



L-1/2236/MGP

November 14, 2019

To,
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai 400 001

: **Script Code No. 500031**

National Stock Exchange of India Ltd.
Exchange Plaza, Bandra Kurla Complex
Bandra (East), Mumbai 400 051

: **BAJAJELEC – Series: EQ**
BAJA21A – Series A NCDs INE193E08038
BAJA21 – Series B NCDs INE193E08020
BAJA22 – Series C NCDs INE193E08012

Dear Sir / Madam,

Sub.: Transcript of post results Conference call held on November 6, 2019

Further to our letter no. L-1/2233/MGP dated November 5, 2019, we enclose herewith transcript of the Post results conference call held by the Company with the Investors, on Wednesday, November 6, 2019, on the financial results for the quarter and half year ended on September 30, 2019 which was organised by Emkay Global Financial Services Limited.

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

Thanking you,

Yours faithfully,
For Bajaj Electricals Limited

Mangesh Patil
EVP – Legal and Company Secretary

Encl.: as above.



“Bajaj Electricals Q2 FY20 Results Conference Call”

November 06, 2019



MANAGEMENT: **MR. SHEKHAR BAJAJ – CHAIRMAN & MD, BAJAJ ELECTRICALS**
MR. ANUJ PODDAR – EXECUTIVE DIRECTOR, BAJAJ ELECTRICALS
MR. ANANT PURANDARE – PRESIDENT & CHIEF FINANCIAL OFFICER, BAJAJ ELECTRICALS
MODERATOR: **MR. AMIT ZADE – EMKAY GLOBAL FINANCIAL SERVICES**

Moderator: Good day ladies and gentlemen and welcome to the Q2 FY'20 Results conference call of Bajaj Electricals hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Amit Zade from Emkay Global. Thank you, and over to you, sir.

Amit Zade: Thank you, Stanford, and good evening, everyone. We have with us from the management of Bajaj Electricals, Mr. Shekhar Bajaj – Chairman and Managing Director; Mr. Anuj Poddar – Executive Director and Mr. Anant Purandare – President and CFO. I would like to welcome them and thank them for giving us this opportunity. I would now hand over the call to the management for the opening remarks. Over to you, sir.

Shekhar Bajaj: Thank you very much, Amit. Shekhar Bajaj here. Good afternoon to all of you. Though the numbers are not looking very exciting but as was mentioned earlier conference call and whatever investor release, we have had, our direction is very clear; we said that our strong focus has to be on the consumer products and therefore that is what we have done.

As far as EPC is concerned, whichever orders in hand, we have to execute properly and take very restricted EPC business which makes sense and which gives us good profitability and does not require much of cash, and payments terms should be good. So because of that if we just look at the numbers, though it shows that in EPC we have grown (-58%), which we go down individually, in Luminaires they are (+11%), in Illumination, we are (+10.8%), in Power Distribution which is the worrying area, we are down by 82% and Transmission Line Tower we are down by (-10%). We have got this U.P. project, which we need to do it in a proper way, try to collect our money and other businesses we have to take it properly, but the result of this is that our overheads and interest cost is something which will continue for a few more quarters. Till we do not collect those monies and if turnover goes down, obviously, profitability is impacted.

As far as Consumer business is concerned, we have grown only by 9%, but July was very strong, but August, September slowdown is taking place, but if we look at our EBITDA margins it has gone down slightly but basically because our indirect fixed cost is being impacted because now the business is more a consumer business rather than the EPC business, so almost 0.7% is an indirect cost effect which is coming to consumer products because of the product mix which is there which is more of consumer products than EPC products.

As far as collection is concerned, that is the main thing, last year our profitability was good but our balance sheet was bad in terms of our cash flows, this year our balance sheet will be good, our P&L will not be good, and therefore about that more detail, I will ask Anuj to talk about exactly how our cash flows have improved and what is our future. Thank you very much.

Anuj Poddar:

Thank you. Good evening, everybody. This is Anuj Poddar. I will just add to the points that the CMD spoke about. Results as you see in P&L there is an impact but I would not worry at all about it, it is part of our strategic shift that the way we are driving the business going forward.

First, just to recall some of the points in the P&L and then I will come to the larger points in the balance sheet. The P&L as we shared on earlier calls and meetings, clearly we are seeing a shift in our approach between the consumer business and the EPC business. Consumer business is what we expect to continue to grow, and in the EPC business the planned degrowth that we are looking at. Consumer business has grown at 9%. Like the Chairman said, I think it is not bad, it is a moderate growth, affected partly or largely by the market sentiment. So in that environment, I do not think it is too bad. Having said that, maybe a couple of percentage points higher is what we had expected. We will expect that growth volume later on in the call is to what the segments and all that is coming on.

On the EBITDA margin of the Consumer business, actually we have held out well. Let me just add a little more data to that from what the CMD said. Our segmental margin that you see right now in the Consumer business shows a slight decline but that is because of the extra overheads being allocated in Consumer business, as a result of the degrowth of the EPC business. If I have to take that effect out, let me repeat the number slightly; Consumer business EBIT has grown from 5.7% to 6.3%. I am talking Q2 YoY, but I have some incremental overheads, reallocation of 1.2% which is why Consumer business margin is falling from 6.3% to 5.1%. I am repeating the numbers; 5.7% was the EBIT margin for the Consumer business last year Q2, that actually grew to 6.3% this year Q2, but there is extra allocation of 1.2, that is looking at 5.1%. Coming to EPC, like we said, we have a planned intent to actually degrow that business. It is therefore revenues come down by about 58%. Within that the chairman has already shared the breakups. So within that again consciously we are growing and are preserving our illumination business which has grown, transition line which has grown moderately and the power distribution which is where we are looking aggressive degrowth. There our focus is and will continue to be to focus on execution of the current order book and take very limited new orders in the power distribution.

Moving on from profit and loss, the larger story really sits in our balance sheet and cash flow, that is what our focus is this year. Our cash flow for the first half of this year is Rs. (+290) crores and that is a big swing from last year if we see comparatively first half was about Rs. (-400) crores. Our focus really is to improve the cash flows and make it positive and I will talk about recoverables and receivables that we teamed up over there.

On the back of increase in cash flows, we are also reducing our debt; so, our debt in the first six months have gone down by about Rs.127 crores. Keep in mind that while cash flow is higher, in the first half of the year, also we paid dividends, so therefore some of the cash goes for that and we do have a high interest cost which is hidden partly to the cash flows, rest being used to repay the debt. Besides the debt reduction of Rs.127 crores for us, actually there was a much higher debt in the form of advances from the power distribution client, we had about 300+ crores advance on the PD business which shows interest bearing, that has come down by over Rs.200

crores in the first six months. So that also to us is quasi-debt. So to my mind the total debt reduction is actual Rs.127 crores debt reduction plus this Rs.200 crores of advance adjustment. And therefore you will see beneficial impact of this going forward in the interest cost. So that is the broader story we are focused on making sure we return cash flow positive, better balance sheets, bring down debt. The P&L in the short-term will take the impact of us, consciously degrowing EPC business. But that is fine, that is true to what we are looking at going forward. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: I have got two questions on each of the businesses. On the Consumer business, I am glad to see that this number of 5.1% is actually 6.3%. So the profitability seems to be going the way we thought it should be going. Given the fact that the growth has been 9% in a scenario which is slightly slow, could you break this up into sub-segments which are the bright spots that you have seen in the Consumer Durables business and which are the businesses which have actually taken beating in terms of slowdown? On the second part, in the EPC business, this negative profitability that we have had in this particular quarter, are you broadly done with whole lot of provisions and all that you wanted to do for the UP project or there would be more of this which will come through in the following part of the year? And lastly on the tax rate, have you firmed up, what is your tax rate for FY'20 after the new corporate tax rate cuts?

Anuj Poddar: Thanks, Rahul. This is Anuj. On the first question on the Consumer growth, like we said aggregate growth is 9%. To break that up, within that Fans has actually grown very well for us; it is 22% growth. If you recall what we have been saying is Fans is the focus category for us. We know we have been lagging in Fans relative to other categories, therefore it is a focus category that we are looking at growing in and that has done well for us, the 22%, it is ahead of market, so we would have grown market share in that. Our Appliances has grown at about 7.4%. Lighting is a slow growth area; it is 2.1%, that is result of like LED lights erosion, etc., and therefore there is volume growth of price erosion we are happy that we have a positive growth cumulative in value terms in lighting. In the Morphy Richards business, the last component there, that has grown at about 2.2%. So that is a break-up of the consumer products growth. To your question on the EPC segment and the negative margin on that, just to clarify, that is not because of any write-offs provision there, but simply because we have reduced new orders, therefore have lesser billing and therefore revenues is lesser, our focus remains on this lower execution and therefore, our established overheads, the cost structure on the EPC business are higher and that is the reason for the loss. That will continue for a couple of quarters. Whenever you choose to degrow the EPC business, there will be a few quarters lag before the cost overheads can be significantly wound down. Specifically, particular quarter will be cumulatively positive or negative, is hard to say, some quarters we would expect that the consumer profit should offset the EPC losses.

- Rahul Gajare:** While I understand that when you have a lower revenue, your cost will get spread out on a shorter revenue, but specifically from a UP project, you know what are the kind of expectations in terms of cost which will go into that particular project, so are there some provisions that you started to build into the EPC margins or that is something which you still have to do?
- Anuj Poddar:** Let me answer it differently; first, one of the points I did mention is Q2 typically you can assume will be the worst quarter for us because again for consumer business also Q3, etc., would typically pick up versus Q2. So, it will be more significant quarter for us. Similarly, in the EPC business, for Q2 because of monsoon, etc., is when the least amount of work and billing happens. So, again in Q3, etc., normally the billing would go up in Q3 over Q2. And this is in last-30 days like we empathize that within EPC also, our illumination and transmission is fine, it is the power distribution that is seeing the biggest degrowth. This is the quantum of impact I would hope or expect would be lesser in subsequent quarters than it has been in Q2. Now, your other question on the expense side.
- Rahul Gajare:** Basically while I understand given the fact that our revenue will continue to decline or maybe lower than last year, you will obviously have pressure on the margin. But is there any more provision that will essentially come from the U.P. project?
- Anuj Poddar:** I do not expect provision. Like we shared earlier, there is a certain amount of extension in the UP project itself that we are in touch with the government that is likely to happen. We do not have a firm number, but maybe few hundred crores. That extension as and when it happens I expect that to be more marginally positive for us, because as you know lot of the past work was done at a point of time when commodity or input prices were higher. Any incremental work that happens now, commodity prices out there are lower and therefore this will actually be margin-accretive and therefore on a cumulative basis if I just look at the UP incremental work that could be slightly more positive, but again the problem there is not that isolation, overall cost structure overheads are higher, so that can offset this if I answer your question.
- Rahul Gajare:** How much of U.P. project is left right now?
- Anuj Poddar:** Couple of hundred pending right now, but like I said, there is an incremental extension, that should be a few hundred crores if I have to put a number right now.
- Rahul Gajare:** Last thing from the tax bit?
- Anant Purandare:** We are going to adopt the concessional rate of tax. Obviously, it has an impact on our DTA. So there is around Rs.16.6 crores on account of working of DTA.
- Shekhar Bajaj:** Rahul, just to clarify, we have taken that full hit in this quarter though we had an option to stagger.

- Moderator:** Thank you. The next question is from the line of Vikas Jain from Financial Quotient. Please go ahead.
- Vikas Jain:** Hi Anuj! My question is in relation to the EPC order book and the work in progress that we currently have?
- Anuj Poddar:** Yes, the current order book is Rs. 1,799 crores.
- Vikas Jain:** What are the timelines of executing the entire pipeline which we have and the order book which we have with us?
- Shekhar Bajaj:** Order book has a breakup in different segments and the different segment has different timelines for the execution of this. So power distribution, total order book pending as on date is Rs.778 crores. Obviously, it will take at least 1, 1.5-years. Then illumination which is shorter in the progress that is Rs.140 crores. And transmission lines, that is Rs.881 crores that we have seen, projects are generally from two to three years.
- Vikas Jain:** So does that mean for the entire tenure when you are executing these projects which is almost a year and a half from now, the pressure on the profit and loss will continue because of the EPC overheads?
- Anuj Poddar:** No, as we said, the overheads will reduce, they will not all of it wait for 18-months to reduce, maybe two, three quarters, they will move from the linear progression of that, we can do an overhead, where we have done in chunk. As you know, the order book that we have spoken about is cumulative across projects. As particular projects in particular states wind up fully, we can reduce the overhead cost structure in those particular states.
- Vikas Jain:** In relation to the credit rating that we have had which is towards the downward move, what is the impact on the interest cost that we have had taken because of it?
- Shekhar Bajaj:** Let me also add something to this that basically when we are completing these projects our interest cost will come down; one is our overheads will come down, that Anuj already mentioned that our interest cost in this quarter compared to the previous quarter is down by Rs.5 crores because we have collected a certain amount of money and whatever were the advances with interest that we have received, most of which has been paid back. So therefore, interest cost on that also goes down. We expect that in the coming quarter our interest cost will further go down by another Rs.4-5 crores. So every quarter, because of the better collection, our interest cost will come down and our overheads will come down. But actually seeing for some quarters, our EPC business will give losses. But we are hoping that the Consumer business should give sufficient profit to balance it so that we may end up being profitable as a company. But EPC I do not see at this moment or the next few quarters we will be able to not lose much.

- Vikas Jain:** Just to educate myself, in the lighting business of our consumer segment, LED lights and all, do we have any of the auto makers as one of our largest customers to whom we deliver?
- Anuj Poddar:** No, we do not supply.
- Moderator:** Thank you. The next question is from the line of Kunal Sheth from B&K Securities. Please go ahead.
- Kunal Sheth:** Sir, I just needed one clarification. So, we said that the margin for consumer business has come down because of cost reallocation. So that cost reallocation is pertaining to the cost that has been moved from the EPC to the Consumer division, is it?
- Shekhar Bajaj:** That is correct.
- Anuj Poddar:** There are certain direct costs that go to EPC, direct cost of Consumer goes here, there are larger overall costs that we have overheads that do get allocated based on the relative revenue proportion of each segment. 60% of those costs go into EPC, this year because EPC is lower and Consumer is higher, more of that cost is getting allocated to Consumer. So that swing factor is more because of that than actually any change in the Consumer business itself.
- Kunal Sheth:** Secondly, how much is the outstanding debtors from UP at this point in time and out of that outstanding debtors, how much of that is outstanding for more than six months or a year?
- Anuj Poddar:** Outstanding debtors as of date is around Rs.780 crores and most of these are the billing which we had done before March.
- Kunal Sheth:** This Rs.780 crores is relating to U.P., right?
- Anuj Poddar:** Yes, we keep a separate track for U.P.
- Kunal Sheth:** All of these has been built before March?
- Anant Purandare:** As of date it is Rs.780 crores.
- Kunal Sheth:** Out of that Rs.780 crores, how much of that is pending for more than six months?
- Shekhar Bajaj:** This was before 31st March billing no. So over six months.
- Anuj Poddar:** Kunal, just to give you a little more color, U.P. receivables as of March '19 was about Rs. 1,187 crores, in September down to Rs.840 crores and as CFO has shared, we can share the October numbers now go down to Rs.780 crores. Typically, there is a long lead time in the collection process. So, most of it would be more than six months. Our focus if you look at it to continually bring that down, could be coming down in the next nine months.

- Kunal Sheth:** Sir, lastly, while we have been speaking about bringing down the EPC business, what is the optimum level we think will bring down the EPC business and can it go down over the next three years maybe, down to 30% of the business or it will stay at 50?
- Anuj Poddar:** This is already below 50 this year. Last year was 60:40 EPC and Consumer. This year Consumer is 60-65% of our total turnover, EPC right now at about Rs.900 crores, full year will not be more than Rs. (+/-1800) crores.
- Shekhar Bajaj:** May be around 2000 crores
- Anuj Poddar:** I will come back to that point, but to your point on “Going forward three years out, 25%,” I think it should be less than that, we do not have an absolute number for the EPC.
- Shekhar Bajaj:** Also, the EPC business as we said we will do it on a very careful basis and therefore if we get business at on our terms, 30% can be 35%, it can be 40%, but really it will not be more than 40%.
- Moderator:** Thank you. The next question is from the line of Ashish Poddar from Anand Rathi. Please go ahead.
- Ashish Poddar:** Sir, in the first half we had seen increased cost nearing about Rs.95 crores versus sub-50 crores number last year in the first half, though the second half was a higher number. But this run rate will continue like that for the current year in the coming quarters or you will see significant reduction in second half?
- Shekhar Bajaj:** As already mentioned earlier that first quarter it was about Rs.50 crores, second quarter which is just over is about Rs.45 crores and in the coming quarter we are expecting the third quarter it will go down to Rs.40 crores. So every time we are collecting more money and we have taken advance from U.P. under the Saubhagya Scheme of Rs.453 crores which has come down to Rs.300-odd crores on 31st March, which is as on today it will be around Rs.80 crores. So interest cost will obviously come down because this is interest bearing advances.
- Ashish Poddar:** On the depreciation, the kind of run rate we are seeing from last two quarters, is it going to be the new normal in coming quarters?
- Anuj Poddar:** For depreciation there is an impact of Accounting Standard 116, that is leased assets.
- Ashish Poddar:** These numbers are the new normal for the coming quarters?
- Anuj Poddar:** Right.
- Ashish Poddar:** Again want to clarify on the EPC revenue. For the full year number for FY’20, what was the number you mentioned?

- Anuj Poddar:** Mentioned Rs.1800 crores, CMD said Rs. 2,000 crores, you can take any number in between, but not more than that.
- Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** My first question is with respect to the Consumer business. We had more than 30% growth in the first quarter and that has come off to 9%. In this quarter, a) what is the growth for the October month, has it gone back to the 20s or 30s; and b) what would be our expectation for the full year FY'20?
- Anuj Poddar:** Achal, you are right, first quarter was 31% growth, Q2 has been low. Within Q2 actually the first month, that is July was very healthy double-digit, and then August and September has been low single-digit. That is particularly not the consumer sentiment but August-September has been flood-affected months both in North India as well as South, Kerala, etc., I think August-September was a bit of an aberration. For October, while we are not disclosing a specific number, it is back to fairly healthy double-digits. The other thing which you should keep in mind is like I said Q2 is typically if I may say so the lesser reporting quarter for us. Also because our model of RREP if you are familiar with it, we do not resort to dumping, etc., So unlike other companies, in terms of the festive month of diwali or October, we had lesser advance sales in Q2 than many other companies would have. So build-up for the festive period did not start as much in advance as it does for the other companies.
- Achal Lohade:** In that case like is it fair to look at mid-teens kind of a growth for full year on a sustainable basis for Consumer business put together?
- Anuj Poddar:** Your guess is as good as mine in terms of what happens on the economy. But I will be hopeful of higher than that.
- Achal Lohade:** Secondly, in terms of the allocation of the cost, you mentioned that almost 120 bps impact for the quarter. But the same would have been reversed in the case of FY'19 where EPC business was larger while Consumer business was relatively smaller. Is that a fair assessment?
- Anuj Poddar:** No, it is not as if there is a fixed overheads running through the year and is getting reallocated. The overheads have grown last year in FY'19, etc., and EPC business has been scaling up. And those overheads continue in the system, still the EPC business has not permanently come down. So, it is not this reversal of what would have happened between let us say FY'17 to '18 to '19.
- Achal Lohade:** In terms of the U.P. project, you mentioned Rs.200 crores is part of the order book roundabout and another couple of hundred crores could be the extensions, is that right?
- Anuj Poddar:** That is right, extension could be slightly more than a couple of hundred crores.

- Achal Lohade:** Just last clarification with respect to the second quarter. If I just compare the order book as of 30th June and 30th of September, there is an incremental Rs.300 crores, and on top of that we had about Rs.350 crores booked in the second quarter. Does it mean that the new order inflow was about Rs.650 crores for the quarter?
- Anuj Poddar:** I will just check the breakup and confirm exact number from June, but the incremental orders have come in the transmission line business, not in the power distribution business and we have been very selective on new bidding and new orders that we are accepting and I can tell you confidently that the incremental orders that we have taken in transmission line are all healthy orders that we have taken.
- Achal Lohade:** With respect to the Starlite, what is the status in terms of the acquisition or the merger part of it?
- Anuj Poddar:** On Starlite, we never made any official comment or any acquisition or merger.
- Shekhar Bajaj:** NCLT has given a clearance for Hind Lamps that is something which will get merged sooner or later. But as far as Starlite is concerned, no decision has been taken.
- Anuj Poddar:** At Starlite, we are 47% owner, it will remain that.
- Anant Purandare:** Regarding order book, the transmission line tower, June order book was Rs.495 crores, that has come to Rs.881 crores.
- Achal Lohade:** So incremental order is in the TLT?
- Anant Purandare:** Yes.
- Moderator:** Thank you. The next question is from the line of Ankit Soni from Karvy Stock Broking. Please go ahead.
- Ankit Soni:** The question is related to the earlier question of receivables of Rs.780 crores. Out of Rs.780 crores of outstanding receivables how much do we expect this year?
- Anuj Poddar:** Rs.780 crores like we said is October-November, actually what you should look at is Rs.840 crores which was the September '19 number, that tells you actually we already collected further Rs.60 plus crores in the last month. We hope to maintain a similar or higher run rate in the next six months. I cannot put a specific number as to how much it will get collected by March. But rest assured it is moving very well.
- Anant Purandare:** Rs.200 crores of retention could not be collected. That will be collected after one year.
- Ankit Soni:** What is the debt we are looking at the end of the financial year '20 and how are we looking to reduce it?

- Anuj Poddar:** Our debt at the start of the year was about Rs. 1,585 crores, plus 400 crores of advances from the customer. Advances will be fully nullified hopefully in Q3 itself. Maybe very nominal if it spills onto Q4 or expect otherwise Q3 will become zero. The other actual debt of Rs. 1,585 crores, the guidance we had given at the start of the year is that it would be anywhere between Rs. 1,400-1,450 crores by the end of the year. Actually, we are already at about Rs. 1,450 crores now. So, frankly I believe we actually already achieved the debt reduction target that we have given, but we should further improve from here. I cannot give number right now.
- Anant Purandare:** Because these two quarters obviously are the busy quarters where we may require some additional working capital.
- Ankit Soni:** Other thing is like on the Consumer Products since we had around 9% growth year-on-year, what is the overall expectation for financial year '20 and how are you seeing the festive season coming around?
- Anuj Poddar:** That question was asked earlier. Just to repeat quickly, we had a good October in double-digits. We are not putting a specific figure out publicly. Subject to market economy and everything holding out, we expect to maintain double-digit growth in the remaining months of the year which means for the consolidated full year we should be back to a healthy double-digit growth. We cannot put exact number on that.
- Moderator:** Thank you. The next question is from the line of Akshay Bhor from Premji Invest. Please go ahead.
- Akshay Bhor:** First thing I want to ask you is on cost structure and we have mentioned that 120 bps of impact in the quarter on the Consumer business. What quantum of cost cuts that you have to do over the next two, three quarters, what are you planning and how would you achieve that?
- Anuj Poddar:** Akshay, it is hard to put a very specific number by quarter-on-quarter how is it getting done. Directionally like I have shared with you we are doing that. The way that works is primarily on the cost cutting or overheads reduction will happen for the EPC business. That would have been state-by-state as respective. So we have ongoing projects across states, not just U.P., but Bihar, Karnataka, M.P., Odisha, etc., And as each state gets over, then we can wind up the overheads, the cost structures pertaining to those specific states. The issue with these costs are they are not fully variable costs that we cut in a very linear manner. So they do get cut in a slightly lumpy manner. Maybe the best answer I can give you is three, four quarters out, we should have significantly cut cost but within the three, four quarters, it is hard to break-up specific numbers for each quarter.
- Akshay Bhor:** After three, four quarters, will some part of the fixed cost remain with the Consumer business that you will have to bear because the EPC business going down or you think you can go back to a similar cost structure as last year?

- Anuj Poddar:** Let me answer the other way; I can go back to what is my underlying margin which is the EBIT margin I am talking about and therefore those margins also normal overheads are built in. The movement that I spoke about frankly is incremental overheads.
- Akshay Bhor:** Leaving a U.P. project aside, what is the receivable trajectory for the rest of the year for other businesses as well because it looks like the overall pie is shrinking and how much of receivables you expect to get from some of the other businesses in the EPC bucket?
- Anuj Poddar:** Our total receivables will be about Rs.650 crores. We can share more details later.
- Anant Purandare:** Consumer receivables now is Rs.453 crores.
- Akshay Bhor:** Within the EPC if you could give us a breakup? You have given the U.P. cost is about Rs.700-ish...?
- Anuj Poddar:** Total EPC receivables are Rs. 2,031 crores; Rs.840 is U.P.
- Akshay Bhor:** Do we expect ex to U.P. project as well, some receivables to come down by the end of the year because your revenue trajectory suggest that you are not hitting a run rate on the remaining projects as well?
- Anuj Poddar:** Absolutely. During the first half of the year my receivables have come down by Rs.650 crores, of that U.P. was only Rs.300 crores and something, so rest of it is also collections equally have been on the other projects also, maybe going forward also we expect to continue recovery from all of the receivables.
- Akshay Bhor:** I am not sure if you will be able to answer this but for the rest of the year, Consumer business margins, what should be thinking about on YoY basis, would this 120 bps continue for the rest of the year and overall for the year what kind of margins should we expect?
- Anuj Poddar:** Let us put this drag of 1-point odd per cent aside. Q3 margins typically are better because the water heaters, etc., come in and those are higher contribution products. Q4 depends on when the cooler or. Based on that, that should be better if the season starts coming up. That is point #1. So underlying like I said, the inherent consumer business margin should be better in Q3 and Q4. But the drag effect of this, the 1%-odd will continue for the few quarters.
- Moderator:** Thank you. The next question is from the line of Deepak Agarwal from PhillipCapital. Please go ahead.
- Deepak Agarwal:** As you mentioned that interest cost will fall from here. So what will be the full year interest cost that we can take sir?
- Anuj Poddar:** At the start of the year we started with Rs. 1,585 crores, including advances, we assume about Rs. 1,980 to 2,000 crores of debt on which we are paying interest. At mid-point we had about

1,450 crores of debt plus 150 crores of advances, and that will again correct over the next one quarter or so. Now you extrapolate the interest cost.

Moderator: Thank you. The next question is from the line of Saket Saraogi, an individual investor. Please go ahead.

Saket Saraogi: I just wanted to know about long-term plan of the company like the issue that we are facing with the EPC division, earlier also we have faced such kind of issues and the division tend to give lot of losses and there was a lot of debt build-up in the balance sheet and again now we are in the same situation and earlier also if I am not wrong in future we will be prudent in taking the projects which will be very margin-accretive like we have sufficient margin, then only we will take up the projects. So, how do we think in future we are going to see this does not happen again like?

Shekhar Bajaj: This is something which in last quarter we clarified that we had corrected. Once particular project is behind and therefore we put up now a system of control that finally any project which is to be cleared by finance, cleared by project people, it has to be finally gone to the executive director, earlier the business unit head could go and quote without coming back to. Because of what has happened we are now becoming little more careful to see we do not take and again go back. Earlier we suffered, then we improved upon it and about till a year back and then last year because of this problem, again, we are back to square one. So, therefore, it is more of a worry for us that this has really given us so much of pressure, so much of synergies gone in trying to solve this particular problem. So, we are extremely careful about it that in future we should not have this again.

Saket Saraogi: Two business we have; one is the consumer durable and other is EPC one. So, consumer durable is more of a cash cow and it is a very low capital-intensive business and on the other hand this business is usually capital-intensive and low margin business. So, like running the two opposite kind of business in the same company, what I feel as a shareholder that the value of the business is not properly evaluated because of these two opposite business and one business draining the other business. So is there any picture that we can think of any kind of demergers and making two businesses separate so that the value of the good one can be properly utilized because in case of many other companies we have seen this happening and that has led to lot of value accretion for the shareholders also?

Shekhar Bajaj: What you are saying is absolutely correct and we had also mentioned that this is something which we are hoping to look at a particular stage about a year back when the EPC business and Consumer business both were generating positive cash, there was no negative cash coming, if you see it, only this thing has completely put us back as I mentioned and therefore after 12-months or 18-months once the U.P. project or this old outstanding and everything is stabilized, at that time one can look at it.

- Moderator:** Thank you. The next question is from the line of Hitesh Taunk from ICICIDirect. Please go ahead.
- Hitesh Taunk:** Sir, my question is again pertaining to Consumer Durables section. Can you give me total distributors or retail network which was in a base period and what is the current distribution network by the end of September '19?
- Anuj Poddar:** 478 distributors, I think close to between 2,15,000 and 2,20,000 retailers.
- Hitesh Taunk:** This 2,20,000 retailers numbers, what was it last period sir?
- Anant Purandare:** Last year June around 1,35,000 retailers.
- Hitesh Taunk:** I just wanted to know whether the growth which have come in the Consumer Durables sector which is around 9% was largely driven by the addition of the new retailers or was it been a real organic demand at a ground level?
- Anuj Poddar:** It will be a mix of both but very hard to dissect it numerically and some of the incremental that is added. If we find every addition that is happening particularly now, the smaller and smaller territory or smaller and smaller retailer, so the margin addition that is happening because of new addition is low. Hard to sometimes pinpoint as to how much came through. Earlier the territory was a newer territory. So there is always an overlap.
- Hitesh Taunk:** My next question is on the margin front. In the Consumer Durables section, margin has been in the range of 5-7% if I check last 7, 8-quarters. So, is it the kind of margin you are focusing in the coming period also or would you like to revise this margin guidance?
- Anuj Poddar:** Clearly we would expect to get to a double-digit margin, but that is about four years away that we will get to that. In the near-term because of the reasons I explained, Q3, Q4 will be better than Q2, but break out will take three to four years to happen.
- Moderator:** Thank you. The next question is from the line of Arun from CM Research. Please go ahead.
- Arun:** I have missed out that consumer product segment growth. Could you please repeat it?
- Anuj Poddar:** Total consumer growth is 9%, within that fans have grown very handsomely at 22%, appliances have grown at 7.4%, there is really price erosion, so that has grown slow at 2.1% and Morphy Richards has grown at 2.2%.
- Arun:** So, within the current order book of Rs. 1,800 crores, what is the share of legacy orders that is leading us and the margin orders?
- Anuj Poddar:** Power distribution, all of it is legacy orders, transmission line I think half of it would be legacy and illumination is a small number, largely fresh.

- Arun:** So put together Rs.300 crores plus will be the ...?
- Anuj Poddar:** About Rs.500 will be fresh orders.
- Moderator:** Thank you. The next question is from the line of Sandeep Jain from Birla Sun Life Insurance. Please go ahead.
- Sandeep Jain:** Just wanted to understand a couple of things. Our order book has increased with transmission line from Rs.600 crores to Rs.880 crores on QoQ basis, and on the other side we are taking hit on the margin from EPC to Consumer Durables side and we are saying as a strategy that we will look for a profitable project on EPC side and all. So, if you want to reduce debt size, why are we taking incremental order on the EPC side also?
- Anuj Poddar:** Sandeep, like we said, firstly, the EPC is illumination, power distribution and transmission. Power distribution has been the problem and that is why we have taken no order. Illumination is perfectly fine, we have grown the billing this quarter also that we will continue to do. And your transmission line, we have been very selective, rest assured those orders on an isolated basis are profitable, we are very confident on both execution, collection and profitability on those orders. Keep in mind for long-term interest we do on a want to control EPC significantly. It is not zero or 100% gain. We do need to navigate that carefully because like you are seeing in this quarter also there are certain inbuilt cost structures. We do need to absorb some of those cost structures while with certain say positive contribution orders and then look at how do we manage that over the medium-term. So, we are being selective, we have taken zero orders in power distribution, that is where the problem is, we are taking selective orders elsewhere, those are not bad orders.
- Sandeep Jain:** Can you repeat figure of the overall debtors?
- Anant Purandare:** Rs. 2,037 crores is EPC and Rs.453 crores is Consumer Durables.
- Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Just a clarification sir with respect to the new season for winter as well as quarter down the line summer season. How are we preparing with respect to the new products or refreshing our range if you could talk a little bit on that, that would be useful sir?
- Anuj Poddar:** Firstly, talk about winter, it is a season for water heaters, we had a good start in October, I cannot share specific numbers. So, while that is driving product in winter, we continue to focus in other categories. We did road campaign for mixer grinder also which is a leading category for us. Fans is a third leading category, but obviously this is not a peak season for us. Going forward into summer, the key category is going to be fans and coolers. We do have plans to push aggressively both these product categories in the coming summer.

- Achal Lohade:** Is it possible to give any number of new SKUs you have launched in second quarter as well as third quarter?
- Anuj Poddar:** It would be a little misnomer but to give you a broad range we did technically launch about 100 SKUs in the last quarter. Some of the SKUs are new SKUs while some are the freshers or re-versioning of existing SKUs. Only reason I am wary to put that number out is that on overall basis agenda is not to increase the total SKUs that we are doing. So, as we are launching new SKUs, we are also phasing out old SKUs. Over a medium-term, we actually intend to bring down the total number of SKUs in our portfolio.
- Achal Lohade:** Just a clarification; the earlier participant did ask about the legacy order. Could you please repeat, what is the quantum and when you say are these low margin orders or how do we understand this legacy order, is the old order or orders ...?
- Anuj Poddar:** Half of the order book is power distribution, that is all legacy orders, we have not taken any new order, that is a low margin order, that is where let us say U.P., etc., sits. The transmission line orders, half is legacy, half is new. The past has also been fine and the new orders are actually better margin orders in the transmission line. And Illumination continues to be a positive margin order book but that is very small in terms of quantum.
- Moderator:** Thank you. The next question is from the line of Arun from CM Research. Please go ahead.
- Arun:** Just a clarification. Regarding the EPC, you have just quoted that for the full year revenue numbers for this division have been more than Rs. 1,800-2,000 orders what you have told.
- Anuj Poddar:** Probably somewhere in that range, not more.
- Arun:** It accounts for about 40% of your top line?
- Anuj Poddar:** That is right. It is not as if I have a very firm number for EPC. I am just telling broadly.
- Arun:** How is the game plan for this EPC? You have answered a couple of questions back that you will have a look at the demerger after a couple of years.
- Anuj Poddar:** Arun, we cannot give you specifics on that. Right now is to execute the U.P. thing successfully and with right collection which we have been aggressively doing every month. As we come out of that, then we will start looking at other options. Right now we are laser-focused on doing that and doing that well.
- Arun:** You will not be totally exiting from the EPC business na?
- Anuj Poddar:** I will say at the right time. Right now we are managing that in a contained manner.

- Moderator:** Thank you. The next question is from the line of Ankit Soni from Karvy Stock Broking. Please go ahead.
- Ankit Soni:** I just want to know, are we also looking for orders in railways electrification business?
- Anuj Poddar:** Not really. Quite frankly.. Our teams are looking at that. It is presented to me as a nice opportunity, but we are yet to see specifics on that. Let me put it this way, it is something that we believe could be an opportunity but unless we come to specifics of that, I do not want to be committing to that.
- Ankit Soni:** So just was asking whether like quite good amount of margins, healthy orders there. I was just looking if you are looking out there?
- Anuj Poddar:** That is being spoken about, I mean, we had to see specific tenders, otherwise to see if that is the case. Like we said rather than we commit ourselves many of these things, we are doubly conscious or cautious about these things now. Unless we have absolute clarity and certainty, we do not want to be committing to it.
- Ankit Soni:** But we are looking at that opportunity, that is what I want to know?
- Anuj Poddar:** Yes, the teams are looking at that.
- Shekhar Bajaj:** Railways is a big business. So it is not that the business is small but getting an entry is not that easy.
- Anuj Poddar:** We have to be confident about recoveries also.
- Moderator:** Thank you. The next question is from the line of Akshay Bhor from Premji Invest. Please go ahead.
- Akshay Bhor:** A quick follow-up. Just wanted to understand how is your bidding strategy across the EPC portfolio at this point in time and how much businesses you would have won in the last six months? I know there is some burn rate as well.
- Anuj Poddar:** The orders that we have taken in the last six months are approximately Rs.400 crores, largely all in the transmission line towers. I am not talking illumination, that is more like a churn business that is there. In the power distribution, zero orders that we have taken in. It is a quantum strategy, like I said, we have got a cap on quantum that we are chasing, there is a margin strategy which we now have a benchmark on that, which we do not take. But more than that the qualitative thing about risk assessment process that we follow around that, the approvals, etc., and that will meet all those criteria go through all those approvals before we actually do it. Who is the client on the other side is, is it private, is it PSU, is it government state, centre, payment terms, visibility to collections, etc.,

- Akshay Bhore:** Looking at your run rate for this year and your execution as well in the first half and then sort of EPC revenue of Rs. 1,800-2,000 crores for the current year, would it be safe to say that next year as well you should see a meaningful decline given the way your order book is set up today?
- Anuj Poddar:** Possibly yes, I do not see it is growing, but will it be slightly decline or bigger decline is early to say, but it will be a downward trend, not an upward trend.
- Akshay Bhore:** But the intention is to have a downward trend or you think you want to stay at Rs. 2,000 crores or the intention is to curtail it?
- Shekhar Bajaj:** We have given an indication that we are going to be very-very careful if we get the orders in our terms. Maybe Rs. 2,000 crores is start-up, we can get Rs. 2,500 crores, it maybe Rs. 1,500, but we will not chase numbers just to get orders. Only if we find that it is profitable, if we find that the cash flows are good, we know that money will be collected, then only those businesses we will do, whether it is 1,500, 1,800, 2,000, 2,500, but there is no chance of it, above 2,500, that is very clear, that means 40% of our business is not from EPC.
- Anuj Poddar:** To emphasize that again, when we are saying we take it in our terms, we will not take unlimited amounts of business. So, you have the absolute figures, we are yet talking about much lower figures, historically we have ended up doing.
- Anant Purandare:** In the EPC, there is around Rs.400 crores of turnover is what we said. What we said is no order book figure here. Part of that same is Rs. 1,500, 1,800 crores.
- Akshay Bhore:** Within the EPC as well, power distribution, lighting and TLT, could you give us a sense of where the margin stack up because what we see is blended margin which last year it was about 5% margin, just wanted to understand where would your TLT margins and lighting margins be?
- Anuj Poddar:** We do not share this because margins also vary except lighting which is the kind of trailing where the contribution is constant, but generally we do not give the guidance on the margins.
- Akshay Bhore:** It is not guidance, but can we at least understand the stacking of how those three businesses are in terms of your EBIT margin?
- Anuj Poddar:** For the comparison, the Illumination margins are better and transmission are comparatively lower, PD, quite frankly trending to be negative, but keep in mind if you look at our current P&L the issue is higher cost base based on a larger business side. So in that case the margins become less meaningful because that remains at a project level, if not aggregate overhead level you have higher overhead, then it all becomes negative at primarily profitability level. So we also do not want to just look at the business at individual project level profitability but structurally keeping this line of overall quantum is what we need to do.

- Moderator:** Thank you. The next question is from the line of Priyesh Babariya from Kotak Securities. Please go ahead.
- Priyesh Babariya:** Sir, my question was regarding that we have seen the EPC has been declining. Could you please give the breakup on the same?
- Anuj Poddar:** I shared that earlier. Your luminous and the illumination business has grown at about 11%, transmission line towers business has declined by about 10.7% and your power distribution is the big decline at about 82.8%. You are seeing where we are pulling back on power distribution big time.
- Priyesh Babariya:** Adding to the earlier question, could you please give us a breakup on the receivable from the customer in the consumer segment?
- Anant Purandare:** Consumer is Rs.453 crores and EPC is Rs. 2,037 crores.
- Priyesh Babariya:** Could you please give us sub-segment on the consumer side for this?
- Anuj Poddar:** Consumer receivables are not by product category, to sell to a distributor, he is in multiple products.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.
- Anuj Poddar:** Thank you, everybody for joining us. I just want to reassure you as we said in the start that the P&L may not look very positive this quarter, but rest assured that is part of applying strategic shift that we are doing. Our focus has been and will remain to be cash flow positive with the balance sheet bring down debt and as a result of that you will see going forward interest cost and other issues come down. We had to bite the bullet at some point on bringing down the EPC business. We have chosen to bite the bullet. We will stay that course. And as we do that, in the short-term we will have some negative margins because of the overheads. That is part of applying shift in direction. We will in the medium term fix that also. Just to wrap that up, when that happens a few quarters down, we see a strong bounce back in the P&L also as a result of all these efforts. Thank you, everybody.
- Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us and you may now disconnect your lines.