

Conference Call Transcript

Bajaj Electricals

Q2FY13 Results

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Corporate Participants

Mr. Shekhar Bajaj
CMD

Mr. Anant Bajaj
Joint MD

Mr A M Purandare
CFO

Questions and Answers

Moderator: Ladies and gentlemen, good evening and welcome to the Bajaj Electrical Limited, Q2 FY'13, Earning Conference Call hosted by Edelweiss Securities Limited. As a reminder for the duration of the conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance, during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Rahul Gajare of Edelweiss Securities. Thank you and over to you Sir.

Rahul Gajare: Thank you, Inba. Good evening everybody. I would like to welcome all the participants to this conference call of Bajaj Electricals Q2 earnings. From the management, we have with us Mr. Shekhar Bajaj, Chairman and Managing Director, Mr. Anant Bajaj, Joint Managing Director and Mr. Anant Purandare, CFO. We will have opening remarks from the management, after which we will move on to the question and answer session. Thank you and over to you Sir.

Shekhar Bajaj: Good afternoon to all of you. As far as the second quarter is concerned as has been mentioned in my earlier quarter remarks, there are number of old sites, which as far as engineering projects is concerned, needed to be closed and therefore against 24 TLT sites, which were existing on April 1, 2011, we are expecting that only six sites will be left at the end of March 31, 2013, and of 18 sites, some of them, have been closed last year, the remaining will be closed this year and against the order book of 360 Crores of TLT orders, 100 Crores only on April 1, will be old orders, 260 Crores are new orders. Therefore though the orders, which we have taken with proper margins, one of the decisions that have been taken by the management, which I think, I mentioned it earlier also is that we are now saying we want to do TLT profitably. If it does not give me margins, if it is not profitable then even if I have negative growth in the topline, it does not matter. So, one is decision of old whatever orders are in hand to be completed as soon as possible and second is to try and see that we are able to get new orders only at the right price and therefore that is our objective and that we have succeeded in terms of 890 Crores that is our order book as on today of which the breakup is as follows:

The breakup of 465 Crores is special projects and power distribution, 75 Crores is High Mast and 350 Crores is TLT. As far as lighting is concerned though the margins are slightly lower, the EBITDA margins from 6.9% to 6.5%, the total EBIT has remained at 13 to 13 Crores so that is flat. As far as consumer durable, again 9.5, our margin levels have gone down to 9.3, but because of the higher volumes from 32 Crores we have gone to 37 Crores. With the exchange rate differential and the price of steel coming down, we expect that third and fourth quarters in case of lighting and appliances, this gap of margin should be

made up and we should be able to have margin level as per last year's level or little higher.

As far as engineering and project is concerned, we expect in the current quarter also there will be some type of cleaning up, which will take place. We hope that latest by end of the fourth quarter, we are hoping it may be done earlier, but by the end of fourth quarter, most of the old problems would be cleaned up and therefore 2013-2014, we are looking at a nice clean E&P with all orders properly, which we can complete on time. The major issue has been that whatever jobs has been taken up, has not been completed on schedule and that has given us cost overrun and because of that all these losses have taken place. Thank you very much.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Renu Baid of B&K Securities. Please go ahead.

Renu Baid: Good evening Sir. Projects business was a disappointment in the current quarter. You have given some elaboration. Just wanted some details, as you mentioned in 3Q and probably 4Q also on cost overruns, are these cleanups is expected? So, the way, we have been negatively surprised with respect to profitability in the current quarter, so in the second half do we expect that the magnitude of loss or EBIT loss in the segment would be at similar 10% - 15% levels. How does that look? I mean what could be the extent of cleanup expected on the proposed revenue booking, which is expected in the current financial year?

Shekhar Bajaj: This second quarter has been extremely bad. I do not think that third and fourth quarter should be as bad, but as I said that when we are handing over the project site, at that time, there may be some shortages, there may be some claims, there may be some theft, which may take place because at the end of the day, they say we would like to have the complete site completed as per their requirement and therefore certain completions may cause this particular problem on one side. In this particular quarter, we have taken extra efforts/ put additional resources to make progress on the various old sites so that those can be closed faster and fortunately, in this quarter, we had an Non operating Income of about 24 crores from sale of shareholding of Bajaj Ventures to offset the increased expenses on site closures. However, I expect that the third and fourth quarters, the hit should be much smaller.

Renu Baid: Because, as in the first half itself, we have had almost 34 Crores of loss against last year's full profit of 25-26 Crores in the segment. So, will it be fair to say that probably the current year's profitability of the business, recurring profitability excluding the one-time gain that you have had that would almost be negligible because of the pain in the E&P business?

Shekhar Bajaj: I cannot answer that because it is something, when the actual thing happens but it would not be as bad as was in this first two quarters. It has been extremely bad. Also fourth quarter, we start billing the new orders, which have been received, part of that will start being build in the last quarter. So,

third quarter there will be no much of billing of the new orders at new prices which are reasonably good. The fourth quarter and then next year will be mostly as we are expecting that out of the order of 890 Crores that is available to us as on today in TLT, which I have already mentioned and against the total order of 350 Crore 100 Crore only is going to be of old orders.

Renu Baid: As in the 100 Crores we should not lose much. 100 Crore are the only loss making portion going forward?

Shekhar Bajaj: It is not loss making. Our issue is that. in these sites, which are there, there is time overrun. The billing is only 100 Crores, but what happens is that those are all good margins businesses but because of old history, old work which is incomplete that completion is what is costing us. It is not that these are at negative 10% or 15% margin, no the margins in this business is okay. They are positive. It is only because of the site closures, which are required where you only spend money and you do not get any income side, because there is nothing in it because you are just closing it. If suppose there is a thing, which needs to be finishing then you have to finish it, for that there is no income side. There is only a closure. So, margins wise even these 100 Crores is not negative margin. The margins are much better in the new order.

Anant Bajaj: I would only like to emphasize that what we did not do earlier, which was doing a good project management for transmission line towers, that we are now making it a point to track it more closely and to that extent really have a bigger emphasis on how to complete it well before and within the timeline and then essentially what has been already said many times, the project completion is key to the success in this industry because we start with obviously great margins but when you delay your completion is when your margin gets eroded. So, realistically we are now looking at all our new projects having the good margin and remain good even at the end of the project.

Renu Baid: Sir, when we say good margin on the new orders will it be in the 8% to 10% range or as we have seen in the previous orders all should be diluted lower than that?

Shekhar Bajaj: I would say that that would be minimum levels.

Renu Baid: Just the second question, if you could give some colour on how was the pre-festive Diwali offtake or the feel has been both in the appliances segment as well as lightings and along with that if you could give some details on how the segment wise growth in first half and second quarter has been for appliances fans and lighting and luminaire?

Shekhar Bajaj: There are two things, which are different this year compared to last year. Last year Diwali was in October. This year the Diwali is in November and that is why one of the reasons why September last year was better than the September this year because we will have a good October this year because Diwali is in November 13, so not only third quarter, October to October when we look at, we are looking anything from 30% plus growth will come in October because this time it is a pre-Diwali October. So, therefore in spite of that September for our lighting, the growth has been 6.6%% and in case of

consumer durable it is 17.4% in terms of our growth in sales and engineering project, as I mentioned is – 22.5%. That is why as a company we have grown by 4.7%.

Renu Baid: Sir, within the consumer durables, will it be possible for you to share growth for appliances and fans?

Shekhar Bajaj: We normally do not do it, but for you Renu, we have to make an exception. Appliance has grown by 19.5%, MR has grown by 13.3% and fan has grown by 14.5%. Also just for your information this next two three months are going to be very exciting as far as induction cooker is concerned because the gas subsidy gone, our calculation shows that gas cylinder which costs Rs.900, if you use the induction cooker for the same amount of cooking, the cost come down to Rs.300, so you save almost Rs.600 per cylinder by induction cooker and it saves you 50% time. It cooks 50% faster than the gas stove and also saves you two-third of the energy.

Renu Baid: Sir, what kind of sales are we looking for induction cooker segment?

Shekhar Bajaj: Last year we did over 100 Crores. This year we are looking at crossing 150 Crores for the year.

Renu Baid: I am done.

Moderator: Thank you very much. Our next question is from Prakesh Ramaseshan of Kotak Mahindra. Please go ahead.

Prakesh Ramaseshan: Thank you for taking my questions. One of my questions has been answered by the previous participant, which are the margins in the new order. Beyond that I only have comment saying that I think some investors are surprised by the slightly high level of losses in the engineering projects business, but I think it is far more prudent to take write offs over this year and clean it up completely, so you get to a fresh base from next year and we really appreciate the management's efforts there and the openness with which you are sharing this information with us. We look forward to 2013-2014 actually being a very good year for both the businesses. Thank you Sir.

Shekhar Bajaj: Thank you so much. This is exactly I hope that there are some of the investors like you who instead of saying why we have lost so much money, you accepted that as a right way to go about it for the future. Thank you so much for that.

Moderator: Thank you very much. Our next question is from Paresh Jain of Max Insurance. Please go ahead.

Paresh Jain: Good evening Sir and thanks for taking my question. I just missed the initial part of your comments; when you said that some sites have been closed, so if you can just repeat that?

Shekhar Bajaj: On April 1, 2011 we had 24 TLT sites, which were operational. We realized that till we do not complete the site and hand it over until then we do not get our last payment, and also the retention money does not come, and therefore we decided that let us work on that. Whatever was required to close it, if they may be Right of way, whatever is there if there are some shortages,

you have to make it up, but hand it over so that you get your money and therefore we are hoping that by end of the year that is by March 2013, we will bring it down to six operational sites out of that 24, 18 will be closed in the two years. Last year some were closed, major closure is taking place in the current year.

Paresh Jain: So by March 2013 six sites will still be operational, right?

Shekhar Bajaj: The total orders of that 360 Crores order, which is on hand today of those sites which are left over plus some other orders, which are there, total value is about 100 Crore of old orders and the 260 Crores are with new better margin orders, which will be the new sites, which will be opened.

Paresh Jain: Today while speaking how many sites are opened?

Shekhar Bajaj: Today I cannot say exactly but may be about 15.

Paresh Jain: 15 sites are opened, out of which nine will be closed till March 2013. So, that means six sites if they continue even in FY'14, so does it mean the next year one quarter also we will have some sort of EBIT drag out there?

Shekhar Bajaj: Not at all, because of that one is the new site, which has been opened, which is of the proper margin and the main issue is that these are all relatively small. The total orders of the existing sites will be not more than 50 Crores, so that 50 Crores, which is going to be done in the next year and most of it will be completed. We are expecting except for one site, the other five sites will be closed by next September.

Paresh Jain: So that 50 Crores order would be there in next year also?

Shekhar Bajaj: That is part of that 360 order. 100 Crores of those 50 Crores is for this existing site and there are 50 Crores more, which will be supplied.

Paresh Jain: That means 50 Crores of revenue would be booked on account of these old projects in the coming two quarters? How much revenue did we book in this particular quarter on account of these old projects out of 132 Crores?

Shekhar Bajaj: About 20-25 Crores.

Paresh Jain: Sir that 20-25 Crores of execution has led to about 26 Crore EBIT loss so does it mean that my EBIT loss would get magnified in the coming two quarters?

Shekhar Bajaj: It would not happen because what has happened is as I mentioned that once we close these sites, these are sites where we have completed those projects, which were incomplete and frankly speaking there is no relationship with the billing and the site closure, because the site closure has certain expenses, which has nothing to do with billing. The billing is because that leftover you may have billed for 1 Crore and you may do somewhere, a site expenses of 5 Crores. There may be another place where the expenses will be nominal. That is why I mentioned that we have taken maximum efforts to close old sites and incur what ever expenses are required for the same. Fortunately, we had a non-operating revenue coming out of 24 Crores profit as we had disinvested in a company called Bajaj Ventures and therefore that 24 Crores

was there so that from an investor point of view he gets against 24 Crores last year, it is 26 Crore plus net profit after tax.

Paresh Jain: Sir how many sites that you have closed on this particular quarter?

Shekhar Bajaj: Two were closed this quarter.

Paresh Jain: Is it fair to assume that two sites got closed and we had an EBIT loss probably one of the highest in last few quarters so as and when we go on to close 15 more sites the EBIT loss will probably just get magnified?

Shekhar Bajaj: No, not at all. Two sites were closed. The other 13, which were not closed, we were spending money on that where there was no billing, the billing is only 20-25 Crores, otherwise you cannot suddenly close the site. If you are closing the site then the expenses have to go on, this quarter the expenses are going on, so that we closed the site. So, only two sites were closed this quarter and we are expecting another six. From a level of 15, we have to go down to six, that means nine will be in the next two quarters, nine sites will be closed, even those six sites will continue, and on those also expenses are being incurred everyday. So, that has also gone in the hit because if you do not bill we are -22.5% in our sales revenue, so expenses keep continuing. Our fixed cost continues and we do not have a billing then we get into a problem because the income side is not there because we have billed very low, the total billing has been only 132 Crores against 171 Crores; previous year second quarter was 171 Crores, which has been brought down to 132 Crores, so even if we talk about a 15% margin, if you are down by almost 40 Crore sales, 6-7 Crores is straight away hit because of the volume alone. Because you have got so many sites to be completed, two have been closed today, another three four will be done next month and next quarter and then the remaining will be done in the January-March quarter.

Paresh Jain: With what confidence level can we say that whatever loss we have seen in this quarter is the peak and probably loss would diminish in the next two quarters?

Shekhar Bajaj: These types of losses when we actually do the closure that time we come to know. So, can you say 100% sure the answer is no. We cannot be sure.

Paresh Jain: One last question can you give a breakup of the new TLT order of 250-260 Crore that we have as to how much is from PowerGrid or SEB or whatever?

Shekhar Bajaj: This order of 260 Crores is full PowerGrid only. We are expecting some more interesting orders in the next one month from PowerGrid only. What we have realized that our experience has been very good with PowerGrid, so as long as PowerGrid, we are already L1 in two projects and both worth about 200-odd Crores. Whether we get one order or two orders that only time will show.

Paresh Jain: Thank you and all the best.

Moderator: Thank you very much. Our next question is from Kirti Dalvi of

Enam Asset Management. Please go ahead.

Kirti Dalvi: Good evening Sir. I am sorry to hop in this question again. My question is not on the profitability of your E&P project, but if you have closed few sites in the second quarter as well your working capital or capital employed in this particular segment is not showing that kind of improvement. You may probably show some profit and say in Q4 or something but unless and until as an investor we do not see the improvement in your capital employed that is a little worrying factor so if you could comment on that?

Shekhar Bajaj: It takes about three to four months after handing over the site then only they work and start making the payment and because we are expecting major closure to take place before end of this year we are looking at all those payments which are blocked up, which are old payments because they were contractual, not payable, will start getting released and therefore you will see a substantial improvement in the next quarter from 590 Crores, it should go down to may be Rs.550 Crores and by the end of the year I am hoping that it will go below 500 or so.

Anant Bajaj: Also very important thing is some of the old outstanding, the paperwork has been finally accepted by the customer by which they are now saying fine, we will make the payment because some of things, which are stuck for nearly two years, now the paperwork has finally been accepted by the customers that it is all correct and all that so because of that now in this quarter that is in October to December we are expecting a pretty big amount, which should come through of the old outstanding but then that will still be not substantial from the overall picture but for that couple of very old outstanding it would help in obviously solving the situation a little bit more but also important thing is the working for this capital employed factor does remain on the higher side at this stage also because we have in the factory level consciously kept little bit more raw material for certain products like High Mast for example where there are many varieties of requirements from the customer. So, very consciously our working capital, we have got it locked in a way to make sure that we do not lose any orders because of production having insufficient amount of material availability, and because of cycle, even getting raw material is between two to three months in certain key products, to that extent, we have also consciously increased the requirement of raw material at the factory so that we do not have any shortage of any type of steel sheets, which basically are the critical component for High Mast octagonal pole making so to that extent we have done that very consciously, but also an additional point is on the capital requirement what is happening is that some of the new projects which we have in hand there the payment terms is much better, so to that extent you will land up getting much better revenue possibility, pre-supply sort of payment advances, which certainly will also increase like for example, we do have some orders which are having a very long gestation as a project but the initial part is having good advance payment.

Shekhar Bajaj: We are looking at December capital employed we want to bring it down for 590 to 550 and by March we should bring it down to the back to the

500 Crore levels. That is our objective.

Kirti Dalvi: Sir, we had a very good order inflow in second quarter if you could give us that exact figure?

Shekhar Bajaj: We had an opening balance on April 1, 2012 of 479 Crores. Then we got orders from April 1, 2012 till today of 681 Crores, so that adds up to 1161 Crores and of that our supplies executed as on today is only 270 Crores. That is the main thing. In the last six months plus 22 days, we have only done a billing of 270 Crores because we have been busy saying let us put all the old orders where there is not much of billing, it is only execution so therefore we have got a order book of 890 Crores as on 25th.

Kirti Dalvi: Sir, then this inflow of 681 Crores we must have got some decent advances as well, at least from PGCIL order, why is it not reflecting in your books?

Anant Bajaj: That has come in October and November because some of the orders we have got in the final week of September and some in the first week of October so they are not reflected as a physical availability of fund at that stage.

Kirti Dalvi: Because our balance sheet is not looking that healthy because of lack of this advances, but we must have got at least what 10% to 15%. Would it be fair to assume?

Shekhar Bajaj: About 25 Crores we are expecting.

Kirti Dalvi: Sir, the last question if you could give us where could we see our debt levels going down by year end and the outlook probably for the margins in lighting and consumer durables?

Anant Bajaj: On the margin front, that has been relatively stable in lot of the parts especially in the case of consumer durables because of a good product mix they have managed to keep the margins quite healthy and although of course overall as a segment it is 22.8% growth in the quarter. Specifically appliances, we of course, being a market leader in many products, they managed to maintain a good growth level in lot of their products although of course the season in the southern markets where they have their Onam that did not go too well. Luckily because our ovens and other products are doing extremely well overall in India, but we did not have the overall impact and this time obviously because in fact we are going to get a double advantage in the third quarter because also it is a Diwali month in November plus it is the starting of the winter season so we were able to get the water heater sale in a much bigger way for this time. So we get the double advantage of Diwali plus season, so that is very interesting. While in the case of fans, we are actually introducing a very good range of premium products very soon, which will actually bring back a lot of our sale. I would not say sluggish completely but definitely it needed a little more boost so that the customers have the products for which they want a little bit more because some of you been concentrating over the years in our sub economy fans so we have now consciously tried to come back strongly in our premium fans, which have done very well. Regal fan in fact has been the most successful fan in the premium segment of fans for a very long time, so we are

looking at getting something of that caliber again coming in our system. As far as lighting is concerned, CFL has continued to give us a very solid contribution along with that the LED fixtures plus we have this company with which we have tied up called Mega Man for LED fixture like down lighters and other products of that kind and there we are seeing a lot of interesting development taking place. Clearly, these two aspects of CFL and LED, is going to give a lot of thrust to the potential margins as well as topline. Also what we are gearing up very well for year 2013, by July the government is looking at shifting all the T12 into T8, so to that extent we are basically looking as a company to gear ourselves correctly for that. So in fact we are considering getting better manufacturing capacity available to us plus have a better reach in the terms of market because by the end of this year we look at reaching about 4 lakh outlets from where our lighting products will sell and as a company we are going to be available in more than 5 Lakh outlets. So, clearly consumer durables will be the fastest growing part of the company at this stage and with a more stabilized margin potential because even if one product goes out we have got enough products to take care of itself. As far as lighting segment is concerned, clearly the LED as well as the CFL are going to be important including our consumer luminaries, something which we are specifically putting a lot of emphasis to really grow the business, and also we have some of the new segments like generators as well as pumps. It is a very big market so we have just entered in it and we look at seeing that contributing from the third quarter onwards, because this season soon after winter is when really these products sell much faster in a bigger way.

Kirti Dalvi: So we can see double-digit margins in these consumer durables?

Anant Purandare: I would like to mention that in the first quarter, there was a dip in the margin and most of BU's like consumer durable, lighting; we have taken a price increase, which has shown the impact on the margins for the second quarter. Fortunately even the dollar is now more or less stable so considering this I think we will be able to achieve the margins as per the last year. Maybe there will be little more improvement in the margin.

Anant Bajaj: The thing is that Q3, clearly will show the bigger impact of the price increase, because lot of it was given in the middle of Q2, which had not fully taken its toll on the market in the sense market has not fully reacted in a true sense and I think they were probably also waiting for the Diwali season to come up so I think now in October we will really see the benefits coming up because frankly this will be the real litmus test, I think, not only our industry, but the total industry itself that how this Diwali goes as it is going to make all the difference.

Kirti Dalvi: The last one was for the debt, what is the current level of debt and year end where do we see that?

Anant Purandare: The current debt is 274 Crores. By year end it should come down to below 200 Crores.

Kirti Dalvi: Thank you and good luck.

Moderator: Thank you very much. Our next question is from Sonaal Kholi of

Resolute Capital. Please go ahead.

Sonaal Kholi: Thanks for taking my questions. I have couple of queries; firstly, when you say that your consumer margin business is going to be on similar lines as last year. Do you imply for that for next six months or do you imply for entire 2013?

Shekhar Bajaj: We are talking about the third and fourth quarters because the first two quarters are already available to you so margins have been down so to that extent we are saying that third and fourth quarters we should be equal to or higher than the previous year. That is all. As far as the third and fourth quarter is concerned, if it is higher than the cumulative it will be equal to last year. If it is equal to last year then the cumulative will be may be 0.5% lower but our total contribution EBITDA margin in terms of amount will clearly be higher both in lighting and consumer durables. That is very clear how much time will show.

Sonaal Kholi: Sir, secondly can one expect any kind of strategic announcements from the company in the near future? Is there any possibility of a merger, demerger, acquisition or induction of any strategic investor or that is completely ruled out in near future?

Shekhar Bajaj: At this moment, we are not thinking in that line, neither are we requiring any funds. As we mentioned that hardly 200-250 Crores has been utilized.. We are definitely looking at some possible acquisitions, but unfortunately the pricing has become so high after the Philips acquisition of Preeti and Maharaja having been sold out so the result of that is the expectation of the parties with whom we are discussing becomes so unworkable, that is why nothing is really moving otherwise there are number of people with whom we are in touch but it is just not working out. We said that if there is a good opportunity we can go up to a 1000 Crore investment in terms of getting a brand or getting a good company, we would be very keen. We would like to remain focused in our area of business. We are not planning to get into white goods, or cables or any other non-related business because in our existing business itself there is so much of scope and opportunity and we are clearly market leaders in appliances, we are in No.2 in lighting, No.2 or 3 in fans, so it makes much more sense for us to further grow where the market is growing. Only thing, which is our focus, is more now going to be in the rural areas because that is where the growth is taking place maximum. So our rural thrust is going to be very strong.

Sonaal Kholi: Sir, is there any possibility of any form of demerger in the near future, is that a fair statement?

Shekhar Bajaj: There is no thinking at all. It was never being thought. That was a point, which was made earlier by some investors on one-to-one basis and also in our meetings. We found that today E&P, the project division is not doing well, so we said demerge it. In the earlier times, the project business were doing superbly well everybody says wow. Now appliance is doing very well, tomorrow appliances do bad you will say please demerge the appliances. The

whole idea of synergies, which are available by being together, is lost out. Also which I had explained a few quarters earlier that as we said we have only utilized 240 Crores to 260 Crores of capital and the total 590 Crores is utilized for the engineering projects, capital employed is 590 Crores, so that means 300 plus Crores of the other businesses are surpluses in cash and engineering projects are negative in cash. If you would have demerged the company then engineering projects would have been cashed out and there they would have been surplus cash. Here because of this cleaning up this quarter and last quarter, we have had losses in the engineering project business. If we did not have that other area where in appliances and consumer durables, which were making profits then it would not have got adjusted. That is why there is always going to be ups and downs. Today as I am mentioning that the order book is such that next year 2013-14 suddenly you say wow, E and P is good business to be in so when it become good business you say demerge it or merge it does not make sense. If we find a strategic partner in any of the businesses, if suppose for E&P that is a different matter if it is not demerged for the sake of demerging but if there is a good strategic partner which comes in and says okay we will be able to grow this business and therefore we want to come in and we will look it at.

Sonaal Kholi: Sir, lastly is there a better way, have you debated in the company to account for project business because you know we book revenues over a time and in the initial period since we book revenues there are no costs, therefore the margins look very high, but when we look at closing the businesses, the overall project business margins appear pretty low. So, is there a better way to perhaps account for these, which you may have discussed and you may want to adopt in the future, which can give a better understanding of margins on a steady state to investors into the company management itself, or rather big changes in margins because when you will book any revenue you will have very high margins and when you start implementing it?

Shekhar Bajaj: There is a system. What you are saying is absolutely correct. To avoid this in the project business we have to go through AS7, which is taking into account that if you have done 60% of the business then we have to make a projection, for the whole project if I am going to make 10 Crores and I have done 60% of the business now then we will take only 60% of the profit that means it will take 6 Crores even though in terms of billing you may be making 8 Crores. Here, what has happened that as per our own planning, we had expected that will make a certain profit and on the basis of that we had taken a certain profit position. Now unfortunately instead of project which we should see in two years two years, the projects got extended to four years or three years and therefore all the calculations, which we had done as per AS7 that we have taken 60% only of the profit, 40% is going to be in the execution. That 40% has become 60%. That is why the hit is taking place, but one of the things which Anant mentioned is clear that we are going to see that we take limited project, we take it at proper margins and we execute and finish in time. That is our motto. If we get less business we end up next year, having not much of growth is perfectly okay. It was at high 33% two years back. This year we will end up

with less than 25% of our total turnover of E&P may be 23%- 24% only against 3100 Crores we are looking at 3700 Crores of that the E&P may be close to 800 Crores.

Sonaal Kholi: Lastly, are you seeing competitive intensity in project business falling or is it on that on same lines as of previous years?

Shekhar Bajaj: The margins whatever we are taking are clearly better than earlier. Unlike in other businesses here each tender is independent and if we do not get our minimum cut off margins and if it is not a profitable thing we will reduce our business. There is no continuity like appliances even if the margins are less or more, my appliance has to be in the market on a daily basis. Here every tender is independent and therefore in the tender if we are not competitive we will be out of that tender, so out of four tenders instead of getting two tenders we will end up winning one tender and to that extent we do not have very high overheads.

Anant Bajaj: To answer to your question there is no shortage of opportunity in the market and today in the normal circumstance also be it our biggest competitor to ourselves everyone has got opportunity to convert a business and usually the conversion is between a 15% and 20% level at a higher level. Normally today certain type of projects you only get about 10% to 12% conversion so even in that case even if I am the most competitive I will never know it till the last minute because you have to be L1 in every case to get a tender in hand. So even if you are really outstanding it does not guarantee you any business.

Sonaal Kholi: Sir, what I actually meant was that have you seen the number of bidders decreasing in the projects which you are bidding?

Shekhar Bajaj: That is what we are saying. 100% and not only that the PowerGrid and all have already black listed a lot of them who have not performed and that is why we are still L1 in getting these orders in spite of having improved our margins, is that there are less players and all of those people who are there have realized that earlier people were just quoting for just getting an order and losing money so most people say why the hell, are we wasting our energy, spending so much.

Anant Bajaj: Government for a change has actually made a lot of effort to get the credibility of this industry back and they have actually made it a point to make it again very stricter who can actually be a part of the tender and who cannot take part in the tender. So in fact I would say very established players have been debarred from taking part in the tender. So, today we are in a position to take the tenders or we are going to take part in the tender is a big deal, so when I said that we should not be in or rather hive off I do not think that is an option really because it takes many, many years to get the approvals for many areas. At least to that extent it is very critical to understand that we have a very much that area to cover as well.

Sonaal Kholi: Thank you so much.

Moderator: Thank you very much. Our next question is from Vishal Chopra of

UTI Mutual Fund. Please go ahead.

Vishal Chopra: Good afternoon Sir. My first question is on lighting. Lighting growth if I see it is around 6.5%, which is quite low as compared to the past runrate of 15% - 20%. Can you throw some light on the same?

Shekhar Bajaj: What has really happened though again this is an internal matter but just for your information that the growth is only 6.6% Luminaires business is like a project business and there is a slowdown and therefore the growth in luminous is very low and the lighting as such that means the light sources is high and therefore the weighted average is 6.6%, so we are expecting the luminaires business to pick up and that is why this is the weighted average of lighting and luminous together.

Vishal Chopra: Going forward, you see that to improve?

Shekhar Bajaj: Yes because luminaires basically there is again good order position and good order possibility. Major issue which has happened because of the government's problems of scam and others, the money is just not coming in. As long as you do not ask for money, you can have as much sale as you want. So, we are very careful even very, very well known established Indian top companies, international of course but I am seeing even Indian companies who are blue chip also are not paying. Instead of paying in normal two months they take three four five months so we have to take a decision whether we want to do business, where the risk of money is there so we rather do less business but be safe.

Vishal Chopra: I had missed the growth you gave a breakup of consumer durables, the fan, appliances Morphy Richards, if you can actually repeat that?

Shekhar Bajaj: In case of appliances our growth is 19.5%. In case of Morphy Richard it is 13.3%, fans it is 14.5% and consumer durables segmented 17.4% growth.

Vishal Chopra: Sir lastly, I mean if I see your capital employed, the unallocable capital employed has increased on a QOQ basis it has increased from 150 to 205 and even on a year-on-year basis. What exactly happened there?

Anant Purandare: That unallocable is basically including our investment in Kosi, plus also whatever provisions for dividend we will get paid off, so even dividend itself was 28 Crores which is paid off. That was the liability in the first quarter.

Shekhar Bajaj: Also just for your information that we have paid the advance as far as Kosi is concerned of 23.5 Crores and that will be converted. Kosi is still lying as an advance, which will be converted into a Fixed Asset next month. Later on it will go into lighting.

Moderator: Thank you. Our next question is from Vikas Mantri of ICICI Securities. Please go ahead.

Vikas Mantri: Good evening Sir. Just wanted to understand that the two-year CAGR numbers that you gave that implies Morphy Richard's business is growing far slower than our earlier growth. Any reasons for the same?

Shekhar Bajaj: What happened is that against 22.5% CAGR has gone to 13.3%. The reason is that earlier it was around 30% so from 30% it has gone to 13.3% because 50% of the Morphy Richard products are being imported from China and we wanted to see that the margins do not get impacted so our cost had gone up by 25% because of exchange rate alone so immediately there was a resistance in the market that the price increase that has been done for Morphy Richard there was a resistance. Now the market has accepted the new price, which was done sometime two months back so now from October onwards and the season being the in thing and as I mentioned September was not the season time for appliances. October is the Diwali season and therefore October is turning out to be very good. We are listing at anything from 30% to 40% growth.

Vikas Mantri: This CAGR numbers are two year quarterly CAGR numbers and not annual?

Shekhar Bajaj: No quarterly.

Vikas Mantri: Sir, just wanted to understand the enterprise business. First of all what is the synergy of a TLT business with our entire other business and second is when you said that we have decided to take a bigger hit in this quarter so is it that had we not sold the 24 Crores in Bajaj Ventures we would not have taken this hit?

Shekhar Bajaj: We cannot spread it over the next two quarters because it has to be as per AS7.. Idea is that when you are closing your site you say okay I am delayed by a month, if its required, put some more efforts/resources and ensure that the site is closed in time..

Anant Purandare: Additional resources we have put on the site to see that the maximum work is done during this quarter.

Vikas Mantri: So we have basically preponed some of the losses, which we foresee in Q3, Q4 to this quarter?

Shekhar Bajaj: Correct for faster closer. Also you asked that questions about synergy. The answer is that in TLT there is no synergy with our existing business. We went and invested for a High Mast business a 30,000 tons was the capacity of the factory but actually it is 45,000 on a three shift basis, but we are running into two shifts, 30,000 and now this year we are looking at 36,000 production. Our idea was at that time the break even as far as High Mast was very high. At 28% level, we would break even so we had invested in our galvanizing plant hoping that High Mast will be able to take care of our financial requirements. But we realized that we cannot fill up just we are being 7000 to 8000 tonnes only as far as High Mast is concerned. So, we cannot have a 37000 tonne capacity unutilized, so we at that time decided that we have a factory, which is very technically sound so let us get into the transmission line business and between 2003 and 2008, the TLT business gave us huge profits but as somebody mentioned when you take up and go very fast, when you are closing up projects, then all the hits takes place so at that time as per AS7, I do not even know whether AS7 was applicable five years back, but that time we may

have taken all the income on the basis of supply and now we are taking the hit of those projects, which we are now completing.

Vikas Mantri: One last question, the new projects that we are getting in the engineering and E&P side are the beginning margins that we see today significantly better than the margins that we started off of our current projects with?

Shekhar Bajaj: Very difficult to give a specific answer but what has happened is that because those projects were not completed in time there were cost overruns and everything which happened those we have learnt in the last three four quarters we have been watching how we have been taking the hit so that we do not repeat the same mistakes. We have taken sufficient care to keep the certain amount of safety factor, which we have built in for some type of delays but we think that we will complete our projects in time and we will not have those cost overruns, which we have had for the earlier projects because we went very fast. Our speed of growth if you look at the last 7-8 years we have grown by 30%-40% year-on-year from 2002 to 2008 or 2009.

Anant Bajaj: Let me just emphasize again the point that project management is what we are putting lot of emphasis on to make sure all the issues at the site or payments etc., can be taken care of because really it is about completing the site on time which is the key to getting all the money and all the working capital everything what all of you ask every time is going to be answered by doing the correct project management for transmission line tower. So, that is what exactly we are trying to do on the newer projects, which ensures fantastic project management happening so that we can achieve the project completion on time.

Vikas Mantri: Appreciate your views sir. Thank you for your time.

Moderator: Thank you very much. Our next question is from Abhishek Raj of Religare Capital. Please go ahead.

Abhishek Raj: Thanks for taking my question. I have two questions one, can you give breakup in terms of sales for the consumer business and second will you stick with your guidance for FY'13?

Shekhar Bajaj: These are topline of 3700 Crores is all we have said. Bottomline we have not because as I said that in this operation, we are only saying lighting, our contribution should be better than or equal to last year and similarly for consumer durable. As far as engineering project is concerned, we do not know exactly what will be the final outcome so as a company I cannot say. Those two segments are something, which are very much controllable and in projects something, which sometimes goes out of hand. One if you are supplying appliance you supply it. Today you get your money in 30 days so it is very much under control, how much, what price, when you are going to collect. So all other segments, are relatively controllable and we are on top of it. In this there are some issues where we do not have full control and therefore I cannot be very clear on the E&P side but otherwise the other two segments we should be better than last year.

Abhishek Raj: Sir, breakup of consumer segment in terms of sales for the

quarter?

Shekhar Bajaj: I had mentioned it, and I will repeat it again. 19.5% on appliances, 13.3% on MR and 14.5% in fan.

Abhishek Raj: Sir, actually I was looking for numbers in terms of sales during the quarter?

Anant Purandare: Appliances is 249 Crores, Morphy Richard is 37 Crores and fan 113 Crores.

Abhishek Raj: Thanks a lot Sir.

Moderator: Thank you very much. Due to time constraints that was the last question. I would now like to hand the floor back to Mr. Rahul Gajare for closing comments.

Rahul Gajare: I would like to thank the management for their time on the conference and all the participants for participating in this conference call. Sir, would you like to have final closing comments over here.

Anant Purandare: Thanks to all the investors and thank you Rahul for arranging this call. I think CMD would like to conclude this call.

Shekhar Bajaj: I think as usual our investors have been very supportive and in spite of a very weak performance in this second quarter, I have not seen that the market is crashed. It means they understand that what we are doing is the right direction. So, I think we have to only discuss and we can keep talking whatever it is. Future is always great. In the first quarter of next year will be the real acid test whether what we have been saying we have been able to achieve or not. So I think we have to keep our fingers crossed, keep working hard to see the third, fourth quarter we do what we have promised and next year should be hopefully a good year. Thank you.

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

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