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Smart solutions.
Strong relationships.

Our Ref: COSEC/57/2018

August 18, 2017

BY WEB PORTAL

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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 Sirs,

ANALYST CALL – Q1 FY2018 (TRANSCRIPT)

In continuation to our letter dated August 8, 2017 and pursuant to Regulation 30 and 46(2) of the SEBI (Listing Obligation and Disclosure Requirement) Regulations, 2015, we enclose herewith the transcript of the Analyst Call held on August 11, 2017 at 6.30 pm.

We would appreciate if you take the above on record.

Yours faithfully

For **CG Power and Industrial Solutions Limited**

CG Power and Industrial Solutions Limited ★ Mumbai - 400 030. ★

K. N. Neelkant
CEO and Managing Director

Encl : a/a

AVANTHA
GROUP COMPANY

CG Power and Industrial Solutions Limited
Q1 FY2018 Earnings Conference Call
August 11, 2017

Moderator: Good day and welcome to the Q1 FY2018 Earnings Conference Call of CG Power and Industrial Solutions 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 conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Neelkant, MD and CEO of CG Power and Industrial Solutions Limited. Thank you and over to you, sir.

K. N. Neelkant: Thank you. Good evening everybody, welcome to the Q1 Earnings call of CG Power and Industrial Solutions Limited. Before we start on the numbers, let me just talk about of couple of other developments at our end which I am sure you must have seen ticker on BSE. We also have informed the stock exchange about it. The first point is, after 9 years of holding the fort in CG as CFO, Mr. Madhav Acharya will now be moving to other responsibilities within the group. So, while we wish Mr. Madhav Acharya all the best in his new responsibility and sure we will also miss him in CG. As a consequence of that Mr. Venkatesh, who was holding the responsibility of CFO for our operations outside India, will now be the CFO of the company for CG Power and Industrial Solutions Limited. The second point which has already been informed earlier but we have not had a chance to have a call on that. The US divestment which you have been speaking has successfully being completed as on July 31st and when I say completed it is the closure of the deal with the receipt of the consideration from the buying party. The transfer of management and the entire deal has been now come to a close.

So, like we have been talking earlier as part of our concentrated effort to divest the businesses or some of the businesses outside India. In Q4 of last year we completed the ZIV transaction. In Q1 which the closure spilling over to July but in Q1 effectively will completed the divestment of the US transaction and now we have accepted the binding offer for divestment of our Hungarian operations. So, the Hungarian operations binding offer has been accepted for an enterprise value of 38 million. Details of which we can share with you as the call goes on but it has an enterprise value of 38 million being bought by large EPC contractor, local Hungarian EPC contractor for whom it is natural backend integration is synergy with its existing business.

So, with these 3 things which are outside the normal course of the numbers, let move on to the numbers perse, first let me start with India. So, in India the continuing operations number on the revenue side the Q1 revenue stood at 1,261 crores and on like-to-like comparison for the Q1 of last year is 1,129 crores which effectively means 11.7% growth in the revenues for Q1 of this year. The order inflow grew by about 8.1% from Q1 of last year, so the order inputs value would be about 1,462 crores against number of 1,352 crores last year. With this the UEOB also shows that when I say UEOB, I mean the Unexecuted Order Book also increases by about three and half percent and UEOB as of June 2017 stands at about 3,638 crores.

On the EBITDA front, India standalone operation recorded EBITDA of 108 crores vis-à-vis 98 crores in the corresponding period last year. On a percentage term, more or less same with about 8.7% of EBITDA in Q1 of last year versus 8.6% of Q1 this year. If I further go on to the breakup of India business, starting with Power Systems numbers. Power Systems revenues showed a growth of about 6.5% with absolute number being 699 crores vis-à-vis 657 crores last year. In terms of order inflow, the Power Systems recorded a growth against in the order input also albeit of smaller number than the marginally smaller number than the revenue which is at 5% over Q1 of last year which given the nature of the market today and the behavior of the market, I feel we have done slightly better than the market here. On the margin side, Power System has shown expansion in the margin and the EBITDA for Q1 is close to 8% against EBITDA of about 7% in the corresponding period last year. The unexecuted order book for Power System which is also a barometer for future performance also showed a positive growth and today it is like usual trend it is stands at about 2,560 crores which corresponds to about 10 months to 11 months of executable revenue.

Moving to the Industrial System, the impact of the GST era did not negatively affected but in fact it positively affected in another way on the revenue growth, with the revenue growth being about 19% over Q1 of last year in the Industrial System and the UEOB is also comfortable growth at 891 crores. However, the margin pressures what we witnessed in Q4 of last year due to the commodity increase continued to create a lag in Q1 of this year. So, the margins of Industrial Systems continued to be under pressure in Q1 and in a way the GST actually added a bit of pressure on that because of on two fronts. I can elaborate further into the discussions but one was essentially that with the GST already putting pressure on the sales side. We could not really enforce the price increases which we had in mind and it had to be deferred to as an action plan for Q2.

Secondly, some of the orders where there was a confusion were some part of the order has been executed pre-GST era and some had to be executed in the post GST era and especially this I am talking for sectors like Railways and sectors like where EPC contractors who were buying from us. We decided to bite the bullet and execute all of it and that is the reason you also see a spike in the revenue growth of 19% because all those orders we decided to executed and usually we do a balancing of the product mix during a quarters revenue but this time with the GST influence we did away with it and we do not do any balancing and just simply executed.

So, while the margins were under pressure in Q1, usually I do not give guidance going forward but this time around having seen the performance of July for Q2 I can fairly confidently say that the EBITDA margin of 5.2% what we have recorded for industrial systems in Q1 could certainly see an expansion in Q2 with two things happening, one is a certain amount of stability coming into the market with GST being implemented hence giving us some more free space for the deferred deliveries especially where our dealer sales were concern, channel sales was concern and more over it also gives us the room for enforcing the price increases. Of course, on the other hand we need to now really see how the post GST era the credit reco between the inward, outward works out but that is country phenomena and not specific to CG.

On the consolidated front, I will only talk about the revenues, the Q1 revenue grew by about 5.7% on a consolidated front. This I am talking about the continuing operations, relevant to outside India which effectively means that the continuing operations had two elements to it. One was Indonesia and one is our trading arm based out of US. While India has recorded double digit growth in the revenue, though overall number seems likely smaller because the outside India business deferred revenue of about 200 crores which is equivalent to about 30 million US Dollars mainly because one is Indonesia, it is not a like-to-like comparison because one month of Ramadan in Indonesia was in June and more of July last year, so Q2 of last year, whereas this year it fell flat in completely in Q1. So, this is out of this 30 million, 200 crores of lost sales outside India I am fairly confident 20 million sales will be recovered immediately and 10 million which I was talking about the trading arm in the US that will be forfeited because that is part of the overall restructuring with divestment of US and each division will be doing business without using the trading arm. So, that is sum and substance of the overall thing. On a qualitative note both on the revenue front of Power Systems, revenue front of Industrial Systems as well as the margin expansion of Power Systems, I think we have done very well compared to the market estimates and compared to the when I say market estimates I do not mean the analysis estimate. But I mean the behavior of the overall market in India and I would think that we had a substantially beaten ourselves in our own target and this margin pressure we will reverse it in industrial system in Q2.

With that I leave the floor open for any questions, clarifications you may have happy to take it, thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Sir few questions, first if you can mention little more about the Hungary divestment and you mentioned 38 million Euros enterprise value. So, how does this look with respect to the financials and what would be the likely LNA impact which would come in provisions in the subsequent quarters and by when are we expecting to close the deal?

K. N. Neelkant: Yes, we are talking about the 38 million Euro value for Hungary and if you recollect all our earlier discussions, Renu Hungary we had always said that it is a targeted divestment which we need to do because of whatever performance related issues we have had with Hungary in the past. From a timeline point of view the discussions all the things with the buyer has been concluded now. It is more of the process time required for statutory approvals and since there will be a number of banking institutions also involved in the transfer of debt is the process time required for the required paper work with these banks to move it. While, we will like to be again if you look at the US divestment Renu, we got the binding offer end of May we close the deal end of July. It was flat two months.

Renu Baid: That was pretty crisp.

K. N. Neelkant: Thank you so much and more importantly it was bang on the timeline which we had said we will close it. Similarly, in Hungary our estimate at this point of time would be somewhere end of November to successfully close this deal and come out of it. The questions about the impact of Hungary on the books, etc. that is presently work in progress at our end also because in the deal of this nature we need a lot of adjustments to be made during the process of SPA signing which is presently under negotiation hence I would not want to comment on it because the formal SPA with the buyer has not been signed yet.

Renu Baid: But then do you expect there could be certain provisions before or some knock on the book before the business is divested?

K. N. Neelkant: No, whatever comes, it will be other final adjustments when the deal closes there will be nothing before it.

Renu Baid: And sir of the 550 crores of net debt which was sitting in the books of discontinued operations at the end of FY17, what proportion of that was pertaining to Hungary?

K. N. Neelkant: Usually, we do not give that geography wise thing but what I can say this is a large part of, significant part of this 38 million is debt inside Hungary.

Renu Baid: And just that two small other questions, A) On the Power System what is the outlook on the domestic market though we have seen an uptick on orders but do we think in the segment we can achieve double-digit revenue growth and meaningful margin improvement or margins would be flat and secondly, if you can share the detail, order backlog and order intake breakup of domestic, international between Industrial as well as Power, thank you. These two questions from my side?

K. N. Neelkant: Those are multiple questions you ask in the same question, Renu. So, one is if you are asking me that would we be able to achieve a double-digit growth against 6.5% growth what we are record 6.2 against this growth 6.5% growth what we have seen in Q1. Certainly the market does not even support the 6.5% growth. So, I think expecting to jump from a 6.5% growth to a double-digit growth in Power Systems would be slightly stretching the ball. But I can safely say that annually this 6.5 will only improve it, it will not go below 6.5%. That was sentiment which is seen in the market. Second question, whether we see any price improvement in the market? The answer is yes and no, for the typical products which was there conventionally we speak PGCIL and others the prices continue to remain under pressure and this expansion in margin which you are seeing is because of our efforts to move into certain other product ranges, product mix as well as certain other geographies for these products which are seen this margin expansion. So the margin expansion is not a onetime effect in PS. It is an outcome of a concentrated effort on certain other fronts. Third, you ask me the split-up of UEOB which I thought we are given. Unexecuted order book is setting at about 2,560 crores which is broadly about 10 months to 12 months of revenue.

Renu Baid: So, the typical metrics that Madhav sir used to share on order intake and order book split between domestic in India and non-India for Power as well as Industrial.

K. N. Neelkant: Sure, Madhav sir was doing it, now Venkatesh sir will do it, so that is not a problem at all. We can give you the breakup and my request would be let us check if that is the data you require we will give the data towards the end of so that we can read of everything. Let us take other question and then come back to this data point.

Moderator: Thank you. We take the next question from the line of Ankit Shah from IDFC Securities. Please go ahead.

Ankit Shah: Sir, just wanted to know, if you could share the losses in Hungary operations in FY17 as well as in Q1 FY18?

K. N. Neelkant: Again my answer would more or less be similar to what I told Renu about that we do not give the geographical breakup. But if you run through the transcripts of the earlier call and other discussions we have had during FY17, we always said that Hungary was the biggest whole in the bucket. So, in the overall losses Hungary always contributed and even in FY17 it contributed the largest chunk of the losses coming from outside India operations continuing plus discontinuing put together. So at this point of time, especially consider sensitivity of your question from our end also we have not finished the divestment, we have accepted the binding offer. So there is some more discussions and SPA signing, etc. pending with the buyers, so at this point of time for me to give that break up would be inappropriate.

Ankit Shah: Sir, what about the US operations if you can share the loss in Q1 FY18 for that?

K. N. Neelkant: Operational loss or the book loss? That Venkatesh can answer that.

Venkatesh: That was actually 16 crores that we have to book in Q1 numbers although the deal was closed in July.

Ankit Shah: And second is sir, if you could share the consolidated gross in net debt numbers at the end of Q1 FY18?

Venkatesh: Q1 18, although I am not here, it is roughly the same as in March 2017 around 1,000 crores.

Ankit Shah: Sir, that would be the net debt.

Venkatesh: Yes the net debt.

Ankit Shah: Sir, could you also share the gross debt?

Venkatesh: It is irrelevant and I think the past practice you did not been sharing gross that numbers.

K. N. Neelkant: Ankit, this is a mixture of the working capital in India outside India, so ultimately the impact to the company as a net debt level. So, the net debt number chance more or less similar to where it was in March 2017. If you recollect the ZIV Spain transaction, we completed it in March 2017 and that money was used to retire some of the debt which was accounted in the March 17 books itself which is roughly 400 crores and in US divestment, it was closed in July 31st or whatever utilization of that and deduction of debt would actually reflect in the Q2 numbers. So Q1 30th June numbers could there has been nothing no event which could change the numbers from March 31st and it remains at the same level.

Moderator: Thank you. We take the next question from the line of Ranjeet Sivaram from ICICI Securities. Please go ahead.

Ranjeet Sivaram: If possible can you just elaborate on why the margins in Industrial is down, is it because don't we have a pass through with the railways, so that whatever the higher impact because of this taxation and other things happen soon. Where is it that it is getting impacted? Just to get some understanding on that, the industrial margins standalone.

K. N. Neelkant: Industrial margin like I think we spent some time on it in Q4, I will repeat the same thing. Overall industrial if you see the time lag between a commodity spiking and has passing on it to the market is usually 3 months, one quarter. This commodity spiked in the month of November, December and hence we saw the impact of it in the January to March quarter. That commodity increase ideally should have been passed on to the market completely in terms of price increase and other things in this quarter of April to June. However, we could not do that completely in the month of April to June because the June sales and this commodity increase largely comes in passing it on to the dealer market. In June sales, the dealer sales actually was quite stiff, it did not move quite fast because of the GST concerns. So that was one thing which hit us, where the commodity increased to the sector which accepts the commodity increase easily, the sales got hit because of the GST confusion. The other part of it as far as railways is concern, no. In railways, we do not have significant price variation clause for all the orders and especially the orders we routed through EPC contractors, we do not have it and these are all short cycle orders, when I say short, it is a 6 to 9 months kind of a cycle order. So we could not do it. But the challenge here for this quarter was different, it was because some of the POs were half executed pre-GST and we wanted to push through those orders before the GST pressure comes on us because frankly speaking we did not know what treatment the end customer will give it that PO. So it was a combination of GST impact and the commodity impact which prevented us from bouncing back in the margin side in the Industrial System.

Ranjeet Sivaram: And sir, can we expect some kind of a, because some of these orders we have executed quickly, so while final negotiation will is there any possibility of write-back of some of these costs from the customers end.

K. N. Neelkant: Well, instead of going to that of write-back of cost, etc., let ultimately what we are interested is seeing whether the margins are bouncing back in industrial systems or not. So that is where I said that usually I do not give guidance on these things but here fairly confidently I can say that up from a 150 basis points to a 200 basis points recovery in the EBITDA margins, we can feel Industrials jump in Q2.

Ranjeet Sivaram: And sir, if you can what will be the breakup of railways in our industrials?

K. N. Neelkant: Roughly about 25%, normally. In Q1 the proportion of the revenue would have been significantly higher because certain things in the non-railway sector did not move because of GST and railway is push through certain things. So, in Q1 the percentage would be significantly more but if I take FY17 numbers it would be roughly about 25% of industrial sales through railways.

Ranjeet Sivaram: See, if we read it correctly going forward the percentage of the other high margin components will increase and that is one of the reason the margins will improve in addition to the railway margins also improving. So directionally is that understanding right?

K. N. Neelkant: Yes, additionally not Railways margins increasing. Railway margins, bad orders what we executed without balancing that is a different story. But additionally, what will happen is the price increase, the pressure on account of the price increase what we can put on the market for us the elbowroom in that increases now because having recorded a 19% growth in Q1, the amount of sales what we have to do we can actually do the sales at the margin at which we want.

Ranjeet Sivaram: And sir you see subtract the standalone from the consol and derive the subsidiary financials we are seeing that there is an EBITDA loss of 20 crores in the subsidiary financial. So, in that also the material proportion, material cost as a percentage of sales is higher. So, what is the reason for this, is it only because of Indonesia or is it something else?

K. N. Neelkant: No, it is only because of really speaking it is, that is what I said there are two parts to it. So, if you look at since you have done that exercise of subtracting the India from the consol you would have reached the figure that the outside India revenue for this quarter is at about 175 crores whereas the outside India revenue for last corresponding quarter last year was about 380 crores-390 crores. So, there is a 200 crores drop in the revenue between these two quarters. So, I am loosely translating this 200 crores gap as $ 30 million US and that is why in the initial I said, if I further segregate this $ 30 million US, 20 million would be attributable to Indonesia which we will be recovered now and 10 million would be forfeited going forward in the future because of our divestment of US and other assets. So, the 20 million of Indonesia once we start recovering it automatically all other numbers also start looking better.

Ranjeet Sivaram: Sir, but it how is the material cost as a percentage of sales is affecting because that is largely variable number, it is not dependent on the sales. So, that is where I wanted to understand.

K. N. Neelkant: I understand you question but let me come back to you separately on that.

Moderator: Thank you. We take the next question from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Sir, my first question is, could you explain the reason for such high finance cost of around 52 crores in your standalone business, I mean what is the gross debt here in the standalone business?

K. N. Neelkant: Let me just make once comment before I give it to Venkatesh who can further dwell into the details. The finance cost is actually lower than the Q1 for standalone and if you look at the overall finance cost on a consol basis it is again about 8 crores to 9 crores lower than Q4 of last year. So on a sequential basis the finance cost was actually reduced. Venkatesh can explain that further how it has happened but please compare the financing cost …

Ankit Babel: But in absolute terms also it is very high at 50 crores. What is the gross debt on which the interest cost is so high?

Venkatesh: Let me just take you through the numbers, I mean slightly bit more detail. You need to look at the consolidated number for the finance cost. You will see that cost actually came down to 53.5 from 63 odd crores in Q4, which is roughly at 9 crores for quarter reduction in cost, annualized that translates to 36 crores and in terms of a debt reduction that corresponds closely to the 400 crores debt reduction on a weighted average basis following this transaction. I think that is the way we want to look at it. Now I think we have explained in the previous call I think Mr. Acharya did explained the fact that given the high EBITDA margins in

India versus the lack of it overseas has meant that the debt is, it become easier to raise debt in India rather than overseas. And that is actually contributed to the ….

Ankit Babel: That I agree. I just wanted to understand what is the gross debt on which this 52 crores is coming?

Venkatesh: It is roughly 1,600 crores.

Ankit Babel: 1,600 crores is your gross debt?

Venkatesh: Yes.

Ankit Babel: Then my second question is sir, you just explained that in Power business you people believed that the growth for the full year would be 6% plus. So now considering the first quarter performance of your Industrial business what kind of growth you expect in this business for the FY18 and also you just mentioned that in Industrial business you are expecting a 200 basis points improvement in your margins on a sequential basis. But I believe that Industrial business used to enjoy a double-digital EBIT margins in the past. So, when can we have this double-digit margins in the industrial business?

K. N. Neelkant: First let me not talk about the, coming back now I am coming back to my original practices of not giving guidance but let me not break up the growth since you have asked specifically let me not breakup the growth into PS and IS. But overall high single-digit leading to a double-digit growth for our India operation would be reality.

Ankit Babel: Standalone business.

K. N. Neelkant: Yes, that will be a reality, standalone. Second, this recovery of the margins we will have to, that is why I gave a very clear guidance for Q2. Let us see how that Q2 movement of the sales happen while the margins will happen let me also have a look at how the sales happen in the post GST era let me look at the input output credit before confirming, see this business by itself if I look at this business standalone from a CG operations point of view it deserves that double-digit EBITDA growth, EBITDA number, EBITDA percentage. This business deserves a double-digit EBITDA percentage. I am not taking that away from you, the statement which you mentioned. Only correction I am making is, you said a double-digit EBIT and I am saying EBITDA. The question here is at what point of time do we come from the present level so back to that double-digit. There, right now I am talking about the 150-250 basis point improvement in sequentially from Q1 to Q2. Once we have achieved that then we are back on the track of recovering and coming back to where we were but at this point of time I would not want to give a guidance on the time line of the exact number …

Ankit Babel: At least in FY 19 we can expect?

K. N. Neelkant: You are putting words in my mouth but I would not want to wait that long.

Moderator: Thank you. We take the next question from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: If you can just help me understand this 20 million deferred revenue from Indonesia what really is it and why did it get really deferred?

K. N. Neelkant: No, it is not deferred revenue. What I said is, there is a gap between Q1 of last year and Q1 of this year. I was just explaining where the gap has coming from. Q1 of last year Ramadan was in Indonesia is a big festival like bigger than Diwali in our country. So, virtually for three weeks nothing happens, three weeks close to a month nothing happens in that country. Last year it was in Q2, Q1 plus Q2 more of it in Q2 rather than in Q1 and this year the whole part of Ramadan was in Q1. So, in H1 when we see it this thing should be evened out and H1 end number comparison of outside India operation especially Indonesia could be the right barometer considering the shift, the shift of the sales pattern in the country. So, it is not deferred revenue, the shift in the sales pattern of that country.

Puneet Gulati: And secondly if I were to know US is also gone if I were to look at consolidated versus standalone the only outside India operation is really meaningfully Indonesia, is not it or?

K. N. Neelkant: No, we have Indonesia and we also have our drives and automation business in Sweden. So, Sweden is 30% the size of Indonesia but Sweden is still there it forms the part of the continuing business. Also from our accounting point of view, the continuing business as on June 30th also includes rotating machines business in Hungary which we had earlier said that it will be not be part of the divestment but as part of the binding offer acceptance the rotating machines Hungary also forms part of the divestment. So, from next quarter onward that will move into the discontinuing business. So, presently June 30th continuing business outside India manufacturing facility wise it is Indonesia, Sweden as well as rotating machines Hungary.

Puneet Gulati: And lastly if there were to be no abnormality on the Industrial business, what in your sense would have been the growth for the Industrial systems?

K. N. Neelkant: The growth is very good, in fact I am worried about the abnormal growth in Q1 it is very good. We have shown a 19% growth in Q1 in revenue. So, I did not quite understand your question.

Puneet Gulati: No, so if that were not to be how lower would that be, would it be 11% or 12% or …

K. N. Neelkant: It is simple arithmetic. We are talking about 6%-7% growth in Power System and at the same breath and saying about 10% growth overall India. So, that you can work it out.

Puneet Gulati: No, for last quarter I meant. You said you pushed some extra products from the industrial side, so if you had not pushed those products what would have been the growth?

K. N. Neelkant: It would have been about 12%.

Moderator: Thank you. We take the next question from the line of Nilesh Bhatia from Macquarie. Please go ahead.

Nilesh Bhatia: My first question is given that large part of the restructuring is done, what are the next steps from here on for the group in terms of more strategic in nature. Or you still kind of looking at some of the remaining international operations before you kind of take anything else?

K. N. Neelkant: No, there are very clear strategic initiatives in three different directions. However, as part of the competitive, I can share couple of them with you which is there in the open domain. One is our concentrated trust in Railways and increasing our portfolio in Railways will go up to the next level now where we will be further expanding the footprint which we can cover in the Railway's served market. So, Railways should continue to be an area where we will continue to expand our product portfolio largely through collaborative and technology relationship roots with people who already have the technology outside of India that is the clear direction. Second direction, well service is one area, whether it is Railways, whether it is retrofit refurbishment of Power Systems, retrofit refurbishment of within industry is one more vertical which we have been actively now working on for the last couple of quarters and by the end of this financial year FY18, I think that will take a shape of it on and become our next strategic initiative. There are other couple of more strategic initiatives which we are taking in, tackling the requirements what we feel would emerge going forward in the next 12 months, 18 months, 24 months which unfortunately today to retain the competitive advantage I would not want to speak of it. But then those are largely in the domain of how to make our products much more intelligent how to make our processes much more intelligent, so that the customer can plug and play with our products into his backbone of intelligence which he has in his own premises. So, the trust will be on the three parts Railways, intelligence and service.

Nilesh Bhatia: In the industrial segment in India I think, apart from Railways have you seen any signs of or any sectors where things are getting better and if you kind of extend it to also the Power Systems have you started to kind of see any benefit of this UDAY scheme percolate to investments by states in their respective distribution companies, that is it from my side?

K. N. Neelkant: So, at the macro level Power Systems, no, I will not venture out to say that there has been any improvement which I can ascribe to UDAY scheme or DISCOM or etc. no I cannot say that. Yes, there has been as I said our success there has been spreading our portfolio making our Power System equipment specifically to the booming trend of the solar market in this country. That is where but the conventional markets still I would say is status quo and it is not there is no tailwind visible there. But the tailwind is visible in some sectors which were not in these lime light earlier, like the Solar Energy sector which has given us this opportunity to expand both from a topline as well as the margin expansion. In the industrial system, I would ascribe a great deal of growth and I think the momentum is only going to further increase in the requirement of our industrial system products in the Tier-2, Tier-3 towns in India. So, it is more of a geographical demographical change in India which is pushing and it will continue to push apart from other government spend schemes like, for instance irrigation which has been a success back bone for us in the preceding two years and we continued to see an increased trust in that going forward. So, wherever public spend is there whether it is irrigation, whether it is roads where our equipment goes into the road equipment manufacturers and also by virtue of the roads travelling into Tier-2, Tier-3 town a demographic change in the behavior of the Tier-2, Tier-3 town which pulls the equipment from us. Added to it we are also watching out whether GST has any impact where certain segments cater by unorganized segments will now become accessible markets towards. And I would venture a positive guess that it will and post GST era possibly somewhere towards the Q3, Q4 we will be able to talk more on that.

Moderator: Thank you. We take the next question from the line of Charanjit Singh from B&K Securities. Please go ahead.

Charanjit Singh: Sir, my question is pertaining to, you had highlighted in the beginning of the call that while in the Power Grid segment there is a reverse auction and lot of pricing pressure but we are introducing any new products which are helping us kind of get a better margins. So, can you highlight like what are these products and which segments and which kind of customers we are catering to?

K. N. Neelkant: Sure, so one of the things which I mentioned was the Solar footprint in the country where the transformers required or the switch gear required for these Solar plant is one new area which is outside the conventional PGCIL and DISCOM which we were speaking about earlier. So, that is one clear area where we have seen success and we continued to see success. Other area is also concentrating on the mid-size transformers for various applications and making ourselves, we have been also working Charanjit on certain improvements in our own design and our own cost to cater to this mid-size segment where we have seen significant success in the last not only Q1 but also in the preceding couple of quarters, where certain markets in the industry which were conventionally unserved by us has become a served market for us. Third we have also, by virtue of our Switch Gear becoming much more intelligent. We are also seeing a package solution being able be offered by switch gear to the market as a whole and unlike the large transformers the 800 KV range in the switch gear actually has been a success story for us, where we were not there earlier. So, that is being a clear success story for us.

Charanjit Singh: So, is there a number to what proportion of our now revenues would be from the Solar segment and how do we see this scaling up going forward, sir?

K. N. Neelkant: Here is the number but let us not yet to that granularity in earnings call, we can always have a different meeting to discuss about the strategic initiatives of the company.

Charanjit Singh: No problem and sir on the Hungary front while the transaction could get close by November as you had highlighted but in the interim, are there any costs or the hit which could come in our books. How is that if you can highlight?

K. N. Neelkant: No, operationally I do not foresee any cost, separate cost coming into our books. In fact operationally I would say that it will remain more or less where it was earlier. If at all we see something it might be a small delta improvement but it will not deteriorate. So, operationally I do not see any cost coming. Any cost coming because of cost rationalization, man power separation, etc. which is spoke earlier has already been incurred and accounted in the earlier books ending March 31st as well as June 30th. So, no unforeseen costs are expected to be seen from Hungary at this point of time at operational level.

Charanjit Singh: And sir the last part of in the Railways, like you have always highlighted two separate segments one is the traction motors and the other one is the Power Electronics. So if you can give some color like what is happened in this quarter on these two segments and how do you see now going forward in FY18 both segments playing out?

K. N. Neelkant: If you see the increase in the UEOB of IS standalone, we usually never used to look at the unexecuted order book for industrial systems because it was more of a book bill cycle. However, the unexecuted order book has become interesting because the major chunk of the unexecuted order is Railway. So, having seen that as well as the order input growth which you have seen there, which is all this chance to be executed in the forthcomings. So, you see the order input industrial systems has grown by 12% and this entire 12% the absolute value of the large chunk of it would be attributable to Railways. So, the order book stands very healthy for Railway and the proportion is a mix bag from order input point of view we have the same ratio between traction motors and traction electronics what we have been seen. But with our expected expansion of the product portfolio we continued to expect the further growth in order input from Railways. So, that automatically secures the revenue going forward because these orders are executable over a period of 4 quarters-6 quarters, so I think we are sound ground there.

Charanjit Singh: Sir, if you can just squeeze in a last question, you had also talked about a tie-up with the Korean Company for GIS or may be the areas where we have a technology gaps ...

K. N. Neelkant: Work in progress, Charanjit.

Charanjit Singh: So, we would be at what stage sir like, it could take may be one or two quarters or?

K. N. Neelkant: Work in progress because let me step back. The Hungary as part of the Hungary divestments what we are doing now. You recollect that Hungary also had a division of GIS in Hungary. That part of GIS is not part of the sale here and I am saying it will not have any manufacturing facility in Hungary. The past track record of the GIS supplied by Hungary, the intellectual property rights of this GIS made in Hungary as well as all the type test and design belong to CG India. So, we will be capitalizing on that as well as the other discussions what we have been having. So this entire thing is work in progress. So, that part of it I am just flagging of that because that IPR belongs to us and by virtue of this sale that entire GIS thing is ring-fenced from the sale as far as the intellectual property rights are concerned.

Moderator: Thank you. Ladies and gentlemen, we take the last question. We take the question from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: I wanted to delve more on this standalone margins and I recall having this discussion with you earlier on a con call that there is a difference between standalone and the other operations and with this restructuring kind of moving fairly fast. Do you envisage standalone margins improving on that count from hereon and if so how soon?

K. N. Neelkant: Certainly, that was stated intent, so with all these divestments really moving forward as per what we have spoken earlier. Now our focus will be coming back to those operational overheads which was created to handle the overseas operation. So, question is in terms of timeline as these assets keep getting divested in fact there has come a point and by the time Hungary is divested in November that inflection point is there where we could aggressively move on reducing the overheads which were designed to cater to the outside India operations. So, yes it is very much on the table and I think some part of it we will be able to see in FY18 and once the Hungary deal is closed I am sure we will be able to give you numbers of what our targets are.

Aditya Mongia: Would it make a significant difference to let's say 6.6% margin reported in FY17?

K. N. Neelkant: It would not because there is a difference between the operational numbers and there is a difference between the absolute EBITDA what we are talking about. So, this cost right now would be in the range of about, in absolute value it will be about to 120 crores -130 crores net of income which has a significant potential to be reduced. I do not want to give numbers that I said I will give you numbers once Hungary deal is closed.

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

K. N. Neelkant: Thank you everybody and I should apologizes for again once again keeping this call on a Friday evening especially when the Friday is preceding a long weekend. Assure you that we will not do it this next quarter even if it means having the call the next working day we will do that. But thank you for attending this call on a Friday evening. Than``k you so much.

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.