



August 14, 2020

To,
BSE Limited : Code No. 500031
Department of Corporate Services
Phiroze Jeejeebhoy Towers
Dalal Street Mumbai 400 001

National Stock Exchange of India Limited : BAJELEC - Series: EQ
Listing Department BAJ21A -Series A NCDs INE193E08038
Exchange Plaza, Bandra Kurla Complex, BAJ21-Series B NCDs INE193E08020
Bandra (East), Mumbai 400 051 BAJ22 -Series C NCDs INE193E08012

Dear Sir/Madam,

Sub.: Submission of the Transcript of the Investor Conference Call of Bajaj Electricals Limited ("Company") held on August 11, 2020

Further to our letter dated August 7, 2020 and pursuant to the provisions of Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended ("**SEBI Listing Regulations**"), we enclose herewith the transcript of the Investor Conference Call which was organised by PhillipCapital (India) Private Limited on Tuesday, August 11, 2020 at 4:30 PM (IST) to discuss the financial results of the Company of the first quarter ended June 30, 2020.

We request you to take the above on record and treat the same as compliance under the applicable provisions of the SEBI Listing Regulations.

Thanking you,

Yours Faithfully,
For Bajaj Electricals Limited

Ajay Nagle
EVP and Head – Legal & Company Secretary

Encl.: as above



“Bajaj Electricals Limited Q1 FY 2021 Earnings Conference Call”

August 11, 2020



MANAGEMENT: **MR. SHEKHAR BAJAJ – CHAIRMAN AND MANAGING DIRECTOR, BAJAJ ELECTRICALS LIMITED**
MR. ANUJ PODDAR – EXECUTIVE DIRECTOR, BAJAJ ELECTRICALS LIMITED
MS. POOJA BAJAJ – NON-EXECUTIVE DIRECTOR, BAJAJ ELECTRICALS LIMITED
MR. ANANT PURANDARE – PRESIDENT AND CHIEF FINANCIAL OFFICER, BAJAJ ELECTRICALS LIMITED

MODERATOR: **MR. DEEPAK AGARWAL – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day. And welcome to the Bajaj Electricals Limited to the Q1 FY '21 Earnings Conference Call, hosted by PhillipCapital (India) Private Limited. 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 call, please signal an operator by pressing "*" then "0" on your phone. I now hand the conference over to Mr. Deepak Agarwal from PhillipCapital. Thank you, and over to you, sir.

Deepak Agarwal: Thanks. Good afternoon, everyone. I would like to welcome the management and thank them for giving us this opportunity to host this call. We have with us Mr. Shekhar Bajaj – Chairman and Managing Director; Mr. Anuj Poddar – Executive Director; and Mr. Anant Purandare – President and CFO.

So without taking much of a time, I would like to hand over the floor to the management for their opening remarks, post which we will open the floor for Q&A. Over to you, sir. Thanks so much.

Shekhar Bajaj: This is Shekhar Bajaj. Good evening to all of you. And thank you for being there for this conference call. You must have gone through the press release and the results. I think we are reasonably satisfied with the performance of the Consumer business. I mean, to have a positive EBIT in spite of the sales being down by 50%, shows that once our normal business comes up, then we should be in a very profitable state.

One of the good news is that our first level margins for this quarter compared to June quarter of last year is higher by about (+2%). Only because our turnover is down and, therefore, to that extent, our profitability has got impacted, but that is something which was expected. In the month of April, it was zero; in the month of May, it was about 50%. And the good news is that in the month of June, we have done over 100%, that means more than June of last year. And July also is almost equal to the previous year in spite of all the closures, all the slowdowns, all the lockdowns.

In spite of that, it shows that once this thing gets cleared them in the future, in the season time we can expect to grow much better. And therefore, our internal objective is that though we have lost one and a half months because of this COVID situation and lockdown situation, we hope that last year we did about Rs. 3,100 crores and we will stay flattish in current year

In the EPC business, strategically we had done last year against for Rs. 3,900 crores we had done Rs. 1,900 crores. This year, we have still got good order book and therefore we still hope that in the next three quarters we should be able to catch up and end up around last year levels, maybe 3% or 5% lower. But we would not go higher than last year. So we hope that against last year's Rs. 4,900 odd crores, we should do around Rs. 5,000 crores in the current year also.

The other aspect which is most important is, during this period, normally a person would say that, how can I collect money, everything is closed down? But we are happy to inform you that we were able to collect substantial amount of dues, same has led to healthy operating cash flows of Rs. 145

crores, and therefore our debt has been reduced on consistent basis, From Rs. 2,000 crores in previous year to we have done Rs. 962 crores as on end of March this year.

And by end of June, we have now reached a level of Rs. 810 crores. And therefore, our interest costs against Rs. 49 crores for the quarter of the last year, this quarter it is only Rs. 27 crores, which is a reduction of almost 50%. Our interest cost has gone down by 50%, we are hoping that the interest costs in the coming quarters would be even further lower. So against the Rs. 170 crores, that was our total interest cost for the last year, full year, we expect that it will be below Rs. 100 crores in the current year.

As far as EPC is concerned, the overall costs are continuing because our business has substantially come down. Even last year it was 50% of the previous year, but first quarter is even more than 60% lower. Of course, April, May was completely almost zero. And June also it's not picked up as well as we can, because the number of sites and all have not given us time for execution. So EPC will take its own time. But as long as our monies are coming in and we are really improving our cash flows, that is most critical. So we are very positive and very happy about the performance that has happened.

And I would now request Anuj Poddar, our Executive Director, to add some points to this.

Anuj Poddar:

Thank you, Mr. Bajaj. Good evening, everyone. This is Anuj Poddar. I think he has covered all the points, not much to add. Just a couple of things that I will emphasize and just add to. One is, like he said, I think I am fairly satisfied with this quarter, particularly our Consumer business; and the bounce back in the Consumer business that we have seen, particularly in June. I think a lot of that I would credit to our team's ability to respond dynamically to the evolving situation. It has not been easy, we have had many challenges on supply chain, on logistics, on warehouses, on factories, etc., but we have continued to respond to that in a week-on-week basis to deliver the Consumer business revenue.

The part that he mentioned about the first level margin expansion, I think that is critical. Like we have been saying, our longer-term focus is to drive margin expansion for the Consumer business. so we have driven more than 2 percentage point gain at the first level margin. In the bottom-line is not translated because of this quarter, as you would understand. But going forward, I think that should hold us in good stead.

On the EPC, it has been a challenging quarter on execution and billing, because that is very labor dependent. And therefore, unless the movement and availability of labor normalizes, I think that may stay a little bit under pressure. What has helped us contain the impact of this at the bottom-line and deliver positive on the Consumer and also contain a little bit of negative on EPC has been our focus on cost. So besides driving cash flow focus, which Mr. Bajaj spoke about, we have been very focused on controlling our costs.

If we look at it, overall, broadly speaking, our costs are at sub-50% of last year. But that includes a cutback on variable costs, which anyway would come down, but also many other so-called fixed costs, which we aggressively look to contain. Going forward, our intent is not to come back to full cost levels, so wherever cost savings can be continued going forward, we are also focused on getting the advantage of that for the rest of the year so that we partly make up for the losses of the first quarter on a bottom-line basis.

Yes. So I think I will pause here. Some other comments I can take up later based on the questions. Thank you very much.

Shekhar Bajaj: Also, I would like to just mention that our Director, my daughter-in-law, Pooja Bajaj, she is also going to be available. So she would like to learn, so she is also there with me during this conference call. Thank you. Now we can have it open for question and answer.

Moderator: Thank you very much. We will now begin the questions-and-answer session. We have the first question from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: My question was, sir can you give some color with respect to the ECD business in terms of appliances, lighting, fans, what has been the decline?

Anuj Poddar: Sure, Achal. I will give you the percentages, but frankly, I think the comparison doesn't draw that much meaning. Lighting is down by about 40%; everything is Y-on-Year, appliances down by about 53%, fans by 50%; and Morphy Richards by 51%. But qualitatively speaking, I think we have seen buoyancy in the appliances, particularly kitchen appliances and we have seen a reasonably good comeback on the fans category. Coolers performed below what we would have expected, even in terms of comeback. And lighting, unlike the rest of the industry, we had a growth for the last few quarters, but obviously this quarter we will not see that growth in lighting.

Achal Lohade: Right. And you touched upon the margin expansion, the first level margin expansion by about 200 basis points. Now, is it driven by the price increase? Or is it driven by the product mix in terms of premium and non-premium? And is it also to do with the product mix in terms of the individual category mix?

Anuj Poddar: So, this single largest component of that has been due to price mix. Having said that, we have been premiumizing certain product categories in doing that. But at present, in this quarter, I think the bulk of the contributor has been price increase. And just FYI, the price increase is obviously not taken in this quarter, but it was taken in the middle of last year. So the last year's quarter, it was taken after June quarter of last year.

Achal Lohade: And would you remember what is the broad increase at the aggregate level, would that be...

Anuj Poddar: So increase on a very generalized average basis would be between 2% and 3%, obviously, varies across certain product categories. There is certain cost increase also in some categories, but the

rest of it is coming through some of the smaller other contributions. But broadly, it is price increase, average between 2% and 3%.

Achal Lohade: And what is the mix now in terms of the premium? If I have to look at last 12 months, what is the mix for us in the Consumer Products business from premium category?

Anuj Poddar: So to be honest, that is a very qualitative definition of premium, so we don't define it as premium versus not. Just directionally, for example, fans, as you may know, we have always been more focused on sub-economy and economy. We did launch premium fans towards the latter half of last year. Similarly, individual models we have been plugging in the premium category, in mixer grinders or other appliances. But holistically, as a company, we don't have any premium versus non-premium bifurcation as such in sales.

Achal Lohade: Got it. The other question, if I may ask, with respect to the EPC business, now can you help us with respect to the receivable as of 30th of June and the total and breakup in terms of EPC and Consumer Products?

Anuj Poddar: So let me bring in our CFO, Mr. Purandare, who is on the call here.

Anant Purandare: Yes. Total receivables at the company level is Rs. 2,302 crores. Out of that, EPC is Rs. 1,843 crores. And Rs. 459 crores is for consumer durables, which is obviously a gross figure, with channel finance, which funded by channel finance is Rs. 287 crores.

Achal Lohade: That is part of the Rs. 459 crores, right?

Anant Purandare: Correct.

Achal Lohade: Right. And within the EPC, would it be possible to give some color as to how much is retention money out of this? Could there be a risk in terms of provisioning of this, given the way payments are getting delayed in general from the government institution?

Anant Purandare: See, out of this Rs. 1843 crores, around Rs. 660 crores is the retention money, which is obviously receivable after the completion of projects. And as far as provisioning is concerned, as you know, we already have the very robust provisioning policy, which is I think more of stringent policy for the provisioning. So, whatever we feel that is not collectable, we regularly take the provisions for those. So whatever receivables what we are showing in these books, they are all collectables.

Achal Lohade: Right. Just one more question actually with respect to this. Based on the current assessment in terms of the situation, do you see a possibility of any substantial provision for these out of the EPC receivables in balance nine months FY '21?

Anant Purandare: At least we don't see that kind of a risk, because most of the clients are government clients. And there may be a delay in getting the payments, but there is no risk of writing it off as receivables.

Moderator: Thank you. The next question is from the line of Amnish Aggarwal from Prabhudas Lilladher. Please go ahead.

Amnish Aggarwal: A couple of questions from my side. First, I just missed on the number that how is your sales recovery happening in the month of April, May and June? And how confident are you of sustaining this trend in the coming quarters? This is my question number one.

Anuj Poddar: Thank you, Amnish. So, our sales in April was zero, our sales in May was approximately 50% and our sales in June was approximately 104% of previous June. So therefore, on an overall basis, it kind of averages out at about 50% of the previous quarter. The good news and the bad news on this; the good news is that, let's take the June number, that is despite the fact that all of India is not open even in June. We had many markets, including urban metro markets and areas that technically they may be called open, but actually they were shut down in two areas extends, etc. So not all restrictions have been relaxed. So sales revenue has been despite the market not fully being open.

The July situation has been slightly worse in terms of sporadic local lockdowns, which has started to affect supply for us more than really demand. So the good news is we are seeing a demand bounce back more than just pent-up demand. I think there is a certain amount of, what should I say, buoyancy or at least a certain amount of comfort that the demand has not evaporated. But supply really is a concern because of the local lockdowns. I remain hopeful that another few weeks or end of August, early September, supply issues also should sort them out, assuming that we don't continue to have these lockdowns. In which case, I think the rest of the year should be good for us.

Shekhar Bajaj: I would like to just add that in spite of these problems, which we are talking about, July was not as good as we would have liked it, but it's almost equal to last year's July. So to that extent, it's satisfactory, but because of the slowdown and because of the lockdown in various areas, we would have liked to start our growth in July, which has not taken place. That's why we said not satisfactory means from the angle of our own internal, because we have to make up what we have lost in April, May has to be made up. And therefore, we wanted to start after June being 100% plus, we wanted July onwards to be 100% plus. So this has not happened, but we have reached almost a July level, which is a good news.

Amnish Aggarwal: Okay. Sir, my second question is, you indicated 2% margin expansion at the first level in Consumer business. So can you throw a little bit more light on what is exactly this 2% expansion at the first level? And what sort of a trajectory you are looking in terms of margins over the next two, three years?

Anuj Poddar: So I did share that in the previous one that margin expansion has come largely due to price increase that we had taken last year, I think it was around July, August that we took the increase. Going forward, what we expect is a 1 percentage point increase on an operating margin for Consumer segment per annum. That may be slightly lower in the first couple of years and higher in the later years. But what we are also looking to do over the next two, three years is invest in certain areas.

When I say invest, that's in product, in R&D, in quality and in brand building. And all of these investments should be self-funded. So some of the first level margin will be reinvested in product and R&D. And similarly, some of the margin expansion or savings that will drive at overhead will self-fund the brand-building activities. So we want to invest in these things to drive future or longer-term growth, but without actually impacting margins. And, hopefully, actually continue to expand margins while we are doing these things.

Amnish Aggarwal:

Okay, sir. Sir, just a final bit from me is on the EPC business. Now the EPC business, I would say, like one is the transmission line towers, and we are having this year lighting projects and we have rural power distribution. Now in particular, if we have to dissect each of these businesses, which are the sustainable businesses for the company in the long-term? And do you have at any stage any plans to exit your transmission line towers or the rural power distribution business?

Anuj Poddar:

So if you see FY '19 versus FY '20, in FY '19, overall EPC business was almost two-thirds of the company. And even within that, your Power Distribution has a dominant share of almost two-thirds of total EPC business. So we have significantly changed that. Overall EPC business has come down to one-third. And within that, each of these three segments at a very broad level of one-third each. So we managed to contain the power distribution business, which was causing a certain issue at that point of time. Now going forward, we do not expect to significantly descale this business. But as the Chairman said, we will probably contain the business more or less at these similar levels. We are continuing currently to bid for transmission line tower businesses. The illumination or lighting business is a general ongoing business, so that anyway continues. The power distribution business, as of now our hands are full in executing the UP and the non-UP order book. As and when that closes down, then we will take a call on what is to be done.

Amnish Aggarwal:

Okay. Any plans in the longer term to demerge your EPC business?

Anuj Poddar:

No stated plans as of now. I think we are more focused on handling the current projects rather than taking a call on that or doing anything about that.

Moderator:

Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid:

I have few questions. First, I missed the recent opening remarks, so if you don't mind can you help sharing how was the broad growth laid up within the ECDs across different categories?

Anuj Poddar:

Yes. So that's within Consumer, right?

Renu Baid:

Yes.

Anuj Poddar:

So lighting has degrown by 40%, your appliances has degrown by 53%, fans has degrown by 50%, and Morphy Richards, which is much smaller, has degrown by 51%. That's a quantitative answer. But more qualitatively speaking, we continue to see good traction on appliances, particularly the

kitchen appliances. The cooler business is the one that was slow to come back. And we have seen good traction on the Fans business when the markets opened.

Renu Baid: And what is the kind of inventory are you stuck with in the cooler business? Do we have an inventory, which is stuck with the company in the cooler portfolio or everything has been parked with the dealer distributors?

Anuj Poddar: No, so we do have cooler inventory stuck with us also. It is not as substantial as some of our peers, I wouldn't name them, who are cooler focused or otherwise. But yes, we do have cooler inventory, I think that's unavoidable. I think the good news for us is, because we are a diversified product category business, that doesn't have an overbearing impact on our balance sheet or other issues. So it's something we are not overly uncomfortable with there.

Renu Baid: Right. Sir, second was a bit on the EPC side of the business. So if you look at the entire portfolio, obviously, there are execution headwinds as well. So how should we look at, the current order backlog that we have and the completion timeline of the rest of the UP project, including add-on jobs? And how should we view the payment time lines, including release of attentions from the state?

Anuj Poddar: I will let our CFO answer the receivables and payment. But before that, just in terms of execution. I think COVID has impacted EPC more because it is labor dependent and labor needs to move across districts or states to execute some of this work. So to that extent, that's why EPC, you see is more impacted than Consumer is right now, okay? It has yet not gathered full steam right now, as we speak, but we are on that job.

In terms of this order backlog or otherwise, UP business, there continues to be certain incremental work which is called Phase 2 or Phase 3. To some extent, the good news for that is that helps us to continue, because incremental work all is at incremental margin compared to earlier work that we have done. But we yet want to do finite amount of incremental work, not chase that margin unlimitedly, number one.

One of the issues that is coming up more recently is in the transmission line business, the order book growth is slow right now. Because the new projects that are coming up have slowed down in terms of the government or Power Grid rather issuing fresh tenders. Post the China issue, some of the tenders that were issued or were in WIP stage have been canceled because the respective entities have devised the tender conditions to exclude certain China-originated materials. To that extent, those tenders are being reopened, refloated and, therefore rebid for. I don't think that changes the dynamic of that business, but does delay some of the billing or the order book closure or hindering closure for three to four months. So I think to that extent there may be a slight slippage on what we had anticipated for this year on a TLT billing there. We will see how that goes a little early to say how much of that delay will be. We will catch up on an accelerated basis or may have a one or two months delay in terms of actual entire process.

- Renu Baid:** Sure. I don't know it's on the way, sir, or just applies too on the amount?
- Anant Purandare:** Yes. So see, as I already said, that total outstanding for the EPC is Rs. 1,843 crores. And out of that Rs. 660 crores is the retention money. Obviously, this retention has a different maturity because some of the projects of rural location in Bihar, MP, already are on the verge of closure or some of them are already closed, that retention is around Rs. 250 crores, which is obviously collectable as soon as we complete everything as far as financial closure of the project is concerned. The Rs. 200 crores retention is for the UP projects, which is obviously going to take a little more time because we have not yet closed all the projects in the UP, so it will have some lag effect. And the remaining retention money, which is for transmission line tower and illumination is around Rs. 190 crores to Rs. 200 crores. So out of which, part of this will come in this financial year and the remaining will go to next financial year on the basis of how the projects are getting completed. So that is the overall retention collectability.
- Renu Baid:** Right. And just broadly, the last question on the Consumer part of the business, again, probably, 2nd quarter, we continue to see was erratic or cyclical lockdowns impacting supply as well as demand, but as we move towards the festive season, what is the broad understanding based on feedback from channel partners and your secondary sales data points, which you track, in terms of demand offtake should we expect normalization by Diwali? Or you think for the business to normalize could actually be longer in terms of the time lines and activities?
- Anuj Poddar:** Renu, so let me answer that from the demand side. I think demand yet remains very buoyant and strong, okay? So I don't think now we are that worried about demand. On the supply side, I also don't believe that lockdown can continue for so long. So I think the governments -- even local level governments are under pressure to allow for the activity. I would yet think festive is a couple of months away, and we should start normalizing by that point of time. Having said that, the slight issue there is on just the logistics of this, because for supply sales to happen at a retail level actually the channel filling needs to start happening in August, okay? So to that extent, if we are one month delayed also on the production kicking in and the movement of goods, we have to see how much of it we can accelerate in terms of channel stocking, etc. But yet on the broad level, I remain optimistic.
- Just one more data point for you. I think the driver of sales right now is the general trade channels which are small stores and the e-commerce platforms. The modern retail yet continues staying under pressure. I think that trend may continue, but I think that is being more than made up by the other two channels. So Consumers, if they need the demand, they don't care, they will go to the other channels where they are comfortable. And if demand only shifts between channels, I don't think it disappears on a particular channel because of channel being weak here.
- Renu Baid:** If I can ask one last question. Bajaj Electricals is a company we have fairly strong reach in the Tier 2, Tier 3 and interiors of the country in terms of our distribution and reach. If we see the feedback from some of your other peers, those who are not focusing as much on these part of the markets, they are actually now taking up effort to increase the distribution in the smaller towns as well.

So, do you see competitive intensity for your portfolio and your market increasing there in terms of other brands being fairly available in the markets when the availability was not there? And also, would you foresee any price pressures or otherwise in the segment of the markets for you?

Anuj Poddar:

So maybe, yes. So all these guys will go there too, and there is nothing to stop them.

Renu Baid:

Because this is the market which is actually driving demand in the current environment as those have dried up in terms of broad offtake.

Anuj Poddar:

Yes. But I am saying, yes, they will all go there. I mean, it's a natural part of progression. So I would be naive to imagine that they will not go there. But now optimism stays on two fronts, one is, irrespective of them I think there is a greater shift between unorganized to organized players and unbranded to branded. So I think that is in our benefit. And number two, I think today, the driver has been the rural or the smaller towns because of greater level of lockdown in the metro areas. But for our kind of product categories, I don't think metro demand is not there. And therefore, as the metros also open up or the urban areas relax the restrictions more, I think that will also come back strongly by the time of the festive period. So I would not overly worry about competition of ours getting to rural, because I think we have other positives in our favor.

Shekhar Bajaj:

Renu, I would like to add one more point that because of our distribution and not having any wholesaling, once these wholesalers open up in the metro towns, so wherever distribution has been done by us in the rural areas, so another thing was there was no problem of any wholesaler going and disturbing that market. When competition is going to go to those rural markets, wholesaler will always create a problem there because the wholesaler will always go there. And to that extent, for them to stabilize in the rural market is not going to be easy, because its been long time ourselves. So of course, they can do it, but it will take them a couple of years. It's not that they will just say, Okay, now the rural market is opened up. So let me go to the rural market, because if the wholesaler comes in, he will immediately go and spoil that market. So if you add that, okay?

Moderator:

Thank you. The next question is from the line of Hitesh Taunk from ICICI Direct. Please go ahead.

Hitesh Taunk:

Sir, as you mentioned, like under the metro region is opening now and you are expecting a kind of good demand recovery from that segment. Sir, could you just quantify how much is the metro region contributing as of now in the sales, sir, in the Consumer segment?

Anuj Poddar:

So Hitesh, to be honest, it's very hard to track, and we definitely don't reveal that because we have broad numbers internally for urban versus rural. But there tends to be a certain amount of cross-pollination the way it exists, so it is not very accurate and, therefore, we don't publish those numbers. But just to give you a qualitative sense, based on whatever parameters or level of accuracy we have access to, rural has grown by about 3 to 4 percentage points compared to one year ago for us, the sales contribution. And just to give you a little more insight, but the urban yet is two-thirds, rural is one-third. But don't take that very literally, there is the margin of error and that is wide for the reasons I gave you.

Shekhar Bajaj:

Also, it is very difficult to decide what is rural and what is urban, where is the cutoff, I don't know really. When somebody says, two-third is urban, is Raipur urban or rural, we don't know. So therefore, unless somebody defines and says, because in our case, one good news is that we know exactly if you give me that these are the towns which you are talking about because there are no movements from one area to the other because there is no wholesaling. While in earlier cases, if Bombay was selling Rs. 100 crores, out of that Rs. 100 crores, maybe Rs. 30 crores, Rs. 40 crores was going outside Bombay. And therefore, to that extent, whether it was sale of Bombay or was it the sale of upcountry, there was the confusion. Now that confusion is not there, whatever we are selling in Bombay is only for Bombay, and whatever is being sold in Raipur is only for Raipur. That's the only thing. So we are aware. But where is the divide? How do you call rural and what is called urban? What is called semi-urban? We don't know really. So therefore, we are only keeping a track that each area wherever we are selling, are we having the required growth compared to what was being sold in that same territory in the earlier period, that's all.

Hitesh Taunk:

Sir, urban means generally I wanted to know about the metro region, which were under the lockdown and have opened recently. So any which way, that's a fair thing Mr. Anuj has mentioned, its okay.

Now sir, my second question pertains to our e-commerce channel. Sir, how has been the growth through that channel in our sales for the quarter or for the year? If you can just throw some light how the sales is moving through the e-commerce channel?

Anuj Poddar:

So Hitesh, again, two, three points. Number one, I think the driver channels for us right now and through the rest of this year will be e-commerce and will be general trade. And what was going to lag is the modern format retail as well as the government channels, such as the CSD, CPC, etc., Okay? In terms of e-commerce growth, despite what you read in the media, it is not that aggressive, not for their fault, I think consumers behaviorally will go towards e-commerce. But if you recall, during April, May, even some parts of June, there were a lot of government restrictions on e-commerce platforms being allowed to sell what is called non-essential goods. So the trade shops were allowed to open up much before e-commerce was allowed to sell. And to that extent, we did not get the bump up as much in Q1. But in July, once all e-commerce is functioning fully, we are continuing to see the bump up in e-commerce sales and that is continuing to now grow faster than any of the other channels sale.

Hitesh Taunk:

Fair enough, sir. Sir, my last question pertains to our advertisement expenditure, which obviously would follow the demand scenario, recovering the demand. But could you throw some light, how should it be or how would we be going forward for the rest of the year?

Anuj Poddar:

So, we have generally guided in the past. I don't know which ones you may have attended that historically, we have been in a 3.5 percentage point spend ratios, percent of sales, which we consciously intend to up to about 4.5%, maybe up to 5%. There will be a little range over there, because our sales this year will be lower than what it could have been in a COVID situation, obviously, the ad spend was also correlated to that, so we will always operate in the percentage

zone over there, okay? What we have done right now within that is also temper that on a quarter-by-quarter basis. So this quarter, we did pull the plug significantly right since middle of March on ad spends that we had otherwise spend. You must remember, summer is a big quarter for us, we do have many product categories. I have seen some of the competition numbers, but we will not choose to go zero fully on summer because fans and coolers we needed to put out and, therefore, we did choose to advertise. But though we had initially expected to increase over last year, we have ended up, I think, at about 60% or something of last year's June of Q1 ad spend. Going forward, the ad spend on a Y-on-Y basis will be higher, but it will remain within the percentage range of sales and, therefore, should autocorrect based on how we see the demand play out, we will keep calibrating our ad expense on that.

Hitesh Taunk: Okay, great. Sir, my last question pertains to the debt level. You mentioned like it is around Rs. 800 crores. So just wanted to know, is it a gross debt?

Anuj Poddar: Let me bring in our CFO, and it is Rs. 810 crores.

Anant Purandare: Yes, it's a gross debt.

Moderator: Thank you. The next question is from the line of Akshay Bhor from Premji Invest. Please go ahead.

Akshay Bhor: I wanted to understand on the EPC business. Any parts to profitability, how many quarters down the line do you expect us to break even there? And within that, if you could give us a sense of the underlying margins for the three different businesses, lighting, TLT and PD, that is helpful.

Anuj Poddar: Thanks, Akshay. So let me take on from the second perspective. I think illumination and TLT we do expect to turn around this year and deliver overall operating level profitability. Power distribution may remain a challenge at an operating level because of, I think, just the incremental work that we are doing this year. If we look at that on a marginal basis, that will be profitable. But because we had a lag of the larger bulk sitting behind that, and more than that impact of the larger overall cost structure, that is why I think power distribution will continue to be loss-making this year. I think the challenge between that is to differentiate between the project or execution level profitability versus overall. I think the only way the overall profitability in that will kick in once we have descaled the revenue size and quantum of work, once we are able to descale the quantum of our overall infrastructure or establishment costs there overheads. I think that will be completely back-ended to when we are coming to closure two of the projects that we can take care of that piece. We had originally targeted for March 2021 quarter to be profitable at an exit quarter. Maybe one quarter at worst, I would expect that delay on that because of these COVID and other recovery rates.

Akshay Bhor: Understood. But in terms of, let's say, FY '20, how would your profitability be in Lighting, TLT and PD?

Anuj Poddar: FY '21, you mean 2021, right?

- Akshay Bhor:** 2020, last year, I mean, last fiscal how was the profitability split up between...
- Anuj Poddar:** Okay. So we don't disclose on that. Mr. Purandare, can you shed any light? But we disclose that at even the segment level and not at breakup.
- Anant Purandare:** Yes, because overheads are common, it's allocation of overheads.
- Anuj Poddar:** But I can just share with you qualitatively, Akshay, that these were marginally not profitable, not high losses, but we intend to turn that around this year. So, from an internal tracking perspective, they should be profitable this year, that's TLT and the lighting or illumination.
- Akshay Bhor:** And just trying to understand the cost structure better here, your employee spend, especially, is flat year-on-year despite a decline in the revenue. And then any other heads that you see as potential areas where you could get some cost savings?
- Anuj Poddar:** So employee, the reason you see is flat, actually, our normal increment cycle kicks in Q2. So last July, August when the increments have kicked in, so June was flat. And therefore, what you are seeing this year's June is with that increment baked in, over last year's June of Q1. So with the increment, it is yet flat because we, on the other hand, had certain attritions or reduction in overall manpower. You will see more benefit of that play out through rest of the year. So Q2, Q3, you will see a decline Y-on-Y on employee cost front.
- So I have seen some of the other competition numbers, they see a decline in Q1. I have a view on how Q2 will pan out for them. But rather than commenting on that, let me just say Q2, Q3, you will see a decline for us on employee cost numbers. On the rest of the costs, like I have shared on the call, we are continuing to look at a lot of these overhead cost numbers on a normal basis. We have achieved certain savings on Q1. Even as business normalizes or comes back, we do not want to surrender all of the savings, so we will continue to see how much savings we can continue to optimize going forward.
- Akshay Bhor:** Understood. And just one last question on the Consumer side. If you can share what is the share of e-commerce at this point? And also in terms of inventory in the channel, I understand you operate at minimal inventory, but at this point what would be the overall inventory in the channel if you could share that? Thanks.
- Anuj Poddar:** So Purandare, do we have the e-commerce number? So this Q1 is a little enough aberration to dissect that, but I think it would be generally around 10%. Purandare or Rakesh, can you confirm that on the e-commerce? Exit run rate for the month we are coming there, Akshay, I don't know if you were there in the earlier parts of the call. Why I am saying it's an odd quarter because April, May was suppressed and therefore I don't want to use a quarter wide percentage to measure e-commerce there.
- Akshay Bhor:** Or last year is also fine.

Anuj Poddar: Last year used to be about 10%, 11%. So normally it used to be in 11%. We are seeing that inch up, so I would think by quarter two that should be about 13% or so, give or take.

Akshay Bhor: Understood. And inventory in the channel of e-commerce?

Anuj Poddar: Inventory has come down. So because our supply has been constrained, but at the same time our demand fulfillment has helped us bring down overall inventory for Consumer products. I am talking our own inventory plus, of course, the channel inventory. So to that extent, we are not overstocked on inventory. So I mean, if there is further demand and if you are able to supply, I think inventory is not overbearing for us there.

Moderator: We will move to the next question. The next question is from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: So most of the questions are answered. I understand this quarter has been tough on business, but I wanted to congratulate you on the balance sheet improvement that you all have done. Now when I see your improvement in the cash flows that you have done, what did you see that a large part of that cash flow improvement will essentially come out of capital employed out of the Consumer business?

And I think like you just mentioned sort of earlier question, given that inventory has come off, do you see that this inventory, which has been scaled down will grow up? And therefore, there is a risk or there is a chance that the capital employment benefit that we have seen in the first quarter will actually wane in the second quarter? Is that something that you think is a possibility?

Anuj Poddar: I think that's a very fair question, Rahul. I think this Rs. 145 crores is not sustainable in terms of extrapolatable Q1 numbers. It has been heightened or increased because of the reduction in capital employed in the Consumer Products business, okay? As we stock up for the festive period, you will see an increase in the capital employed on inventories, etc., for the Consumer business. Typically, we do have seasonal swings to that extent, I think that CFO can share. But also, it's not completely out of pattern. So typically, you stock up pre-summer, then you do have some of this pullback on inventory. And then towards the end of the year, you again stock up, the CFO can confirm exactly. But yes, you are right, that swing factor is there and to that extent, there will be. I don't think that means we will go into negative cash flow, it's just that you will not say Rs. 145 crores extrapolatable.

Shekhar Bajaj: Let me also add that I personally think that though this will happen for Consumer Products, our EPC area, I think first quarter was not too good in terms of collection, but the feedback which is coming is that, that this quarter we made some better compared to our billing, the collection may be better. So overall, our capital employed may not go up. It may not go down to Rs. 145 crores like it has happened, because now Consumer business will not give you any more further benefit, means it will be negative. But there will be sufficient positive cash flows coming in because of

EPC business. So overall, I think we should be at the first quarter end level at Rs. 800-odd crores should be the similar levels we should be continuing in the second quarter also.

Anuj Poddar: Just, Rahul, if I may add to that. So I think the Chairman is completely right, so that's the way to play out. We do expect to have more collections on EPC in Q2. But the billing in Q2 will continue to remain slower, execution will remain slow because this is a monsoon quarter. So typically, EPC has low billings and revenue in Q2. Q1 usually is an important quarter, so to that extent we missed that because you try to get a lot of work done before monsoon. So endeavor yet remains. So then make up for that in Q3 and Q4 in terms of execution revenue, but the cash flow, clearly, to repeat, will continue right now also.

Rahul Gajare: In the press release, you have also made a comment that most of the sites are up and running right now. Given that monsoon typically, like you just said, that execution is slightly slower, so in terms of execution, how do you see this? You don't have a problem with labor and all those things, right?

Anuj Poddar: So we have a problem with labor on EPC because a lot of labor is cross-district labor and some of it is cross-state labor. And there are restrictions, particularly in these hinterland states now on movement of labor because COVID has spread from the metro areas now little more to Bihar, UP, those kind of areas, right? So there are restrictions on labor. So that is the reality. One of the things we have used the lockdown positively for EPC, because EPC the execution of the work is only half the problem, the other half of the job is to really get all your reconciliation papers, approval, documentation, reconciliation, all of that stuff done, okay? So we have actually used this lag to do a lot of that, reconciliation, documentation, whatever preparation that otherwise normally used to lag. So to that extent, that is helping us drive collections even in the absence of execution work. So in a way, we are yet not losing that time. But yes, execution is challenged because of the labor issue there.

Rahul Gajare: Right. Sir, one more aspect about this entire supply chain. There has been a lot of thrust by the government for local manufacturers and obviously shut down on imports. Now I think in one of the interviews or one of the con-call you did mention that your direct exposure to imports is fairly low. But your entire supply chain will have significant dependence on imports. So what are your thoughts on trying to have more individualized production or manufacturing sourcing?

Anuj Poddar: So we are already working on that, Rahul, that varies by product category. Lighting, LED related stuff, we already made significant progress on substituting China imports. On certain of the consumer appliances time lines vary, we are already working on that, between 6 to 24 months, most of it should be where we should have alternative options for. Having created the alternative options, then we will evaluate on how it works on a price, consumer choice perspective, etc. But it should not be a constraint for us is the way we are looking at it here.

Rahul Gajare: Okay. And that is not something which has affected the July

- Anuj Poddar:** No, I think more than that, it's the local supply issues. So example, it's not just our plants also operating under constrained capacity. But any product category has a long value chain, a mixer grinder has somebody making a jar, somebody making some rubber part, somebody making a plastic component. If any single component supplier is under containment, the entire production stops. So I think the supply disruptions are more local, both at a production level, then certain warehouses come under containment and certain truck movements get restricted. So national supply chain kind of gets disrupted for that reason. So I think if the local thing is sorted out, I think we are fine. So I mean, I am just talking on relative concern for us here.
- Moderator:** Thank you. We take the next question from the line of Dhrushil Jhaveri from Aditya Birla Mutual Fund. Please go ahead.
- Dhrushil Jhaveri:** Sir, my question was on debt. The target for debt by the end of March '21, so you have already seen Rs. 145 crores kind of debt reduction. And earlier, if I remember, you had said Rs. 300-crores plus debt reduction for FY '21. So just wanted to get a sense, is that target still there or there has been a revision there?
- Anant Purandare:** I think we are still there. We will say that our debt is reduced to Rs. 500 crores, Rs. 550 crores.
- Dhrushil Jhaveri:** By the end of '21?
- Anant Purandare:** Yes.
- Anuj Poddar:** Consolidated debt, including...
- Anant Purandare:** By March '21.
- Anuj Poddar:** Yes, March '21.
- Dhrushil Jhaveri:** So that Rs. 810 crores will reduced to Rs. 500 crores?
- Anant Purandare:** Yes.
- Anuj Poddar:** Rs. 550 crores, I would rather count on.
- Moderator:** Thank you. The next question is from the line of Ketan Gindodia from AlfAccurate Advisors. Please go ahead.
- Ketan Gindodia:** My question is with respect to the EPC business. So can you give us the breakup in terms of what was the loss of the key one or two loss-making projects and what was the rest of the EPC business? So can you break the EPC loss, say, for FY '20 or for this quarter? And how it will be going ahead?
- Anuj Poddar:** So I am not sure I fully understood, but let our CFO address that.

- Anant Purandare:** No, we don't give project-wise profitability of this. So there will be some projects making losses, some projects may be doing good. And obviously, it's a contract accounting, so some of the provisions are there in the accounting. Tomorrow, we may have to reverse, if there is a change in raw material pricing or this thing. So we don't really share all these project-wise data to outsiders.
- Shekhar Bajaj:** Also, frankly speaking, how do you divide the overhead, how do you account for it? It's very difficult to say on a variable basis, margin basis what is the basis of profit/loss are you talking about. This extra business, I did not do on a variable basis, it's making profit. But if I put the overhead, it don't make profit. So that's why we don't go into that. We only say each projects, are we able to complete it in time and collect the money? That's the cycle, which is most critical. Cash flow is very important, and that's what we are working for in the future. All new projects, which we are taking, we are keeping a track of the cash flows. How fast the rotation will take place so that our return on capital employed has to go up, which is not negative. It's hardly any return we are getting because of this situation, a lot of money is getting blocked up. So that has to be cleared now, that's we have worked on to see how things are.
- Anuj Poddar:** Chetan, the other aspect, if you remember, in the Ind AS 115 accounting, so the project level costing and revenue moves in tandem, okay? The losses that you're seeing now is largely on the project level cost, but the overheads cost while the projects are as stand still. So the overhead is not getting absorbed and, therefore, a lot of these are because of the standing cost. But the project revenue and cost typically moves in tandem and would get booked together.
- Ketan Gindodia:** Okay. I understand. I just wanted to understand the UP loss, I understand the difficulty. My question is, so EPC business, you said that it is from next year Q1 probably, we will be able to completely reduce our losses and come to breakeven. Is my understanding correct in this respect?
- Anuj Poddar:** That's our target, yes.
- Moderator:** Thank you. The next question is from the line of Mayank Bhandari from B&K Securities. Please go ahead.
- Mayank Bhandari:** Sir, my question pertains to your distribution. So Bajaj Electricals is having one of the best distribution touch points across the country. So in terms of strategically, you should have gained some market share, given that you have the largest number of touch points. But that does not reflect in your numbers, like I am talking in terms of ECD only. So how do you thought around this, sir?
- Shekhar Bajaj:** How do you come to this conclusion that we have not improved our market share? Unless if we have shown a negative growth, you have to find out what our competitors have grown. So unless we have negative 50%, they are negative 60%, then we have grown market share. They have negative 40%, then they have improved market share. So unless we have the competition data, just because they are negative 50% doesn't mean that we have lost market share. You understand? It's very important to understand that market share is relative to somebody else's growth or de-growth,

you understand that? So unless we have those figures, we can't come to a conclusion whether we have gained or lost market share.

Mayank Bhandari: Okay. So basically, we don't have any industry data as such to indicate that we have gained or lost?

Anuj Poddar: So Mayank, that also varies significantly by category by category, even when competition you see, even if you look at the ECD segment, their mix of category is very different. One particular player, for example, is in the personal grooming thing, like you know, so a lot of their current gain in this lockdown period has come from that. So similarly, if you look at different players, I don't think washing machine is obviously bundled in, but different players. So it is very hard to generalize market share at an overall business level. Those are always tracked at a category level. But the second aspect, the way I see it is, all of us, which are the top three, four companies would have gained market share right now versus the unorganized or unbranded players. So to that extent, I think there will be greater consolidation. I don't have numbers to prove that. But if these unorganized players were reported, then I am sure their drop would be more than this 50%.

Mayank Bhandari: Okay. So there will be some consolidation for sure?

Anuj Poddar: In favor of the top four, five players versus the others. And within that, then category by category, it would vary. I mean I don't name players because it's not fair for me to do that, but I do have a view on which player has gained or loss in which product category.

Shekhar Bajaj: Also, let me add that there is another issue which comes up is that except for fans and lighting, there's at least a body like IFMA, which is Fan Manufacturer Association; and ELCOMA, which has some data. Appliances, there is no data available, it's all guesswork just so you talk to competition, and that's all you find out. So whether in appliances we have gained or lost, we can't say. Except by logic, we say it has grown by 15% or 20%, we have gained market share, we think. But we can never be sure, maybe somebody else has grown by 25%. So this is something which is in India, unfortunately, there is no proper data to confirm whether we have gained or lost market share. We can only look at our own growth levels, which is important.

Mayank Bhandari: Okay. And sir, in terms of the margin expansion of 200 bps in ECD category, any guidance you can give us, full year for ECD margins?

Anuj Poddar: So overall, my guidance remains 1% expansion at the operating margin level for Consumer business. This year, if you keep quarter one aside because that's an aberration at the bottom line, on a normal quarter, 1% expansion at operating margin level.

Moderator: Thank you. The next question is from Tarang Bhanushali from Yes Securities. Please go ahead.

Tarang Bhanushali: Sir, my question is largely related to the would-be projects. So what would be your revenue this quarter we have registered? And what would be the receivables from these would-be projects?

- Anant Purandare:** EPC revenue, just a second. Yes, EPC revenue Illumination, we did Rs. 58 crores; for power distribution, we did Rs. 66 crores; and transmission line tower, we did Rs. 90 crores.
- Anuj Poddar:** So the remaining is within power distribution, but we don't split that up.
- Tarang Bhanushali:** Yes. Okay. And what would be the receivables pertaining to the UP orders?
- Anant Purandare:** UP receivables are in the range of Rs. 800 crores, Rs. 820 crores.
- Tarang Bhanushali:** And sir, what would be the net debt level for us?
- Anuj Poddar:** Net debt, cash is just Rs. 12 crores.
- Tarang Bhanushali:** Rs. 12 crores.
- Anuj Poddar:** Because it was almost Rs. 100-odd crores at the end of Q4.
- Anant Purandare:** March, yes. March, because we conserved some cash looking at the COVID uncertainty, now the cash as of June was Rs. 12 crores.
- Tarang Bhanushali:** So sir, the net debt level reduction is low at the Rs. 60-odd crores?
- Anant Purandare:** So Rs. 180 crores are the actual reduction, minus the cash utilized is around Rs. 90 crores. So it will be around Rs. 90 crores is net reduction.
- Moderator:** Thank you. The next question is from Rahul Soni from SMSS Limited. Please go ahead.
- Rahul Soni:** Just one question from my side. Sir, what percentage of your revenue is coming from online sales? And what is your margin between the product you are selling to your dealers, to network channel and through the online?
- Anuj Poddar:** So Rahul, I shared that earlier. Q1 is slightly odd to try and look at it at a quarter level on the contribution because e-commerce online opened after the trade debate, so it would not be a fair comparison. But just to give you a directional answer, traditionally, it used to be the 10%, 11% range of contribution from online. I think on a run rate basis now, let's say, Q2 should be probably 13% odd. So about a couple of percentage point increase, but maybe some margin of error there. We don't disclose contribution of margins for each channel.
- Rahul Soni:** So what kind of sales percentage will give us two years down the line?
- Anuj Poddar:** If I may be honest, and I have said that before, we have our estimation, but publicly we don't have a bias because to us, all the channels are equally important. We make sure that we are available across all the channels. And let the consumer make the choice, and we keep restocking or refueling

it. So we don't want to take a view on which channel is favored. None of them are favored for us. Of course, even I know that e-commerce will continue to outgrow the general trade.

Moderator: We will take that as the last question. I would now like to hand the conference back to Mr. Deepak Agarwal for closing comments.

Deepak Agarwal: Thanks, everyone, for joining. And thanks, management for their valuable time. Sir, we have any closing remarks?

Shekhar Bajaj: No, I would only say that thank you for joining this conference call. And we are very optimistic, positive. Actually, there are a lot of improvement and a lot of corrections that has been done. So this COVID is, on one side, of course, we have lost out April, May. But overall, from a long-term point of view, we have become a much stronger company and, therefore, you can see some better results coming in the future. With these words, I would like to thank you again. That's it.

Deepak Agarwal: Thanks, everyone, for joining this call. Thank you.

Moderator: Thank you very much. On behalf of PhillipCapital, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.