitely on the card. Our LED strategy is one we have a range called green LED which is our own range, which is at very attractive price point, our products, our development, our tooling, etc. Apart from that you have tied up with Ruud Lighting, It is a company-based Wisconsin in the US. We are introducing Bajaj LED in terms of streetlight. We are also at this point in time supplying our LED streetlight along with some solar related applications to some prestigious companies, which are doing businesses in that space. So LED we are very, very serious about and we have done a few seminars on Green Building, we are looking at the Green Building space more actively and I think we are going to be a very serious and strong player in the LED business in the country.

Moderator: Thank you. The next question comes from the line of Mayur Patel from Spark Capital. Please go ahead.

Ramakrishnan: Rahul this call has been on for about an hour we have to decide maybe another five minutes.

Mayur Patel: Thank you Sir for taking my questions. As it has been a long call so I will not waste much of your time, just a couple of things, again reiterating the same question on engineering business margin like Mr. Mehta explained that because of the last leg comprises more of a mix that was one of the key reason why the margins were lower. Sir is it because of this and extra manpower deployed, there is something which may not happen on a regular basis, because of this the margins are lower or is the inherent nature that going forward also in some quarterly we may see some quarter having a margin of 3% in the segment?

Ramakrishnan: I do not think this year this quarter was exceptional because we were doing a lot of jobs at Delhi for the Commonwealth Games and there were heavy monsoon we had to complete one transmission line which is to bring power for the Delhi city for the Commonwealth Games and transmission line work is never done in monsoon, but we had to do it because there were no alternative and where one crane was required we had to put in three cranes, tractors, manpower, everything which was possible we have to do, but we have to complete the line and which we did and there were a lot of other jobs like

street lighting, signage's where the civil clearance was delayed and we were given just 15 days to 30 days or 45 days to complete our part of the work, so the lighting comes last. That is most visible of all the installation, so we have to do everything possible for the Bajaj brand not to fail and do it, but I do not think such things to be repeated on the deadline for Commonwealth Games and only execution and no supply and we have completed as much earlier ahead of time.

Mayur Patel: But generally margins are lower on the execution part right?

Ramakrishnan: Yes because all the manpower, the labor and all those things come there and that is why cycle in a project which runs over two years initially we spent some money to do the site establishment, then we start supply the good margin supply, so that is the good part. That time the site establishment is not much, because we have just a few people who do the supply and the billing, it is only when the execution starts the fixed cost and all those things go up and the volumes are low because the ratio of supply and installation is sometimes 90% and 10%, sometimes 85% and 15% in value, but the efforts are mostly concentrated on the installation site.

Mayur Patel: It is a peak mountain kind of safe exactly. Okay that answers my first question. Second question Sir, overall Mr. Ramakrishnan, our working capital has been flatly straight and because of that I see the debt levels are also going up again from the low levels which we saw in March it is back 286 Crores in this quarter, so going forward what is the outlook are we to expect this kind of debt levels or it should go down or what exactly you are looking at?

Ramakrishnan: See if I look at the total working capital deployment in the company, against the revenue growth of 24% at this point in time our total working capital deployment has increased by 17.6%.

Mayur Patel: This is as compared to March you are saying?

Ramakrishnan: As compared to half year growth of 24% in revenue that we have working capital deployment has gone up by 17.6% as a company. Within the consumer durable business while we have growths of about 24%-26% odd, growth in working capital is only 19%. E&P BU while the growth is flat has seen an increase in working capital deployment of 17% and substantial part of it is an outstanding and rather than an inventory.

Mayur Patel: What about the lighting how is the working capital increase?

Ramakrishnan: I do not have specific breakup for lighting but I will see about the consumer business alternate. In lighting the total working capital has increased by 7%, lumina by 7%, in appliance by 25%, in strands by 29%, in Morphy Richards by 29%. We are embarking upon certain projects by which we can substantially bring the working capital particularly inventories under significant control and we are also looking at what we can do in terms of channel financing by which we can reduce our exposure in terms of outstanding, mostly our outstanding are good, we really do not have significant amount of bad debt in the consumer business, nothing to really write anything about, so what I would like to say is yes we are conscious of this but we must also keep in

mind when this Diwali fall in the year and things like that. Diwali being on November 4, I have to do the imports and get it in by September end, so that in October when peak retailing happens I am not short of stock, so imported inventory to some extent has gone up and I think the fact that we have to done for revenues in the next few months having inventory is good at this point in time.

P. P. Jathar: Rahul to answer your question specifically about the borrowing level like March same year it was around INR 160 Crores and our call was that we would require somewhere around INR 75 Crores by way of working capital and by year end it should be somewhere between INR 225-250 Crores and just speaking always as a part of business cycle take place in between the year and put it down by March more or less if business cycle moves it is 10% as it has been moving the debt level should be expected level.

Mayur Patel: So this would be in the range of INR 225-250 Crores? Sir can you just on the new products like we are very happy to see you tying up with HaloSource and water purifying thing and our pressure cookers and other new products have also been launched, is there any target which you are looking at in terms of sales here for FY'12 from the set of new products?

Ramakrishnan: See typically in appliances new product because anywhere between 15% and 20% of our sales in the next year and in fans that figure would be of about 10-12%.

Mayur Patel: And Sir last question, our employee cost was very high in this quarter, this was again related to whatever Mr. Mehta discussed predominately?

Ramakrishnan: That is not part of employee cost. This has contract labor, so it is part of site expenses. Employee cost is typically additional revisions like whatever you pay during the particular quarter so that thing is there.

Mayur Patel: Sir can you repeat Sir, I did not get it what are the key reason for high increase in employee cost?

Ramakrishnan: Quite clearly we have had record performances in the last four or five years as a company, and if you look at our employee cost as a whole the employee cost today stood at about 4.36% of sale on an annualized basis on March 31, 2010. For the half-year ended currently the employee cost is standing at 5.73% of sales, but to be frank with you that because in the first half of the year it is about 40% while 60% of sales happened in the second half of the year, our performance incentive for the previous year gets paid in the month of July. The increase in salaries gets announced when they kick in from July 1st. So to that extent what I would like to say is when the revenues go up the employee cost will not remain at 5.73% as it is being seen at this point in time more reasonable.

Mayur Patel: Sir why I am asking was last three to four quarter, quarterly employee cost we are seeing INR 20-23 Crores and this quarter it was like INR 38 Crores roughly, so that is why I was asking is there any jump or any development related to employee?

Ramakrishnan: Like I mentioned to you our performance incentives are typically given in the month of July so it does not come in the first quarter that comes in the second quarter and same was the situation last year.

Mayur Patel: Fine Sir going forward also?

Ramakrishnan: If you really look at it last year was INR 31 Crores, this year is INR 37 Crores. So last year was 6.1% and this year is 6.4%. Last year we had a solid revenue growth and this year we had a slightly better revenue growth in E&P BU that percentage would have been lower.

P.P. Jathar: You can presume our employee cost on annualized basis to be around 4% of our total turnover?

Mayur Patel: But last year Q3 was only INR 24-25 Crores, so going forward also we should look at YOY or QOQ?

Ramakrishnan: You should be YOY because the quarter, which you are seeing it has got that annual incentives paid and which will get, but normally our percentage in terms of percentage to sale is around 4%.

Mayur Patel: Fine thank you Sir, thanks for answering my question.

Moderator: Thank you. That was the last question. I would now like to hand the floor back to Mr. Rahul Gajare for closing comments.

Rahul Gajare: Thank you very much for your time on the call Sir and all the very best for the second half of year, would you like to give some closing comments?

Ramakrishnan: Yes, I will just conclude by saying that as a company we have been consistently not just meeting but beating market expectations. Now quite obviously this was the quarter which we expected to be a difficult quarter and let me also say that the third quarter while there will be improvement in terms of revenues from a margin perspective we will be improving but we will not be improving so much that whatever has happened in this quarter gets wiped out, but the fourth quarter of this year I do expect margins to be strong and stable and positive. On a year-on-year basis I am still confident that we will remain on the path of enhancing shareholder value. We will remain on the path of profitable growth and we will continue to be a company that meets and exceed our shareholder expectations. Those are my comments. I want to thank everyone who has been on this call. Really appreciate your support.

Rahul Gajare: Thank you very much Sir.

Moderator: Thank you gentlemen of the management. Thank you Mr. Gajare. On behalf of Edelweiss Securities Limited that concludes this conference call. Thanks for joining you and us may now disconnect your lines.