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Smart solutions.
Strong relationships.

Our Ref: COSEC/83/2018

November 15, 2017

BY WEB PORTAL

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Scrip Code : CGPOWER

Dear Sirs,

ANALYST CALL – Q2 FY2018 (TRANSCRIPT)

In continuation to our letter dated November 6, 2017 and pursuant to Regulation 30 read with Para A of Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of the Analyst Call held on Friday, November 10, 2017 at 10:00 am (IST).

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

Thanking You

Yours faithfully

For CG Power and Industrial Solutions Limited

V R Venkatesh
Chief Financial Officer

Encl a/a

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

AVANTHA
GROUP COMPANY

CG Power and Industrial Solutions Limited
Q2 FY18 Earnings Call
November 10, 2017

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY18 CG Power and Industrial Solutions Limited Call. 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 telephone. 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 morning everyone, welcome to the Q2 Earnings Call of CG Power. The performance in Q2 has continued and its strong momentum in the revenue growth which was seen in Q1 and we have followed it through Q2. But what is more happier situation is that the margins have also seen a significant improvement especially in the industrial system in India where due to the commodity price impact and also the other issues related to the GST and demonetization earlier had an impact in the last 2 quarters but this quarter as committed to you last time and in fact better than the guidance given. The margins of industrial system have seen a strong hockey stick kind of a growth.

The Indonesian performance has also seen a complete recovery from what was lost in Q1 and even performed well compared to our half year basis. With this the overall Q2 continuing business has seen a strong moment, positive momentum with a good performance operational performance. So, let me start with the P&L and then we can speak about other corporate updates including the divestment details.

The standalone revenue for CG India for the quarter was about 1,209 crores which is strong double digit 11.4% growth over Q2 of last year. I am talking here after making both the numbers comparable from the GST point of view. So, the last quarter number I am removing the excise duty and this quarter it is the net of GST. So, it is on a like-to-like basis. This also has shown a sequential growth of 4% over this year's Q1. So, sequentially about 4% growth and overall compared to the same period last year about 11.4% growth. This growth has been across the board including all our businesses of transformers, switchgear, industrial system, railways across the board the growth has been seen. Although the growth numbers are different for each of this vertical but all four verticals have contributed for this performance.

PS the power system business has grown at about 6% to 7%. The current year Q2 is about 681 crores and the adjusted number for netting of the excise duty and making it a like-to-like number was 638 crores in the previous year Q2. Industrial system which anyway has shown a strong momentum in growth continued the same with current year Q2 number of 528 crores vis-à-vis a comparable number of 447 crores in the previous year. This is a double digit 18% growth and as I said this I cannot give the credit to one vertical but it is across the board which is even more refreshing to see.

One the margin front, EBITDA on a standalone basis for Q2 is at about 11.5% this I am talking about standalone translating into about 139 crores of EBITDA comparable to the Q1 number of about 108 crores. So, sequentially if you see there has been a significant recovery in the EBITDA margins. The PS EBITDA continued a steady state of consistent performance showing 8.7. So, if you look back over the last 4-5 quarters this margin has been between 8% to 10% consistently. And despite the market conditions, despite the subdued demand leading to price deterioration, I am quite confident that these margin levels of sustainable going forward through this year.

On the industrial system front, there is even better news. We had seen a significant increase in margin over Q1 EBITDA, this segment in this Q2 has delivered about 51 crores of EBITDA which is 9.6%. Historically, the segment has delivered an EBITDA of about 12% and we have now caught up with the momentum which was lost on account of the confusion which I mentioned earlier on the account of commodity and other things. So, overall I would say that there is a significant improvement in the margin and PS will continue to hold the momentum and IS would see a further incremental improvement going forward.

On the non-India business and this I am talking about specifically the non-India continuing business what we call which is mainly our Indonesian business and our Sweden business. Before I start on the overall numbers, I would have specifically mentioned about the Indonesian performance which has shown a complete recovery of what was lost in Q1 which at that point of time I have mentioned about the holidays which were staggered in between Q1 and Q2. And overall with that number Indonesia has returned about 15% of EBITDA margin. The topline of these 2 businesses was about 350 crores vis-à-vis the previous year Q2 of about 230 crores and you might have observed the comparative slight drop in the current year H1 versus previous H1 but that I would like to remind you our conversation in the last quarter where we had said that our American operations were on the sales from American operations were on the wind down mode. So, that is the same impact but overall on the operating businesses it has been a strong performance.

So, with the US business divestment done and the axis of the export market now shifting to more to SEAP and Middle East rather than Latin America. The US sales continued to be on a wind down mode and hence no revenue from that thing. With this significant increase in topline, the non-India continuing business has generated an EBITDA of 63 crores which is 18% of the topline during this quarter and if you compare it with this corresponding period last year it was almost nil the EBITDA during Q2 of last year. So, it is 63 crores against zero of last year which is I do not want to get into percentage terms there. So, with this business of both the continuing businesses in India as well as outside India being strong the consolidated numbers, the Q2 revenues stood at about 1,558 crores which correspond to an 18.4% growth over our corresponding period last year and even if you look at H1 versus previous H1, it is a 7.5% growth on a consol basis. The consol EBITDA stood at about 10.4% which is about 162 crores which was about 8.4% in the previous quarter. So, all our three arms, the Indian Power System business, industrial system business and our outside India continuing Indonesia and Sweden. All 3 arms have contributed to make this positive.

Coming to the order input on the standalone basis the overall UEOB, we closed at about 3,570 crores vis-à-vis 3,480 crores this I am talking about standalone India and the overall UEOB has also shown a marginal increment of about 3% over the corresponding period last year. The UEOB for power system is about 11 months of executable revenue standing at a value of 2,630 crores and the UEOB of industrial segment is at 940 crores which is again sequential growth over the UEOB which we close Q1 at. In terms of order inflow despite the tough market condition the power system still may maintain the flattish kind of a pattern over the corresponding period last year, almost same as last year and with the accelerated trend of orders in the industrial segment including railways. Industrial system pegged 10% growth in order input over the corresponding period last year and stood at about 620 crores of Q2. With continuous order inflow into Indonesia business the UEOB of power business non-India is at about 917 crores which is a significant number compared to and that of industrial business is 50 crores which of course is more of a cycling number.

So, overall the operational performance has been in line with what we have been conversing earlier, in line with what we told and in some places especially the margins, I would say that it is significantly better than what we discussed in the last quarter. From my side that is the synopsis of the overall situation as per the performance is concerned as far as the divestment situation is concerned we continue to pursue the divestment of our Hungary operations as well as looking at possibilities for the Ireland operations. The Hungarian operation, the last update what we had, what I had given you during our last call was that we were chasing an aggressive target of closing the deal by end of November. While we are still on track on that with about 20 days left in this month, it is only one particular consent which we are waiting for with which I think we can successfully closed the Hungarian thing. But as you and I know this consent from a statutory authority in Hungary is difficult to put an exact timeline but at this point of time I would say we are well on track.

On the other divestment we had mentioned earlier that we would like to proceed with the divestment sequentially so at this time I do not have anything else to comment on that except for the fact that the activities and the conversations are still going on but there is no specific to share with you at this point of time and incase anything develops in the going forward we will definitely keep you updated. So, overall in our stated agenda the beginning of the year we had said that our primary goal is to strengthen the operation, improve the operational performance which I think would deserve a tick mark looking at the performance of this quarter. The second agenda what we have spoken about was pursuing the divestments and in this year we have delivered both the divestments for what we have committed and the third as I am saying is well on track and with this the next step of looking at our balance sheet wherever there are some legacy issues pertaining especially to the outside India operation. We have now progress to the next level of cleaning those things because now since we have a firm offer for Hungary, the diligence is completed. We know exactly that what amount of goodwill and other things has to be written down and at the console level the number of loss which you see the bulk of it would be non-cash thing specifically aimed at achieving this target. So, overall from my side, I would say that on all the 3 stated agenda this is the report card which is more positive than any time before.

So, with that I would not take much more time. I leave the conversation open to all of you asking questions and just to remind you that the last few quarter meeting every time you have been asking that we should not schedule the call on a Friday evening, so this time we schedule the call on a Friday morning. Thank you all for being here. The floor is open for your questions. Thank you once again.

Moderator: Thank you. 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, my first question, I have 2 two questions (a) if you can just help us understand the bifurcation of 430 crores of loss in the discontinued operations partially by Hungary and rest by distribution franchise. So how can we explain the remaining 130 crores split across businesses because that number apparently has increase Q-o-Q. So, what proportion is from the CG US business which is divested as well as the other entities and also if you can explain us a little more in the industrial side how has the business response been after the new BE norms with effect from October for IE2 range of motors and do we see the business volumes getting back in the industrial business for us?

K. N. Neelkant: Sure Renu, there are multiple questions in that one question. I will try to answer to my best. So, starting with the 430 crores loss in this quarter, the 30 crores provision what we have made is based ongoing conversation with MSEDCL where finally I think we are at the end game of the whole thing. So, as a matter of conservative accounting they have made that provision of 30 crores which we believe should be the last of it. Out of the remaining 400 crores as you rightly said the bulk of it first of all is non-cash, write down of goodwill, etc. and as you rightly said roughly about 130 crores could be attributed to the operating losses both in US as well as Hungary put together. So, first part this is not a number which is significantly more than the previous quarter, it is in line with the previous quarter, so there is no significant increase in this number. The second part which you asked about bifurcation between what happened in US, what happened in Hungary, as far as the US is concerned the operating losses up to 31st July because 31st July was the timeline in which the one-third of the quarter US business losses we had to take it over plus there were some final adjustments to be made as part of the divestment which we had partly reported 16 crores in the last quarter and about 33 crores of same in this quarter. So, that is US and the balance thing of it is the operating loss of Hungary. So, what is happening there is now since we are in the last mile of the closing discussion any kind of this kind of transition there is a significant upsetting of the normal operations of the plant which is being seen in Hungary and at the same time we also have to clear out some of the legacy issues in Hungary, so that the plants can be in a position to be taken over the buyer as soon as the consent which was mentioning is brought out. So, that is where that money went in. The other part of your question was relating to the India business especially the industrial segment.

Renu Baid: So, just coming back to this sir, sir what would be the kind of recurring loss we can expect in the subsequent quarters from the international discontinued operations? What proportion of this 130 crores probably or 100 crores can be recurring in the subsequent quarters 30 crores-40 crores of the number could be higher?

K. N. Neelkant: Even if we close the Hungary deal in November 30th conservatively let me say December 31st. This entire quarter of Hungary losses again we will have to come to us. So, while it might not be as high as 130 as I said, the spilt between 130 was 30 towards US and balance toward Hungary. So, roughly about that 100 crores of Hungary and there is also a marginal small loss of about a million Euros in Ireland. So, that would continue through Q3, so till the time Hungary goes out of our hand. So, I can broadly say that if I split that 130, 30 attributable to US which has been plus so that will not happen another 8 crores-10 crores of Ireland which we saw in Q2 that might not be seen in Q3. So, Ireland will recover in Q3. So, the left over 90 odd what I would say that we would be expecting it to happen in Q3 as well.

Management: Renu, to add to what the MD said, I think the key point we have also have the tail piece of the US, UK systems projects. That is continuing and that will go through into Q4 too. But the key or the moot point remains Hungary.

Renu Baid: Sir, on the industrial side?

K. N. Neelkant: Coming to your industrial system, first of all let me clarify the IE2. See, IE1 to IE2 shift which was the cutoff date was 30th September. So, we were the first company in India to get all our three plants certified for IE2 with the BIS certification, we were the first one there. And I think we were one of the very few players who got it done before the 30th September mandate date. Secondly, despite us doing that and being prepared for the next change in the country's requirement of efficiency norm this particular deadline was shifted at the last moment from 30th September to 31st December. So, the IE1 still continues to be sold in the market and the IE2 mandate comes in effect from January 1st. However, that has not prevented us. So right now we are selling a mix of IE1 and IE2 and I think this 3 months extension has helped further in the transition where the stocks at the dealer end could they also have a 3 months respite time now to clear that stock and for us also it is the ramping down of IE1 and ramping up of IE2. We get a 3 months breather. I would say that this change has made it slightly more seamless than what it had been as on 30th September but have been said that I will just repeat because I am product of the fact that we were the first company to get the BIS certification across all our 3 plants before the mandated date. On the market front, railways again the success continues in the order input. On the motors front while the market continues to move at single digit kind of a growth. I think because of our reach leverage what we have, we have been able to grow significantly faster than the market. So, that is where you will see the overall industrial system growth at the healthy 18% continuing from the 17%-18% what we showed in Q1. So, Q1 while we pushed something South in the railways preparing ourselves for GST, Q2 may be some hidden market which was catered by the unorganized sector has now become a part of our radar because the GST or demonetization or commodity all put together that part of the business has come to the organized segment from the organized segment. So for me, the overall market size itself I think is growing without the growth in the market its growing because some hidden market is coming to the surface. So that is all I would explain the IS growth. Hope, I have answered your question.

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

Charanjit Singh: Sir, I would like to understand on the Belgium operations part, how is with the performance there and how do you see while we are on track almost to the divestment of Hungary, so how will Belgium operations span out over the next 1-1.5 years?

K. N. Neelkant: Charanjit, usually we do not talk about the individual businesses outside India but this time around I think you are justified in asking that question because at the outside India landscape is shrinking with Hungary as it all are under divestment discussion. Belgium has been a strong performance this quarter. I will not get into the specific numbers but even if I give the consideration of a lower base of Q2 last year in Belgium despite that double digits, strong double digit high teen growth in Belgium, even a European environment I would say it is a very good performance in Belgium. So, the topline has grown in the high teens and with that revenue growth Belgium after a significant period of time has reported a positive EBITDA number, although small I will not get into specific of the number but it is a single digit million but it is in million, a positive EBITDA number. So, that is where Belgium performance has been as far as Q2 is concerned. Answering your next question 18 months' timeframe to talk about Belgium is too long but let me talk about at least going through this year. I would continue to expect Belgium to be on a positive growth throughout this year at the end of this year and even if they grow at half the phase of what they have grown in Q2 at the end of the year they will return a positive EBITDA number or definitely the loss-making dates of Belgium is over.

Charanjit Singh: And sir if the industrial side we have shown very good performance in our come back and if you can give us some split on the one is high-tension, low-tension motors and railway segment, what is the kind of revenue breakdown and on the motor front specifically what is the kind of enough sustain growth rate we can see going forward and what is driving that growth?

K. N. Neelkant: I am not getting into specifics of the breakup between the various units in the industrial system maybe we can do it in a different forum because this there are multiple people waiting in the line but to overall give you an answer the comeback has been in margin the topline growth has been consistent in industrial system. So, Q1 also we returned 17%-18% topline growth, Q2 also we continue as the same base of 17%-18%. So, the comeback has been industrial system margin where this was the specific point which all of us discussed in the last quarter and we said that we will recover the lost commodity price from the market. So, it is essentially the commodity increase versus the price realization at lag period is over and hence the margins have automatically shown an improvement. So, there is no special effect or anything special which has happened in Q2. It was business as usual and that correction has happened in the pricing. That is all I would contribute the return of the industrial margin.

Charanjit Singh: Sir I was trying to understand from a growth perspective while we have sustained strong growth in first 2 quarters. So how do you see this momentum can it be much higher than this or sustaining at the similar levels how do you see that?

K. N. Neelkant: While you have much more analytical than I do but my analytical tells me that presently we have growing almost 2.5 times a market grows. So, expecting any further growth beyond this I would not say so especially since the large rotating machines still continued to be in a state of pressure because that is dependent on the investment climate in the country. The only thing I can positively say is this no tailwind in the industry till the industrial segment has returned such a growth. So, even if I expect that there will be no tailwind in the remaining 2 quarters, the growth would be somewhere in the mid-teens but this again with no tailwind. The smallest of tailwind will help us leverage it further. So, at this point of time I do not see, I see very small indications very small grassroot indications of tailwind but I will not factor that into my guidance for the rest of the year. So for my guidance for the rest of the year I would say that 18% half year growth has been extremely good and we should not continue to expect the 18% growth especially since the margin recovery has been so sharp. So, maybe we may want to give away some of the growth for more sustained margin recovery. So, my focus would be to bring back the margins of industrial system where it used to be and in that if I have to give away some kind of topline growth from this 18%, I would be more than happy to do so.

Moderator: Thank you. We take the next question from the line of Deepak Agarwal from Elara Capital. Please go ahead.

Deepak Agarwal: Sir my first question is, can you help us understand what is happening on the power systems market and if you can quantify what is the order intake which was there in Q2 and what segments are driving this growth in power systems?

K. N. Neelkant: Let me give you over all view of the power system market and then Venkatesh can help you with the exact numbers of the order input. Power system in my view is still a subdued market in India but again if I breakup the power system between transformers and the switchgear, I would say that transformer demand is more subdued and because of which the price deterioration is more significant. So, I will repeat myself from my earlier calls that if it is a choice between taking orders for topline growth and cannibalizing margins or losing growth and protecting margin, I would always go for the margin protection rather and lose growth rather than take orders for the sake of topline growth. So, power systems in this quarter while Venkatesh would give you the exact numbers it has been, the order input has been flattish for this quarter. And flattish itself is good news because the thing I had mentioned on the transformer side. On the switchgear side it is a different story, we have been successful in getting approvals for some of our products which again, we might be the only Indian manufacturer to get those approvals and I believe that the switch gear is poised for the further significant quantum growth going forward. I would not say that this will be immediately in the next quarter but in the course of the next 3-4 quarters because I do see some of the initiatives of the government in the IPDS, etc. really gaining traction on the ground which basically converts for us into the switch gear market. So, I leave it to Venkatesh to fill you on with the details of the order input of power system.

V. R. Venkatesh: Quarter 2 current year, order intake 679 crores against quarter 2 prior year of 690 and quarter 1 current year of 770. So, we are almost flat at quarter-on-quarter basis for power Systems order intake. Now to complete, I will give you the order intake numbers for industrial system and that will complete all the portfolio. So, 621 crores order intake against 563 crores quarter 2 prior year and 694 quarter 1 current year.

Deepak Agarwal: And can you help us understand how the like the performance in Indonesia is quite good to hear that but how do you see the trajectory in Indonesia over the next let's say 12 months to 18 months and in terms competition how do you see the market over there versus the India and Asian market size?

K. N. Neelkant: First of all the order input situation in Indonesia is very healthy. We have in Q2 outside India that is what I said against a sale of 349 crores in Q2, we are right now with the UEOB of more than 900 crores. So, there is or the order input is not the area of concern. But yes. as anywhere else in the world margins are always under pressure and it is our sustained presence in Indonesia which is helping us but then we cannot afford to take things for granted so we are also continuously looking out to see how we can improve our portfolio and improve our reach from Indonesia but at this point of time I would say that the Indonesian performance overall for the half year I will not say or talk about Q2 because Q2 will show a multiple-fold jump. So, I will not talk about Q2 but after the recovery of Q1 on a half year basis also Indonesia has performed very well but there, every quarter every 6 months we keep reviewing our portfolio because to maintain this kind of performance and sustain the momentum we need to keep looking out for different things. I would not want to specifically talk about the competition and the competitor scenario in this call but more than happy to do it in the separate meeting.

Deepak Agarwal: But how do you expect the inflows let's say over the next few quarters because this kind of an order book can we executing about 12 months to 15 months' time frame?

K. N. Neelkant: That is right. This kind of order book is at 12 months to 15 months cycle time and if you go back in history the transformer business today is 9 months to 12 months lead time equipment. So, that equipment in the market lead time is 9 months to 12 months and we are carrying a 12 months to 15 months UEOB that itself I think explains the story.

Deepak Agarwal: And just one last housekeeping question if I may our borrowings on the parent company has increased quite sharply the long-term borrowings. So, any specific reasons for them?

K. N. Neelkant: It depends on where the definition of sharply is but having said that …

Deepak Agarwal: I think versus March I am comparing 503 crores currently it is about 800 crores?

K. N. Neelkant: Yes, so there is a shift, we have again we were always at that net debt position Venkatesh will explain. But largely again the borrowings have been to prepare ourselves for the divestment of Hungary and other things. The borrowings are largely infused as one part is the small operating loss which is there in the outside entities but also to prepare it for the divestment. If the divestment has happened the same quarter as the infusion had been done, then overall by the deduction of debt on account of divestment of Hungary this would have probably not optically be seen at or it disappear. It would have netted off each other but since as the time lag between our infusion of the money and the reduction on debt on account of closure of the deals that the time lags and hence this borrowing is being seen on the face of it.

V. R. Venkatesh: To continue where the MD left out, the net debt as you may well all recall was 1,000 crores in the March, end of September it is 1,350 crores after adjustments for Fx movements.

Moderator: Thank you. We take the next question from the line of Pawan Parakh from Bank of Baroda Capital Market. Please go ahead.

Pawan Parakh: Just one clarification, somewhere in the call it was mentioned some losses from UK projects, so does that business still exist?

K. N. Neelkant: No, it is on losses from UK projects what was mentioned was the tail-end closing activities but that is almost over we have now effectively left it only one project in UK. So, and we are left with only 4.5 people in UK. I say 4.5 because now even we count part timers because that monitor the cost so sharply and that is in like a million or so, it is not a significant number. It is not a materially relevant number.

Pawan Parakh: So, that business will be wound down in Q3 completely?

K. N. Neelkant: That business has already been wound down we have not been taking any orders in that business. These are only orders which are being executed and as I said we earlier had committed that these things be completed in the month of March. This one order goes split over because the customer is not ready and despite us winding down it is our duty to see that the customer's need is fulfilled. So, that is where one project 4 people that is it.

Pawan Parakh: Secondly sir, regarding this commodity price thing, so have we taken all the relevant price hikes that we want to attain industrial segment or is it still in the process?

K. N. Neelkant: There is never an end to price hikes but let me put it this way. The total impact of cost increase due to commodity we have still not recovered the complete cost increase of the commodity from the market. So, it is a continuous process, so this quarter you are seeing a hockey stick kind of an improvement in IS because of significant portion of the cost increase has been recovered from the market but even if you asked me whether the complete impact has been absorbed the answer is no. There is still some cost element which have not been recovered from the market and as going forward this will be incrementally done.

Pawan Parakh: And sir just one final thing, what is the CAPEX plan for this year breakup between standalone and Indonesia and also in the annual report I think it mentioned that we want to have a switchgear facility as well in Indonesia, so any plans on that?

K. N. Neelkant: Too premature to comment on that but let me just give you an overview. Indonesia there would be sustenance CAPEX there will be maintenance CAPEX and there will be some small upgradation CAPEX for bringing technology into the processes but that will be completely funded to Indonesia and accruals that will be about $ 3 million-$ 4 million. As far as India is concerned, we are looking at a 50 crores CAPEX what we have done in India YTD and if I broadly broad base, it there are 3 different elements to it, one element is to prepare ourselves for the increased requirement in the industrial system. We will be spending some money there to prepare ourselves for the next generation of products in the switch gear segment we have started investing there we have started floating out the CAPEX plans there and for the railway business we may want to spend some money going forward. So, overall if you ask me 50 crores CAPEX is what has been spent in India YTD and going forward we may end up spending another 100 odd crores or slightly more than that in India through this financial year because some of the CAPEX plans have been rolled out but not has been capitalized.

Pawan Parakh: And this is like creating new capacities or this is R&D?

K. N. Neelkant: Both. The theme for us has been for the last 2 years the theme has been how we can make our product more intelligent and may how to make bring intelligence into our manufacturing processes. So, I would not say expansion just for the sake of expanding the capacity that I photocopy some existing facility in to something, but it is I would more put it like upgrading the facilities so that more productivity can be squeezed out of it.

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

Inderjeet: My first question is on the industrial margins, sorry to harp on that but if I look at the margin expansion a part of that is also GST adjustment, right the lower revenues in same amount of profitability. So, if I take that out maybe it is around 80 odd basis point of sequential quarter one to quarter two margin improvement. How much you think given that you have commented that our growth is significantly higher than the market how much do you think is the still scope left for industrial overall segment margin improvement here at this point of time and you said that you want to sacrifice revenues for margins. So, I think in that metric what is the right revenue number and what kind of right margin number we should look at in this space?

K. N. Neelkant: First of all clarification, there is nothing on the margin front which has been impacted on account of GST. Whatever GST, first of all the GST has been more or less neutral for us from a cost basis as far as the industrial systems is concerned and if at all there is some benefit automatically the market is smart enough to take away that benefit as part of the pricing in the market. So, there is no benefit arising out of GST in the industrial system that is the first part of clarification. The second part of clarification, not clarification answer to your question is that how much more is left. Here I would comment on the margin piece of it and as I said in the opening statement, industrial system has witnessed a 10% to 12% kind of EBITDA number. Today we are at about 8.5% EBITDA and I would like to come back to the historical numbers of industrial system margin.

Inderjeet: Just one more follow up on that railways which has now seen a change in Ministry and there is a lot of talk about investment and safety and all these kinds of things, does that change the landscape for us in anyway is there focus reducing on rolling stock or locomotives or any change that you see?

K. N. Neelkant: Let us wait and see how the changes are announced, implemented and executed. But the initial policy changes what has been come out after the change in the Ministry, I would mention only one significant that if the rolling stock moves from diesel to electric that actually expands our served market multifold. So we are waiting and watching for that and that is positive news for us. I think it is too premature for me to comment anything on that at this point of time.

Moderator: Thank you. Next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.

Bhoomika Nair: Just wanted clarification on the international business when I am looking at the there is an item of loss from associates which is about 55 crores just wanted to understand where is this coming from?

K. N. Neelkant: It is not from an international subsidiary. This 55 crores loss item is not from an international subsidiary. I will give you a slightly longer answer because I think I need to clarify this. We had made an investment into Avantha Power the power generating arm of the group. Avantha Power is presently undergoing a financial restructuring. By virtue of which our holding in this company was less than 20% so that as per the accounting standards we never had to report that in our numbers. But by virtue of financing restructuring going on at Avantha Power temporarily our holding at 5% to more than 20%. There is no change in the number of shares we hold, there is no infusion of cash into this business at all but due to this change in the equity structure in Avantha Power our holding again I said temporarily has increased to more than 20% due to which we had to bring in that loss from the period of March itself and show it us a book entry in our books. Once the refinancing is completed at Avnatha Power which again it is not mine to tell about within this call but then we expect that to get completed in this financial year itself. Our holding will again drop to below 20% and if that happens then this there will be a write back off this effectively. And if it all of this happens in this financial year for this financial year this 55 crores will go up and this temporary impact will be reset and will become neutral.

Bhoomika Nair: Sir, the other thing was the 100 crores of loss at Hungary and the other entities as well Ireland, Belgium, etc. all put together has not this number actually increased versus what it used to be on a quarterly basis earlier?

K. N. Neelkant: First of all, it is not entities the losses are coming from Hungary and a small part of it from Ireland. Belgium as I said at the EBITDA level it is positive kind of a number, so that is not right. What is happening as I mentioned earlier the losses overall there is no significant increase from the run rate what we have seen previously on a like-to-like basis. What is happening is as we move closer to the closure of the divestment of the Hungary deal, there are certain more things which needs to be done for us to clear and at the same time, see this transition period where the operations take a hit. So even the normal revenue and the normal margins which would have come from Hungary is taking a set back and that is impacting us which is expected, and we have seen it in all the divestment that we have done. So, for me it is not something which is surprising or out of the ordinary, so it remains the thing the only thing is we need to ensure that how we can close this deal in Q3 so that this deal gets over in Q3.

Bhoomika Nair: Because sir, the net debt number has actually gone up from 1,000 crores to about 1,350 if I got that number, right?

K. N. Neelkant: Right.

Bhoomika Nair: So, and we were looking to post all these deal closures to with the inflows coming in for the net debt to fall to about 4,500 crores or lower. So, where do we stand on that by the year end where are you seeing the net debt numbers settling at given these interim losses which have increased?

K. N. Neelkant: No, you see the overall, again if you look at this increase in the net debt number and as I mentioned earlier if you look at the valuation assessment of the Hungarian plan which has already been announced and the expected, if Hungary had happened at the same time this debt has increased it should have knocked off itself. And by virtue of the Irish divestment it would have further come down. So, as I told earlier there is a time lag effect here between what we have borrowing and infusing to make that asset ready for divestment versus the time at which the divestment proceeds by virtue of debt reduction will come to us.

Moderator: Thank you. We take the next question from the line of Ashutosh Mehta from Edelweiss. Please go ahead.

Amit Mahawar: Just need one explanation from you. On the LT motor and large motor market just need your assessment and if you can throw some light on the industry also, cement, steel, power, etc. very helpful. Thank you.

K. N. Neelkant: There is as I mentioned earlier there is a no tailwind which is assisting us in the growth. So, obviously when I said there is no tailwind there is no particular help in terms of requirement emerging from investments in these sectors they really coming up to the surface. But having said that there are certain segments like for instance, irrigation, any kind of road building equipment, concrete mixers, all those equipment manufactures the demand is coming from there. There is also a latent demand which we are witnessing in the cement side of it but if you ask me from power generation or event for that matter steel that is still very subdued. Looking forward I expect that the requirements from the irrigation will continue to keep its momentum, the requirement from the road building segment will increase in momentum. Cement, hopefully should increase going forward because there are some skews in the cement factory utilization which are being covered up today. So, with that some new requirement should come up. Steel, I think we all need to wait and watch how it behaves and power I think it is too premature to expect anything out of that.

Amit Mahawar: So, and basically on the LT motor side I just wanted to know right now what is the channel stand that we have vis-à-vis competition?

K. N. Neelkant: You would not want me to give me competitive information over a large call, right. But all I can say is there is a significant difference between the channel reach of CG built over 80 years versus my competition.

Moderator: Thank you. We take the next question from the line of Jonas Butta from Phillip Capital. Please go ahead.

Jonas Butta: So, basically at the end of FY17 in our standalone balance sheet we had loans and advances to subsidiaries at about 1,400 odd crores. Can you just let us know what that number is in the current as of September and based on your internal sort of loss projections and funding for the subsidiaries for the remainder of the year what that number would like at the end of the year?

V. R. Venkatesh: If you look at the face of the balance sheet you will see a number of 1,815 crores after adjustment for exchange impact that represents an increase of 260 crores-270 crores as compared to March, which roughly is the amounts infused from India to the overseas subsidiaries which the MD was talking about.

Jonas Butta: Sir, in the second half of the year you sort of clarified on what your lost projection from Hungary is which is about 90 crores for the ongoing business the continuing business should we assume the run rate of say the 10 crores-12 crores that you have done in the current quarter in terms of losses or should we sort of build in some bit of elevation if at all you see some negative sort of headwinds there?

K. N. Neelkant: In fact if you are talking about removing Hungary projections of the picture.

Jonas Butta: So, just continuing operations losses in 2H F18?

K. N. Neelkant: I have not understood the question because continuing operations there are no losses and where would I expect the losses are. My earlier commentary was completely about the improved performance of the continuing businesses whether in India or outside India. So, where I have not understood where your question of losses from continuing business is coming up.

Jonas Butta: So, let me put it the other way sir. Sir, on an EBIT level at least when we sort of derive the numbers which has consolidated minus standalone in the first half we have made about 16 crores of profit but then once we adjust for the interest or the implied interest that the subsidiaries paid back to the parents for the loans and advances that sort of loss number on a PBT turns into a loss-making entity of about 50 crores in 1H on a PBT level. Corresponding number for the 2H is what I am looking for and I understand that a bulk of that was because of a weak 1Q in Indonesia which has sort of reversed in the second quarter. Should we assume that same run rate, is the question?

K. N. Neelkant: Just de-clutter this whole thing. Let us first look at what is the EBITDA delivered by the continuing businesses. The EBITDA delivered by continuing business outside India is 58 crores in Q2. This was zero in the last Q2. Even if pan out the evening out effect of Q1 and Q2 specifically of Indonesia at half year level, this number is 49 crores of EBITDA for the continuing business outside of India that is one part of it. The second part of it, the interest which is paid by the subsidiaries to the parent, I do not think we should spend time on that conversation at all because ultimately at the console level it is neutral for me. It is a notional entry from one pocket to another pocket. So from overall, while I agree with you that from your modeling point of view and your standalone point of view it might those data points might be required. Frankly speaking I do not even keep track of the data because it is completely irrelevant for me. But however, if you want to pursue that line of questioning I can put you in touch. You can get in touch with our guys they will give you those figures. But from a business impact it is irrelevant to me.

Jonas Butta: So effectively then the losses discontinuing operation losses is the only kind of funding that we should assume in the second half translating into the increase in loans and advances to subsidiaries. So that is 90 crores thereabout.

Moderator: Thank you. We take the next question from the line of Dhirendra Tiwari from Antique Finance. Please go ahead.

Dhirendra Tiwari: Most of things have been discussed already, the only thing I just wanted to understand if you look at overall 4 years-5 years of trajectory for CG Power excluding consumer. So, today we stand in H1, so like Rs. 1380 crores of segment revenue reported by power and about 1,100 crores reported by industry segment. This number would have been industry was about 800 crores and power was almost at the same level. So it appears that may be in next couple of years' time the industry segment revenue could probably be higher than power segment revenue and given that industry segment has been generally commanding much better returns and profitability than power. So are we seeing some sort of structural change in the complexion of the company next 3 years – 4 years that will become predominantly industrial company with strong motors and drive railway businesses than the power business. Will that be a scenario, which company would be happy about or is it something which is to be concerned about.

K. N. Neelkant: Dhiren, that is the very strategic question you have asked so I do not know how, okay let me give you this. Over the last 2 years as you rightly said the trajectory has been changing and gives you also go through the commentary what we have been giving over the last 6 quarters. We reported in power systems and industrial systems for that matter we continue to tell you the numbers of power systems and industrial system but whenever it came to subjective discussions I have always been conversing all of you about transformers, switchgear, motors and railways and I use to say that there is added fund raise segment of drives and automation. Now if a country as a whole or globally also if the overall transformer manufacturing capacities in excess leading to price deterioration then these kind of coarse corrections are required. So, for me what is more encouraging is yes, as you rightly said a higher margin business to showing a larger growth at the same time switchgear is commanding a significant growth in the power system itself and we also have rise in automation waiting in the wings which since it is a small number we do not talk about it much. But then the growth there we never talk about in percentage it is a 2 fold – 3 fold kind of a growth. So if we continue to go, if the macro continues to move in this trajectory 10 years but I would expect that at some point of time post 2019 demand for the transformers to once again come up because once the core industry starts coming up again. Whether it is cement, steel, power any of these industries, then today a concentrated demand of transformers only from one or 2 major large utilities, if it is spread across multiple customer there could be a correction of trajectory there at that point of time. Too early to comment on that but it is not just question of is this desired direction of the company. The company would decide to move in a direction wherever the macro shows benefits that would be my answer to that. Second if you ask me whether there are any concerns about it, no. If that is the way it is going and if a healthier margin business is growing faster than other business it is always a happy situation to me.

Dhirendra Tiwari: What will be drives business if you can share in first half this year?

K. N. Neelkant: First half of this year, I am talking an approximate number, I do not have it in front of me, but it is slightly a shade less than 50 crores.

Dhirendra Tiwari: But this can probably, I mean as we used to have significantly better target as we will be moving in that direction to have a significant …

K. N. Neelkant: So if I compare the same period last year it would have probably been less than half of 50 crores and if I look at the market availability the market is almost as big as the motors market in the drive segment to at this point of time the amount of drives we have introduced from way of transferred from Sweden to India, Australia and India that market would be about 1,200 crores to 1,300 crores.

Dhirendra Tiwari: So 1,200 crores market size and 50 crores is the share of …

K. N. Neelkant: So our reach and our competence today is geared up for 1,200 crores to 1,300 crores market.

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 can you just share the topline and the EBITDA of the Indonesian business may be the last completed full year.

K. N. Neelkant: Of the last completed full year?

Ankit Babel: Yes, I mean I do not whether it is a calendar year or the financial year, I do not know. On FY17 if you can tell me?

K. N. Neelkant: It is roughly about 107 million Euros

Ankit Babel: And how is the EBITDA margin there? Is it 15% you just said?

K. N. Neelkant: More or less.

Ankit Babel: Sir, my second question is I miss that break up of your 432 crores loss which have reported from discontinued operation. I agree that 30 crores is from MSEDCL and 265 crores is from Hungary. So what is this 137 crores which is left? Where is it from?

K. N. Neelkant: Let me re-clarify that for you. 30 crores is from Jalgaon, 265 crores we said is a non-cash kind of an item which is more write-down of goodwill, etc. and 130 crores was the operating losses which included Hungary, which included US for the part of the quarter it was with us, this was the 2 major contributors. The numbers which I shared was roughly a 30 crores number out of that pertaining to US. 10-odd crore number pertaining to other businesses including Ireland, UK, all the other things put together and the balance 90 crores coming from Hungary.

Ankit Babel: So, Hungary basically non-cash is 265 crores and cash is 90 crores approx.

K. N. Neelkant: That is it.

Ankit Babel: And sir, my last question is other income. In the standalone business 60 crores is here other income for this quarter, what is the broad breakup of it?

V. R. Venkatesh: That pertains to primarily the exchange movements, as also the notional interest which the MD was talking about on the loans given to the subsidiaries.

Ankit Babel: So just wanted to understand why you charge interest when it is not recoverable, I mean lot of companies even in road BoT projects and all those they give interest free loans, so that you are not eligible for any or you do not end up paying any taxes on it, since it is not realizable. So here also when situation is that it seems that this interest is not realizable why you charge it?

V. R. Venkatesh: We can get into the typical discussions on non-interest bearing loans but it is the broad expectation that these loans and advances will be paid some time, will be paid down sometime in the future and to keep it to the transfer pricing norms, you have to maintain an arms-length basis for these transactions and that is the reason for interest being charged.

Ankit Babel: So how much would be the quantum of that interest from the subsidiary in this quarter?

V. R. Venkatesh: In on a quarterly on a quarter basis …

Ankit Babel: Yes, out of the 60 crores.

V. R. Venkatesh: This translates to about 30 crores to 35 crores.

Ankit Babel: And it will continue in the next 2 quarters also?

K. N. Neelkant: As long as the loans and advances remain outstanding that will be the run rate.

Moderator: Thank you. Well that was the last question for today. I now hand the floor over to Mr. Neelkant for any closing comments.

K. N. Neelkant: Thank you all. Thank you for bringing out certain clarifications which in any case I would have also wanted to clear and in case you have any residual question please feel free to get in touch with our team, so that they can clarify too. Thank you so much for showing interest and wish you a happy weekend.

Moderator: Thank you. Ladies and gentlemen, thank you for joining us and you may now disconnect your line.