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Smart solutions.
Strong relationships.

Our Ref: COSEC/54/2019

August 17, 2018

By Portal

The Corporate Relationship Department
BSE Limited, Mumbai,
1st Floor, New Trading Ring,
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Dalal Street, Mumbai 400 001
Scrip Code : 500093

The Assistant Manager – Listing
National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex,
Bandra (East),
Mumbai 400 051

Scrip Code : CGPOWER

Dear Sir/Madam,

EARNINGS CALL – Q1 FY2019 ('Transcript')

In continuation to our letter dated August 3, 2018 and pursuant to Regulation 30 read with para A of Part A of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the Transcript of an earnings conference call held with analyst/ institutional investors on Monday, August 13, 2018 at 3:00 p.m. (IST).

We would appreciate if you could take the same on record.

Thanking you,

Yours faithfully,

For CG Power and Industrial Solutions Limited

Shikha Kapadia
Company Secretary and Compliance Officer

CG Power And Industrial Solutions Limited * Mumbai - 400 030 *

Encl: As above

AVANTHA
GROUP COMPANY

CG Power and Industrial Solutions Limited
Q1 FY 19 Earnings Conference Call
August 13, 2018

Moderator: Ladies and gentlemen, Good Day and Welcome to the Q1 FY2019 Earnings Conference Call for CG Power and Industrial Solutions Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal the operator by pressing '*' and '0'on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Neelkant CEO and MD of CG Power and Industrial Solutions Limited. Thank you and over to you, sir.

KN Neelkant: Good afternoon everyone. Welcome to the Q1 Earnings Call. Before getting on to the number directly let me just give you a few updates and broad headlines of the Q1 performance. Q1 India witness just a robust order input in industrial systems as well as the power systems both businesses while industrial system of course grew at a very high level of 80%. Power systems also grew in single digit about 7.5% growth. Overall with this India grew order input grew by about 40% for this quarter over quarter one of previous year.

The pipeline also looking forward looks equally good, equally robust we have a pace of almost 100 crore plus tenders specifically of GIS where we are already L1 part of it has been booked in Q1 and we are waiting for the formal orders for the other orders to book it now in Q2. The momentum which we saw in the market continuous to be robust specifically in the cement and the irrigation sector and we continue to witness robust demand across the spectrum in the industrial system including railways, including the motors and more specifically low voltage motors. Another area where we are seeing a sense of urgency is the ordering from the state utilities for the various improvements projects which automatically reflects as order book for our power system including transformer and switch gear. Apart from this on the transformer front the track side transformers are also seeing a significant spiking up of demand.

With this background and the news that PGCIL has now once again decided to ramp up its requirements in tendering, I would safely say that the pipeline going forward for FY19 looks robust from a order input point of view for India. If I move from a minute outside India, both Indonesia and Sweden have shown a significant growth in both order input as well as sales. Order input specifically it is a multifold growth about two and half times of Q1 last year. It is 240 crore for this year versus 95 this I am specifically talking about the continuing business outside of India. While our topic of outside India Indonesia transformers while it continuous to perform well. I had mentioned in the earlier call about JV for switch gears which we have been involved along with the local utility in Indonesia. Am happy to announce that this JV is now ready for commercial operations and the inauguration now is scheduled for 20th of this month. This joint venture starts of the inauguration with receipt of an order of about 33 million $US. This will also in turn we placed a significant chunk of it will be placed on to our switch gears factory in Nasik which automatically brings additional order input to the PS business in India.

One more update a similar JV we have also signed off in fact we signed it off today morning with the Malaysian utility which is similar in nature where we along with the subsidiary of the Malaysian utility enter into partnership where the switch gear from India is sent on a CKD basis to Malaysia for testing assembly in Malaysia. While this would not show immediate results in FY19, it will definitely pave the way forward for future years for switch gears business in Malaysia. In Ireland, we had updated to you that we are undergoing a restructuring exercise. I am happy to announce that the restructuring exercise has been completed well within the schedule and the budget and the results also of Ireland has shown immediate turnaround with Q1 Ireland coming back in black at the EBITDA levels.

The cost towards this one time exercise is roughly about 2 million Euros about Rs. 15 crore which will be reflected as the loss from the discontinuing business, its part of that. A last update before I go into numbers is on Hungary. Between the last call and today call you would have update from our side on the Hungary divestment. So we have moved one more step forward where both the buyer and us have placed our respective things in a escrow account. We have placed our shares in the escrow account in favor of the buyers. There are a couple of conditions subsequent which the buyer has to fulfill based on which the shares will automatically get transferred to the buyer. The conditions subsequent are essentially there is a change in the outlook of how the debt has to be treated, You would recall that earlier I had updated to you that the debt will be transferred from CG to the new buyer. Instead now the buyer would like to pay off the debt in entirety, that is one condition subsequent. Second he has to also set up certain non fund based facilities of swapping of the bank guarantees and other things which is in process right now. And of course from a legal statutory point of view there will be a closing audit which will be more of a process thing.

Timeline I expect it to get completed, everything is in process right now. So since Europe is in holiday right now for the last one week and the next couple of weeks saying that this month might be little bit of stretch but I expect that before the Q2 ends the Hungary deal should be consummated. Effectively what happens is then the Q1 losses of Hungary are already accounted in our results published for Q1 for all the losses up to 30th June has been accounted. All the expenses from 1st July are to the buyers account. So effectively, operating losses did not expect anything to come to Q2. The only thing the recon should come in Hungary is the outcome of the closing audit which we will update you as we go by. With that I move on to the numbers part of it.

Number CG India you might see that CG India as a whole has reported a flat topline of about 1217 crore, but if you dissect segmentally it is a quite interesting result. Power system while you may see that the top line has degrown to 20%. I did not take this as a cause of concern because essentially there are two reasons for this. One is you see the Q1 numbers of last year it was a higher base because last year Q1 was a spiked up power system sale. Two we have had some sales which has been deferred from Q1 of this year which has showed this distortion for standalone Q1 figures. I expect this to get normalized by end of Q2 and by Q3 we will be back to positive growth for power system.

The exact number for power systems sale was 527 crore for this quarter. I can switch the present unexecuted order book stands at close to about 2400 crore, 2410 to be precise. This unexecuted order book does not include the orders from the JV which I mentioned will be coming from Indonesia and it only partly includes the orders for GIS where I mentioned that we are L1 in 100 crore plus tenders. Notwithstanding the reduced the top line of PS the bottom line continuous to be very strong. Q1 this year we have posted a 9% EBITDA for a comparison this was 8.4% in Q1 of last year.

Moving on to industrial system, industrial system continues to not only build but also improved on the momentum which it has gained over the last many quarters now. The top line reported is 654 crore which is a 26% growth over the 519 crore reported in Q1 of last year. The growth in the top line present thing to notice equal contribution by motors, railways and even the smaller businesses like Drives. All have contributed to take this growth to this 26%. At the EBITDA level, industrial system further continues to improve with Q1 of this year positing a 11% EBITDA if you compare it to Q1 of last year it was a very subdued quarter 5.8% so that might not be a like-to-like comparison, but even if I take FY18 as a whole it was 9.4% for IS. I can switch this quarter one is 11% EBITDA.

Just a clarification all the top line number which I am speaking about we are considering it like to like taking out the excise duty reported last year to make it comparable in nature. Non India business I already mentioned that Indonesia and Sweden continues to do well. The top line of these two businesses the continuing operations outside of India has shown a 334 crore topline against 161 crore for the same period last year. Of course, this comes on a lower base of Q1 last year because Q1 last year you would remember that due to staggering of Ramzan, Indonesia had lost some sales at that point of time. This takes overall consolidated top line for CG at 11% growth absolute number 1490 crore and EBITDA of 127 crore vis-à-vis 61 crore for the same period last year.

This is a brief update from me on the happening as well as our headlines number. More than happy to take questions from you.

Moderator: Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Sir first question is on the industrial system business where now it has been almost 1.5 to 2 years that we are growing by good double digit levels and in the recent time the growth has been significantly better than most of the other peers including some of the MNC names who have been there. So if you can help us understand little more with respect to the end market when we are getting this growth is it just because of our distribution reach or are we actually seeing market shares gains coming through and when you said the growth is equally split across all the three subdivisions is it in terms of the sales mix or growth also so if you can just share some granular bottom up details on the sub segment as well?

KN Neelkant: It is a mixture of all three things that you said Renu. The primary growth which has come in industrial systems you mentioned about last six quarters I would say industrial systems now has been almost 10 quarters that it has been steadily growing. If I draw a timeline of it the initial growth came from us exploiting our presence in the Tier 2, Tier 3 terms. Subsequently came a period where due to GST there was a vacating of space by lesser known players where on account of our reach we were able to better capture those markets than our competition. This is where the remark which you made about us growing faster than the peers that holds good and hence obviously there is a significant improvement in the market share in the motor segment especially compared to two years back.

Renu Baid: Can we quantify how much is that?

KN Neelkant: The market share data how we capture it for motors is from the production data because the IEEMA data only gives the production figures. If I take that as a base we would have had a 300 basis points improvement in the market share. The add on effect to this overall industrial system business has been the railways story where on account of our increased portfolio offerings to the railways we were able to increase the served market buyers within the railway segment and this is what we had been talking about last year and last year it was a reflection of the order input and now the sales are happening so the reflection is also in the sales. So the product mix per se I would not say it as percentage wise it has changed too much because despite the fact that railways has manifold increase in sales but motors has equally pace with it and motors still is about 75% of our overall industrial portfolio and unless motor shows a significant growth industrial systems cannot grow. So all three things are happened simultaneously motors because of our reach and also one more factor because of our early entry into the higher efficiency range of motors. We have been able to be more successful than our peers. The railways increased portfolio has helped us and the Drives business though from a absolute number it might be small but then the growth is in the multiple terms that has also helped us and so that I cover the entire efficiency story. Today CG is only motor manufacturer in this country to now have a NABL Accredited lab. This becomes very important because till now till the time efficiency norms were not fully imposed in the country the actual test facilities did not matter so significantly but now with the efficiency norms being imposed and followed strictly in the country we are again the first mover here with being the first lab with NABL Accreditation. I hope I have been able to answer your question to the extent of granularity you needed in IS.

Renu Baid: For the industrial business it would be fair to assume that the business will continue to grow by at least 15% for the full year and margins of 11 odd EBITDA margins which you have been guiding for.

KN Neelkant: The EBITDA margin guidance stands firm what we have been telling that is where I read out the number of the EBITDA what we have done this quarter vis-à-vis what we have been doing the last whole year. So EBITDA margin holds good. The top line it has shown a 26% growth industrial system this quarter so I would not guide to take the entire 26% for the year. Your 14%, 15% growth what you are saying is a very conservative estimate and I am sure that guidance do you want me to give very firmly I can give you that guidance.

Renu Baid: Second question sir coming on the balance sheet size and with respect to the entire right sizing if Venkatesh can help us to split up the entire the loss from discontinued operations what is attributable to Hungary and the other restructuring I think including Ireland you mentioned 15 crore and how has that moved in line with movement in loans and advances on a sequential basis versus the March quarter.

KN Neelkant: There are two different questions. One is if I understand right you want to understand the breakup of the 90 crore losses from discontinued operations and the second question was the movement in loans and advances and in debt. So before Venkatesh answers you on the loans and advances and debt the 90 crore loss which you are seeing in the discontinued operation as I said that is a onetime effect of Ireland restructuring which is about 2 million roughly translating about 15 crore 16 crore if we removed that we are left with about 75 crores of operational losses. If I further split the operational losses as EBITDA losses and the other losses, this quarter, we had a very weak quarter in Belgium. So while Belgium posted EBITDA positive numbers for the entire financial year last year I also expect Belgium to post a positive EBITDA number for FY19 as a whole but Q1 was weak Q2 we will recover to some extent but the complete recovery of Belgium will be seen in Q3. So Belgium has a negative EBITDA number of close to 30 crore this quarter which is what has also contributed to this 90. So if I remove Ireland it is 75 out of the 75, 30 odd crores at the EBITDA level is Belgium, 20 odd crore is Hungary and the balance is other depreciation and some interest which fills in the 75 crore bucket. I will give it to Venkatesh to give the moment on the loans and advances.

Venkatesh: Renu, there has been a marginal decrease in debt overall if I compare to March it is about 30 crore but that has been slightly offset by the Fx. So broadly the headline number of debt remains at 2540 crore on a consolidated basis. In terms of loans and advances the movement has been very light in Q1 because that is a reflection of money movement from CG India to its subsidiaries. There is a marginal increase of 25 to 30 odd crore between March and June.

Renu Baid: That was essentially it was because of Belgium that incremental one quarter if you are right.

KN Neelkant: Correct.

Moderator: The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Sir there are two questions from my side. One question is on the tax expense part now on the consolidated side essentially tax almost takes away the entire PBT in this quarter, just wanted to get a sense from you that within continuing operations are there businesses with significant is also at this point of time or if so in other factor driving this tax expense line item?

Venkatesh: From a tax expense there are no the continuing jurisdiction are all profit making. Other than Sweden where we have tax losses carrying forward each of the other business including India, Indonesia and a small business in US are taxpaying at almost a full rate.

Aditay Mongia: So then what explains the large tax expense number in this quarter?

Venkatesh: As compared to Q1 of last year it is roughly 30% of PBT.

Aditya Mongia: At the consol level you are saying?

KN Neelkant: No consol level the query is Indonesia is taxpaying. So last year Q1 will not be comparable to this year Q1 because last year the topline of Indonesia was extremely subdued and that is why I said that Indonesia has grown by some multiple times twice the Q1 revenue that is the only impact at the consol level.

Aditya Mongia: As a proportion of your PBT your tax rate is very, very high this quarter if the clarification I was trying to get?

KN Neelkant: Rather than looking at the proportion of PBT please look at it from absolute amount of tax point of time. The absolute amount of tax at the consol level has increased primarily because of Indonesia top line increasing because the largest tax payer outside India is continuing is Indonesia.

Venkatesh: India is roughly at 30% tax level as you will note when you come to consol tax level the high level of depreciation and the tax losses in CG IBV meant that the incremental taxes at consol level has been totally contributed from Indonesia.

Aditya Mongia: Next question is more on railways as a segment. I understand that railway is becoming more and more open to be doing work with player like yourself, is there a scope of it is you increasing the value added you are doing for railways and if you can share some opportunities on that front it will be useful for us?

KN Neelkant: In fact that has been the story from our side regarding railways. So if you look at the journey over the last three years our endeavor has always been to increase the size of the served market within the railways. So if I can quickly take you through, we have been a supplier to railways for the last 40, 50 years but largely concentrating on traction motors, traction alternatives. The last three years we have been moving up the value chain in terms of traction electronic and now we are in partnership with railways for the complete propulsion system. So what you are saying is exactly the story where we continue to expand the opportunities within railways where we can serve. What we would like to do at this point of time is having grown from 250 odd crore now I am talking order input 250 odd crore to close to a 1000 crore in three years. We would like to consolidate this position stabilize the revenues from these orders and then put our part three of the action plan where we further look at other opportunities to take this. When I say railways do I say railways it effectively means only the conventional railways because of a presence in segments like metro monorail, we have not yet exploited those things so that will be the next part of the story going forward.

Aditya Mongia: Finally if you can just share the order inflow number for the Indian overseas business separately by segments would be great?

KN Neelkant: Order intake for power this quarter is 819 crore India and 280 crore outside India which essentially is Indonesia. Order input for industrial system India is 1244 crore and outside is 94 crore is essentially Sweden.

Moderator: The next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.

Bhoomika Nair: Sir on the Hungary transaction you highlighted that you know there would not be any loss that will be regarding from Q2 onwards which is July onwards, sir just how is the debt treatment on this when we are looking at the 2540 crore of debt on consolidated basis does that include the 200 crore of Hungary debt or does that get transferred or that is taken off from this?

KN Neelkant: Hungary after the closure of the deal we will have to book a loss it might not be a Q2 loss, it might be some part of Q2 but the closing audit we expect a 60 to 100 crore kind of a number which will hit Hungary books once the deal is closed just for clarification. So that is the kind of number which we expect. This is a combination of book loss and cash loss because we have to write down certain things in our own book so it is a combination. Unfortunately till the time the closing audit is done I will not be able to give you the exact breakup because even we do not have it and that is why I am giving a slightly wide brand of 60 crore to 100 crore. The gross debt number which Venkatesh spoke earlier includes the debt of Hungary which is there in our books which is roughly €28 million. So once this transaction gets completed and the debt is either paid off or taken over by the buyer this equivalent amount will get reduced from our gross debt.

Bhoomika Nair: And till then the serving of the debt will be done by us till the closure of deal happens is that correct?

Venkatesh: Servicing is actually from a coupon point of view is extremely small it is roughly about 2% of something and it is a quarterly payout. So that piece of it does not make any material impact in the overall numbers.

Bhoomika Nair: And by when do you expect this closure to happen timeline?

KN Neelkant: As I mentioned in my opening comments we expect that once we publish the Q2 results this Hungary chapter is out of our balance sheet and out of our conversation.

Bhoomika Nair: The other thing was when we once the Hungary deal is closed out etc most of the other continuing operations which is largely Indonesia is profitable but when we are looking at the other subsidiaries there is also some loss out there which I believe would be because of the Hold co debt levels that there exist and be into servicing for the same. So how are we looking at that I mean is there a plan to kind of move that debt to India and how we are looking to repay that debt and reduce the interest cost?

KN Neelkant: In fact it is a other way round Venkatesh will elaborate on that, but we have touched upon it briefly in the last quarter about different debt structure and instead of moving into India we are in fact talking about moving the debt completely outside India which we spoke about at length I think in the last call. Essentially what we are saying is we move the debt outside India with allocated geographies being allocated portion of the servicing typically Indonesia might service one-third India might service one-third and rest of the geographies might service one-third so that is a debt structure which we are presently in negotiation.

Venkatesh: I will recapture what was said in the previous call. The intent of the refinancing that we are planning to do at our Hold Co level overseas is to borrow at the Hold Co which will facilitate bringing down the shareholder loan from the overseas entity and thereby retiring the term debt on the India balance sheet. We serve two benefits with it. One very importantly we will seek an arbitrage of 300 to 350 basis points in terms of the cost of debt that is one. Number two, we will term out the current maturity of the debt which is currently on the balance sheet thereby facilitating a space for further working capital debt. This is the two intent that we plan to achieve with the international refinancing.

Bhoomika Nair: So this would be the kind of peak interest cost on the quarterly basis that we are seeing currently?

Venkatesh: Yeah we do expect to close the international refinancing by mid of September.

Bhoomika Nair: Sir lastly if I can just have the net debt number you gave us the gross debt if you could just give us the net debt number please?

Venkatesh: The net debt number sees a marginal increase of 100 crore between March to June but that is essentially a movement of utilization of Cash.

Bhoomika Nair: So we have roughly about 1000 crores of cash it is 1500 crore.

Venkatesh: At India level we are at Net debt of 1160 and at a consol level we are at 1834 to be precise.

Moderator: The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Actually sir my question is slightly broader in nature in the last few years we have seen a very bad phase from CG where we have seen very elevated level of losses coming in year after year. Though management has taken lot of steps to minimize the impacts and we have got rid of some loss making entities also, so from management side point of view I just wanted to understand how you see the business now going forward, can we be rest assured that all the pain points are behind for the company and we would not see any losses from any of the business either continued or discontinued going forward say in the next two, three years, barring this Hungary loss which you are expecting in Q2 but post that shall we be rest assured that there would be any pinpoints for the company.

KN Neelkant: You qualified that question as a broad question but it was a really broad question. If you look at even the last three years Ankit. Let us talk about in two different buckets of India operations and outside India operations. India at the operating level has never had a loss-making situation in Q4 one quarter of Q4 last year where we did some spring cleaning and cleaned up the thing. India has never had a problem of being a loss-making issue. Yes it could have been issue an issued of subdued profitability but the issue of loss never came up that is why I elaborated on the Q1 EBITDA margins of India compared it to not only Q1 of last year but also last whole year and if you can map it this has been consistently moving upwards. So India is not the area where we have any concerns. In fact if you ask me in each segment of India we have a different growth story, railways we spoke sufficiently, motors also in first question of Renu spoke about sufficiently. JVs what we are concentrating in south east Asia both Indonesia and Malaysia our switch gear business will get an added flip and transformer. We would like to change the profile of our transformer business that is why we spoke more about loco transformers and track side transformers. So for me each of the verticals in India is actually growth story from here on and not a story of seeing survival. Outside India you see what we have classified as continuing business Indonesia and Sweden both of them have consistently performed well in fact Indonesia in every quarter we have been speaking about Indonesia's stellar performance. We are left with Belgium, Hungary and Ireland as I mentioned in my opening statement it is again after the restructuring is back in black. First quarter has been a slip up it will take quarter to correct it but by Q3 we will see a normalised condition. So Hungary is the area where we have to address and finish the divestment part of it. But having said that on a lighter tone let me share with you even through divestment of Hungary recently we received an order of about 70 odd million at Euros which possibly the new buyer will enjoy in Hungary. So from here on the focus is to not only concentrate on the geographies where we manufacture, but also the geographies where we sell. So from a India point of view we are very clear that the market is going to be India southeast Asia and even from a Euro point of view the market is now shifting to Africa middle east Africa which is where the European contractors are also focusing the energy. So for me going forward it is no longer where we make but the choice of the market where we serve which will become even more important.

Ankit Babel: Sir sorry to repeat but I just wanted to hear from your side that are all the pinpoints over the company or not?

KN Neelkant: I thought I answered that question only for so long.

Ankit Babel: I need a straight forward answer because every quarter we see some sort of volatility, some businesses giving losses and all those. So I mean Belgium again this quarter has given losses. So though you are saying that on a yearly basis it will be positive, but can this be sustained?

KN Neelkant: On a steady state basis steady state means if you look at one full financial year as a whole the answer is clearly yes it can be sustained.

Ankit Babel: So then sir what are your thought process for this discontinued business are you clear that you are going to sell it off whenever we get a good valuation and a good buyer or you since they are now back into profits and you feel that is sustained and you might not look at selling it I mean what is the thought process here?

KN Neelkant: Selling, not selling that is a continuous process even if you are selling a business I would not want to be in a position where we sell a business out of distress, I would rather sell a business from a monetization opportunity it has created. So since you asked this question let me elaborate. In this board meeting our broad has deliberated about this whole continuing, discontinuing business and the board has asked for more detailed understanding with this new debt which Venkatesh spoke about. We would like to bring all the other businesses apart from as continuing. We would like to do it in Q1 itself include Belgium and Ireland continuing business. With this present fund raised in process it would have changed and changed the goal post when people are looking at the balance sheet hence we decided that we will take a call on this Q2. Once Hungary is divested effectively you are talking about Belgium and Ireland. We are targeting to bring it back into the continuing businesses as per the profit and loss statement. Asking you the other question whether we will sell it or not sell it my answer would be that holds goods for any business. We should look at selling a business or not selling it not out of distress but out of the monetization opportunity it creates. I would like to be in that position.

Ankit Babel: Lastly sir we just wanted to know the core ROCE of your domestic business and if export the loans and advances which you have given to a subsidiary what is the capital employed in the pure core business of this domestic one and what could be the ROCE?

KN Neelkant: We will just make that statement and come back to you I do not have it in the way you have asked me.

Moderator: The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Number one if you can help me understand the nature of JV that you talked about initially will that require any further investment from our side?

KN Neelkant: These are two different JVs. The JV in Indonesia the investment required for those JV has already been invested by us and our joint venture partner through equity and also by the debt draw down in Indonesia so it is fully funded there is no further cash flow required from our end for completion of this JV.

Puneet Gulati: How much has been invested in total?

KN Neelkant: Total investment there is $22 million of which roughly about $9 million is equity and $13 million is debt. Out of the $9 million equity we have 51% equity partners. So that has been completely invested. In the JV of Malaysia which we spoke about that is not the equity JV per se but it is a broader understanding from a serving of Malaysian market because there also our JV partner is a subsidiary of the local utility and they require knowhow for indigenization of manufacturing in Malaysia and that is our contribution to that MOU agreement.

Puneet Gulati: So I thought you will send CKD based switch gear so is there a plan at some point of time you start manufacturing it there as well?

KN Neelkant: There is no plan to manufacture independently in Malaysia. If at all we manufacture in Malaysia it will be along with our partner to whom we are sending this CKD units in the first go but that is something even if I look at timeframe of three years that would not happen even in three years.

Puneet Gulati: So next three years there would not be any investment in that JV?

KN Neelkant: At least not in the Malaysian JV.

Puneeet Gulati: Sorry to bring that point again you mentioned that there is a thought to bring Belgium and Ireland back in the continued business why is there I understand these business will be coming back, but why is there a confusion always to bring it back or take It out, how is the management thinking about asset allocation or capital allocation?

KN Neelkant: The bringing it back will actually to reduce the confusion because when I hear from colleague like you asking me about that they have to analyze four different P&L account continuing India, discontinuing India, continuing outside India, discontinuing outside India. It is actually to make it simpler and in that process make things much more transparent and visible from our balance sheet. So it is actually is an attempt to reduce the confusion what we are doing. From a management thought process as I said post Hungary divestment we would like to divest the assets as a monetization opportunity and not as a divestment for the sake of getting rid of loss making operations.

Puneet Gulati: But monetization it will be on priority right I mean if they start making marginal money would you like to rather keep it or would you still select?

KN Neelkant: I would not want to answer that question because it will be in the range of speculation at this point of time if there is anything specific on those front development I will be more than happy to share with you as and when it develops.

Moderator: The next question is from the line of Pawan Parekh from Renaissance Investments. Please go ahead.

Pawan Pareek: Sir just happening on that same thing again I mean it is good that you want to classify in a manner that we people can understand it better, but whether to keep it as part of continued or discontinued should be based on the strategic decision that the company or the board takes in that sense if there is a clarity that in next six months or one year we think from a capital deployment point of view that it makes strategic sense to own that business or to do that business then you rather keep it in continuing operation because eventually after six month down the line you decide to sell off this business and you would once again put it in discontinued operation once again it will create some confusion in term of analyzing the number I mean that is one any thought process on that line?

KN Neelkant: You are right to some extent Pawan but there is also another dimension to it. From a statutory point of view also there are definitions and guidelines of how and when we can keep a certain business as discontinuing, how long and under what reasons. If you recollect the genesis of this discontinuing business we had signed a SPA earlier in 2015 for the divestment of all the businesses and post that we have certain timeline where we could explore other opportunity to divest this business and hence we were allowed to keep it as just continuing. Now at this point of time those timelines are going by and hence we also might have a statutory obligation going forward of bringing it into continuing business. Coming back into the management thought process we continue to believe that India is a core place where we would like to continue manufacturing South East Asia is another interesting geography. From a market point of view apart from South East Asia middle east Africa also continued to be very interesting geographies for us. So it does not matter where we manufacture this. So there is no management thought process identifying that there has to be a footprint in multiple places, but keeping that aside we also have a statutory obligation of bringing it back and next time if all a divestment question comes up for any geography we will ensure that we completely finish that before doing that in the balance sheet so that we do not bring it as continuing, discontinuing again that is the only thing I can tell you at this point of time.

Pawan Pareek: Sir finally the debt number that you shared 1160 net debt standalone and 1834 these are of continuing operations or this includes for the entire thing?

Venkatesh: Those are all consolidated number including continuous and discontinuing operations that I was talking about

Pawan Pareek: I remember in earlier annual report you showed debt of discontinued operation seperately?

Venkatesh: That is true but just to be clear there is no confusion the 1160 net debt position which I talk to you about India and the consol net debt including discontinued everything overseas is 1834 crore.

Pawan Pareek: And just one small thing if I may where do you see this debt going by the end of this year assuming only Hungary thing gets consummated?

Venkatesh: I would give you rough guidelines that would definitely decrease to the extent of Hungary whereas the intent is to continuously focus on reduction of debt. I would not want to give a guideline at this particular point of time because we need to also keep in mind that the business is growing and any growth thereon in the business will require working capital finance.

Moderator: The next question is from the line of Renjit Shivaram from ICICI Securities. Please go ahead.

Renjit Shivaram: Just wanted in your initial comments you had mentioned this PGCIL has ramped up its tendering so just wanted to understand like which are the areas that you are seeing because from your peers and other area we still do not get that confidence regarding PGCIL tending, so just wanted to understand where do you see this?

KN Neelkant: I mentioned two separate things. One is I said we definitely see an urgency in the requirement of tendering at the state utility level and this is across the board and we see it in Bihar, we see it in UP, we see it in Rajasthan, we see it in almost every state including Maharashtra. The second part I told that PGCIL as understand is now been now working on ramping up its tendering requirement. This we are yet to see we are not seeing in the market but we are definitely hearing it from PGCIL that again the 8000 odd crore what they did of CAPEX last year I can see 25,000 preceding years PGCIL has been asked to work on increasing this 8000 to close to 15,000 crore. This will automatically mean business across the board for us whether it is high voltage switch gear or transformer across the board and I am also repeating the same thing. We are not yet seeing this PGCIL ramp up we are hearing about it at this point of time.

Renjit Shivaram: Sir if you can just help us with your breakup in terms of railways contribution in the industrial and how do you see of your order book also is your industrial how much is railways now?

KN Neelkant: I am sorry we do not give that breakup of businesses within the segment, but then in multiple conversations I have always spoken about 1000 crore being the order input for railways which would be the correct number. However, from a booking point of view please appreciate that the loco transformer, back side transformers which goes for railways while the segment catered its railways we book it under transformers. So there would be a small change between what I am saying and what is reflected between power system and industrial system, but overall railway business I have told a couple of times earlier that 1000 crore order input is what you are looking at.

Renjit Shivaram: And again coming back to your motors there has been this ESL has been very active and we also participated in ESL tender, so is it something like the pricing is very aggressive or what was our strategy in this ESL tendering participation and how was we are experience in the overall margins.

KN Neelkant: ESL tenders was the earlier tender there we took the lion share of the equipment I do not think that tender was guided by pricing as a predominant factor that tender was guided by the capability to offer the entire basket of energy efficient motors right from a small frame to large frame that was our differentiating factor. So the pricing part of it never came into significant consideration in the ESL tenders. However from the margin behavior and other things I really will not be able to tell you anything because while that order is inhouse the execution of that order has really not picked up so I think we will have to wait and watch till the time a significant chunk of it get executed before I can comment on the margin, but I do not expect any significant movement of ESL margin either on the upside or the downside from the average margins of motors. So margin wise I would say it is neutral to the business.

Moderator: The next question is from the line of Harshit Kapadia from Elara Capital. Please go ahead.

Harshit Kapadia: For motor segment we are already seen there is a steep growth and I was expecting ESL to be one of the contributors for this growth, so apart from volume is there a price led growth as well because we have already seen rise in commodity prices it also has led to that kind of a growth?

KN Neelkant: So just to reiterate what I said in the earlier question the ESL execution is still to gather steam. So this spike in the top line growth I would not contribute any significant portion of it to the ESL tender. so ESL is something which we wait for in the future. However, keeping the pricing in the market in line with the commodity increase has always been our stated goal. So obviously with any movement upward in the commodity we would like that complete commodity increase to be passed on to the market. So out of this 26% growth I would attribute about 5% to 6% to the increase in the prices in the market and about 20% to the volume growth.

Moderator: The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Sir just a small clarification the annual tax rate for the India standalone business should we assume it now closer to 30% for the full year?

Venkatesh: Closer to 30% than 20%.

Renu Baid: Second in the power system you mentioned there was some deferment of order for Q1 to Q2 will it be possible for you to quantify what proportion of orders were delayed deferred to second quarter?

KN Neelkant: Approximately 100 crore of orders were deferred and this 100 crore of deferment to Q2 some of this might even spillover to Q3 because of the customer non readiness. So that is where I mentioned that, so quantum wise 100 crore has spilled over equalization instead of in Q2 I would rather say that by Q3 it will come to a positive growth territory.

Renu Baid: And this was from a domestic or international customer?

KN Neelkant:: This was largely domestic.

Renu Baid: For the full year 4% to 5% growth guidance is what you are suggesting for the power system business India?

KN Neelkant: I have not suggested anything I had always been maintaining that high single digit growth for power system and a mid-teen growth for industrial system was my guidance, but if you are converting that english in to the number I am in agreement with you Renu.

Renu Baid: You are at least suggesting growth for the power system business?

KN Neelkant: Absolutely. So that is why I spoke about the order input growth which is 7% for power system in Q1 and our sale growth will follow that order input growth.

Moderator: Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Neelkant for closing comments.

KN Neelkant: Thank you everyone. Thank you so much some of the questions which we could not answer it we will definitely follow through in the due course but having said that I think one question which different nuances of that question came up is this whole business of continuing - discontinuing. So just to keep any confusion at bay, our stated intent of being an Indian manufacturer in India and in South East Asia continuous to be the main stay of the strategy of this organization. However, in the absence of any specific details of any divestment for other geographies we are saying that we will move it into continuing business. This is guided more from a statutory requirement rather than a change in the strategy. I would just like to clarify that so that at the end of the call we do not take away different perceptions of management thought process because as someone rightly said the whole purpose of continuing, discontinuing to some extent is a direction of the management strategy and to some extent guided by statutory requirement. So while the management strategy remain the same to abide by the statutory requirements that is where I said our board has asked us to clarify that whether we should take it into continuing business that is one part of it. Another question which was left unanswered was the capital employed and the ROCE on the capital employed. So if I net off the exceptional items and only look at the pure operating capital employment for the quarter ending June this Q1 the ROCE would be about 15% vis-à-vis ROCE of 9% reported in Q1 of last year. So this was one question which I said that I will get back so this is the number. Thank you so much. Anything else, any further clarifications, queries please reach out to my colleague. Thank you once again for your support.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of the management we thank you all for joining us and you may now disconnect your lines.