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Smart solutions.
Strong relationships.

Our Ref: COSEC/99/2018

16th February, 2018

By web portal

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

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

Scrip Code : CGPOWER

Dear Sirs,

EARNINGS CALL – Q3 FY2018 ('Transcript')

In continuation to our letter dated 6th February, 2018 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 an earnings conference call held with analyst/ institutional investors on Tuesday, 13th February, 2018 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**

Shikha

Shikha Kapadia
Company Secretary and Compliance Officer

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

Encl : a/a

AVANTHA
GROUP COMPANY

CG Power and Industrial Solutions Limited
Q3 FY18 Earnings Call
February 13, 2018

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2018 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 phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Neelkant, CEO and Managing Director of CG Power and Industrial Solutions Limited. Thank you and over to you, sir.

KN Neelkant: Thank you. Good morning, everyone. Welcome to the Q3 earnings of CG Power and Industrial Solutions Limited. Before we get on to the specifics of the number, let me just recap the couple of announcements which we made yesterday during the course of the board meeting. I will start with the Hungary divestment.

As you are all aware, we have been talking about the Hungary divestment and keeping you briefed on the various steps we are making towards the progress. So yesterday, after getting the in-principle approval from the banks concerned in Hungary, we have signed the formal SPA and the BTA agreement with the prospective buyer. The next step, of course is to re-validate the in-principle approval from the bank and convert it into a formal approval and the other statutory approvals, which is required for the nature of this kind of a deal. So, the company expects that this deal now would be closed and its outside date we are mentioning March 31st as the formal closure for the deal. So effectively, once that happens, Hungary will cease to be a subsidiary of CG going forward from next financial year.

On the other announcements, we had announced a couple of days back about the significant order for LT Motors from EESL. This is a very significant step for us because this is the next generation of IE3 efficiency motors, where once again CG has established its dominance in the low voltage motor segment by buying the share of slightly more than 50% of the total quantity and that too in the IE3 range efficiency, next generation beyond the IE2 range mandated by the Government presently. This 107 crore order is expected to be completed in FY18 in totality.

Indonesia, though this will not reflect in the Q3 numbers, but since we released the announcement, continues its significant presence in the Indonesian utility PLN and this has been reiterated by the trust PLN has imposed on CG by placing this order for 55 million. One of the things, which helped us get a larger share of this order, this being the eighth in succession now, is because CG enjoys possibly the highest vendor rating within PLN, I wouldn't know the rating for the other, but since we are very close to 100 out of 100, I could easily say that, we are very high compared to the peers.

On a topline basis, CG India posted a sale of Rs 1,179 crores for Q3, against like-to-like comparison of Q3 last year, after adjusting for the GST excise duty impact, it is 11% growth in topline. This once again continues the momentum and YTD growth for the nine-month period, is at about roughly 12%. The order input also kept pace, in fact, Q3 was a healthy quarter as far as order input was concerned, with CG India posting a 24% growth over Q3 of last year. In value terms, it was 1,516 crores of order input in this quarter, was 1,221 crores in Q3 of last year. The YTD run rate of order input growth also remains at about 12%.

Outside India for the continuing businesses, which is specifically Indonesia and Sweden, for this quarter in rupee terms, it is 340 crores of sales versus 250 crores of Q3 last year. This is an impressive 36% growth. Even if I remove the foreign exchange effect on this and look at only the Euro-to-Euro terms, Indonesia is still as an example, I'll tell you, given Indonesia because that is a significant portion of the sales, it's still posting 23% growth at EUR 32 million versus EUR 26 million in the corresponding Q3 last year.

So overall I would say that operationally, the growth momentum continues. And apart from that, before going to the specifics from an opportunities perspective, the opportunities in Middle East and Africa again seems to be showing a sharp look around with an impressive pipeline, which we are enjoying in terms of inquiries and also from an export perspective, while Southeast Asia has always been a mainstream for our exports, Middle East Africa has also now started looking up sharply.

The Indian market, the union budget has once again given a thrust to the rural economy and if you recollect in the earlier conversations, we have been mentioning that our success especially in the Industrial Systems has been the penetration in Tier 2, Tier 3 towns and with this, rural agro focused budget, I believe that this will only lead to further momentum in the Industrial Systems business in these parts.

Railway continues to be a success story and we are happy to see that the Union budget has also maintained the aggressive push for next year also which we expect to reflect in our business as well.

So if I go to the breakup of numbers, you would observe that there is actually a shift in the overall constitution of CG India business, while CG India, if I remove the other income has posted 1,179 crores of Q3, comparing to 1,066 crores of last year, it is about 11% growth. The component is sort of quite interesting because in the last quarter, the Power Systems to Industrial Systems ratio was about 55:45, 55% being contributed by the Power Systems and 45% being contributed by Industrial Systems. Over the last three quarters, we have been seeing that there is a subtle shift where the Industrial Systems business is gaining momentum and this Q3, it is almost 50:50, 51% to PS and 49% to IS.

From an EBITDA perspective, CG at India level has posted a 11.3% EBITDA, in value terms about 133 crores. In the India margin story, if you look at the percentage EBIT across IS which was one of the things, which we were discussing over the last couple of quarters, IS has once again posted a significant improvement in margins vis-à-vis Q2 of this year. If you see the overall last year picture, FY17 IS EBIT was reported at about 9.1%, whereas for this quarter, standalone Q3 we are at about 9.5%.

Just to remind you, the highest quarter EBIT in last year was Q3 of last year, which was standing at 10.4%. So while we still have about 1%, 100 basis points to cover from the last, my expectation would be that we would do better than this and for this year, IS would return a double digit EBIT.

From an outside India perspective, Indonesia continues its momentum. As I mentioned earlier, Indonesia posted a 32 million in euro terms, against 26 million of Q3 last year, which is a 23% in like-to-like currency growth over last year and the EBITDA continues at a run rate of around 14%, which to be uniform. What's more encouraging there is while the unexecuted order book for Indonesia would show 726 crores, if I add back the 55 million, which we announced yesterday. This stands at an impressive 1,100 crores, which is $170 million. So from profitability booking point of view, Indonesia continues to retain its momentum and possibly grow further on that momentum.

The other businesses, Belgium and Ireland have reported breakeven at the EBITDA level. So the area of concerns, where we had earlier about losses in these businesses has now been capped and now consistently it is retaining breakeven at least at the EBITDA level. So going forward, we need to see how to improve this further from operational efficiency point of view.

I am sure, you would have questions related to specifics of the Hungary divestment. So I'm not getting into the details as of now. But, I leave the floor open to questions and more than happy to clarify the questions in it. Thank you so much.

Moderator: Sure. Thank you very much. We will now begin with the question-and-answer session. We have the first question from the line of Charanjit Singh from B&K Securities. Please go ahead.

Charanjit Singh: Sir actually on the Hungary estimated sale, we had earlier highlighted that there is a 90 crores kind of a quarterly loss we were facing in that business. Now with this sale getting stretched to two quarters, so how has been the loss in Hungary? And what has been the increase in our debt levels because of that? And why we are saying that now, there are further approvals which are required, we were thinking that there is only the bank approval which is pending for this divestment to close?

KN Neelkant: That's right, Charanjit. If you recollect the conversation we had last quarter, we had mentioned that Hungary was absorbing from our operating losses point of view, roughly 90 crores to 100 crores per quarter. And that remains the same momentum in Q3 also, Q3 also if you look at the overall 115 crores what we have booked as loss in the discontinuing operations in the consol sheet. Out of this, roughly about 95 crores belong to Hungary. So there is no surprise there from what we discussed in Q2 call, that run rate for Q3 has continued. Going forward if you ask me, as per our agreement with the buyer, although the closure is now expected any time in this quarter, the losses in Hungary, absorption in CG books will continue for Q4, that is just one more quarter. From estimate of losses, I would still say that the same run rate of about 95 crores odd would continue going forward into Q4. With that, this loss funding of Hungary would be completed. So effectively, if you ask me the cash further to be infused and hence the loss to be taken, would be same 95, the round figure 100 crores for Q4. Post the divestment, you would recollect that we have a small switch gear business which we need to also wind down. So that is the book adjustment which we need to see post closure of the divestment, but that will be a non-cash kind of a write-down, which will happen after the closure, which also we expect it to get completed in Q4 itself. So from a cash point of view, an additional 10 million will go into Hungary. From a losses point of view, that 10 million will be reflected as losses and further one small write-off, maybe I'm just speculating, but from the adjustment of books point of view for completely exit Hungary, that is what is pending as of now.

Charanjit Singh: Okay and sir, on these approvals, process of from this bank approvals, from the further approvals which are pending and do you think that they can progress in terms of..

KN Neelkant: No, it is very clear. We have briefed you earlier that the agreement with the buyer is that he will take over this, we have a debt of 28 million sitting inside Hungary, which belongs to the buyer now, since we have signed the SPA BTA. So, 28 million of debt has to be transferred from us to the buyer by the banks, and that is what the bank approval is pending for. The in-principle approval has already been received and this is what the formal approval is pending. So post the conclusion of sale while I talked about the infusion of 10 million, I talked about the possibility of a write-down for adjustment for complete exit of Hungary. In exchange to that, what we will get is that this debt, actually it is not 28, it is around more close to 30 million, 30 million debt will be removed from our books, of which, this will move to the buyer's account. And further losses from Q1 of next year onwards will be completely stopped from Hungary. This is the overall contour of the deal, which is not a significant change or rather any kind of change from the earlier conversations what we had about this divestment. It is only the two step process from the bank, which took a little more time. The first step being the in-principle approval and now the second step based on the SPA, the in-principle approval to be converted to a formal release of the debt from our liability sheet.

Charanjit Singh: I have one more last question. On the industrial business, we have seen that industrial businesses have scaled up quite well and it has now become 50% of the overall business. So within this, if you can give us more color on, specifically on the motors and railways, how is railways scaling up, how do you see the outlook going forward? And large railways could be for us in the next years, would be looking at 1.5 lakh crores of spending which government is planning on the railway segment specifically. Thank you.

KN Neelkant: Sure. Let me split this question in two parts. Let me answer in terms of first what has happened this year and then we will go to what we expect next year. In this year, if you look at the growth of Industrial Systems. And even in this quarter, if you look at the growth of Industrial Systems, it is actually fueled by motors as well as railways, it is not only railways. So motors have shown an equally impressive growth in the sales of Q3. So overall Industrial Systems, if you look at the growth for Q3, it is both railways and motors, while the order input has been propelled the railways. The execution of which is expected to happen next year. From a number point of view, the railway business would be close to a 1,000 crore business in next year. Although the reporting might not be entirely in Industrial Systems, because some part of the railway business also is the locomotive transformers and other things, which we book in the Power Systems based on our working of product wise booking P&L, but if I look at from a customer point of view, the railway business next year is expected to be about 1,000 crores.

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

Deepak Agarwal: Sir, my first question is, can you help us understand the margin profile that you see from FY19 perspective, both within Power Systems and Industrial Systems, because there is a buoyancy in the order inflow that we are seeing, but like at the same time then we also see there is a fair bit of pressure on the commodity prices as well. So would you like to give some comment on how do you expect FY19 to be from margins standpoint?

KN Neelkant: As a matter of practice, I don't give forward-looking guidance. But however, I'll help you out here. From an Industrial Systems EBIT point of view, in FY17 we posted our overall EBIT of 9.1%. If you look at the pressure of the commodities which hit Industrial Systems, it started in Q4 of last year, where Industrial Systems posted an EBIT of 6.4%. This further deteriorated to 4.2% in Q1 of this year. Since then if you see, there is a sharp recovery of the Industrial Systems margin from 4.2% in Q1, going forward to 8.2% in Q2 and in this quarter, it is 9.5%. So 130 basis points improvement in Industrial Systems margin vis-à-vis Q2. Further, I also made a statement saying that at the end of FY18, this will be at 10%, a double-digit kind of a number. So there's a further improvement in the Industrial Systems margin, which we expect going forward. So the commodity impact which we saw in Q4, Q1; Q4 of last year and Q1 of this year, I would say that we have turned the bend and have recovered the entire thing. What remains now is the economies of scale impacting the margins further and the momentum of the growth expanding the margins going forward. So Industrial Systems, I would say that there is still some more headroom for the margins to improve. Power Systems, from a margin point of view, it has been stable and Power Systems, it is not accurate to compare quarter-on-quarter basis because the commodity impact is not as quick as the Industrial Systems business. But on an overall year-to-year basis, Power Systems margins have been more or less steady. The sales have been lumpy and while this quarter, we may have shown a flat sales, not a flat, a 2.5%, 3% kind of a growth for Q3. It is more because of the lumpiness nature and the sale will move forward to Q4. So Power Systems, I would expect a steady state margin extrapolated from last year onwards this year. Industrial Systems to summarize, I would say that the recovery has been sharp and we believe that there is some more headroom going forward.

Deepak Agarwal: Okay. So basically, the double-digit that we expect by the close of FY18 can actually, also given the economies of scale that you expect because of the inflow?

KN Neelkant: Precisely.

Deepak Agarwal: Yeah. My second question is, it's quite impressive to see your business becoming quite a sizeable business and it was already there in the past but it has really picked up the scale. Can you give some more color on what will be the other market contribution, some kind of a rough idea as to how much let's say, motors will be contributing and transformers within Power Systems?

KN Neelkant: Let me split that into different segments, let me not talk of Power Systems as a whole, but let me talk of power transformer separately, distribution transformer separately and the switch gear business within Power Systems separately. Power transformers still continues to be under pressure from a margin point of view and from our organization point of view, we are not chasing headline numbers there. So we would rather be prudent and be selective in taking the orders for power transformers rather than rushing it like it, because these are as you know long gestation orders, where the orders taken today will have an impact on the margins possibly four quarters from now. So for power transformer, we are cautious and steady and wherever the opportunity presents, we are opportunistic there, but then we are not on the headrush to get the topline there. So even if I lose some topline on account of that, I'm perfectly fine with it. Distribution transformer business has found a few niche segments and is doing extremely well, both from a growth point of view. So overall transformer would not be impacted so much because the shadow effect of power transformer is too large compared to distribution, but if I look at distribution per se both on the topline as well as the margin, it has been showing a very smart growth especially since we are serving from niche market relating to the solar plants order coming up and certain other niche segments. Switch gear, I would expect that there will be a significant expansion of growth and margins due to the growth going forward because of the concentrated efforts, which I now see the ground reality actually beginning to favor in terms of IPDS, that some of the state governments taking active measures to modernize the distribution network. So especially in the medium voltage switch gear, I would say that it has got a very smart future going forward.

Deepak Agarwal: Would you give some breakup, approximate breakup of the revenues from a nine-month or a full year perspective?

KN Neelkant: We do not give the breakup.

Deepak Agarwal: No problem.

Moderator: Thank you. The next question is from the line of Ranjith Sivaram from ICICI Securities. Please go ahead.

Ranjith Sivaram: Just as a follow-up to the previous question, wanted to get some clarity regarding this Power Systems margins, like, if you are mentioning that the medium range switch gear growth will be higher compared to others. Won't the pricing competitiveness in that segment be higher and won't that impact our margins?

KN Neelkant: No, not really, not really because what I mentioned was the relative growth between medium voltage and high voltage switch-gear. It doesn't mean that the other segments are absent. The high voltage segment of switch gear, while there may be some kind of macroeconomic lump in India per se, but we are seeing export market, I've mentioned earlier, especially Middle East and Africa, opening up significantly for that, which more than adequately covers up for any margins gaps for Power Systems as a whole. So even with the medium voltage ramping up in terms of sales, I only see improvement in margins there because of the overall expansion of the sales. And I do not see any pressure of the margin for an amount of time. So the story there is completely different from the story of power transformers, where as I said, we are cherry picking the orders.

Ranjith Sivaram: Okay and sir, what about the order intake for the nine months and for this quarter in Industrials and the Power Systems, which you can help us with that?

KN Neelkant: Sure. We can give those details, but at a headline level, CG as a whole has posted an order input growth of 24% for this quarter and from a nine-month YTD basis, CG as a whole has shown a growth of 12%.

Ranjith Sivaram: And what that number would be in terms of value?

KN Neelkant: In terms of value for Q3, the order input for CG as a whole is 1,516 crores vis-à-vis 1,220 crores in Q3 of last year.

Ranjith Sivaram: And for the nine months?

KN Neelkant: For the nine-month period, the order input total at the CG level would be 4,278 crores, which is again a growth of about 12%. So just to give you a little more shade or color on that, here also Power Systems has shown a growth, although a small growth, we have shown a growth of about roughly 3% and of course, Industrial Systems propelled by railways drives the growth which is at about 21%. This I am talking about the nine months period.

Ranjith Sivaram: Okay and what will be the value for Power Systems and the Industrial Systems order intake?

KN Neelkant: 2,100 approx for Power Systems and 2,200 for Industrial Systems.

Ranjith Sivaram: Okay and sir finally, how much is railways now contributing to industrial segment because previously I think it was around one third, so has that increased? And how do you see that going forward?

KN Neelkant: Well, I have not understood previously but let me give in FY17 railways contributed 25% of Industrial Systems. This will grow, now that's where I made a clarification point, while catering to railways, we may end up doing 1,000 crores of business with railways. Since the nature of products are different between the industrial products and the transformers for locomotives, the booking might be different. So I would expect that railways will go from a 25% contribution to Industrial Systems to roughly 33% of Industrial Systems.

Ranjith Sivaram: Okay. And how about the overall like since in the budget also, there has been an overall increase in procurement of electric locomotives. So that's our transformers go into that electric locomotive which is used in railways or is it for some other application?

KN Neelkant: Well historically, we have been supplying equipment both for diesel locomotives as well as electric locomotives. So from CG point of view, they have been customers; both diesel and electric have been customers to us. This shift from diesel to electric would what effectively mean that the diesel engine is replaced by electric motors, so the natural power level, the requirement from a supplier like CG would go up multifold, because the engines which was an uncovered market by CG, now will be served by us because both engines will be replaced by a motor alternator combo. So to summarize, I would say, we keep supplying both to diesel and electric loco but proportion of CG equipment going into an electric loco, it's significantly higher than the proportion which goes into diesel locomotive. So the shift from diesel to loco by there was very virtue of the term electric itself, would help the electric equipment manufacturers.

Ranjith Sivaram: Okay and in the electric motors also, we were expecting some pricing intensity to come down because of the change in the motor rating to higher range. So have you actually seen that in the market or the pricing of the motors continue to be competitive?

KN Neelkant: Ranjith, proof of the pudding is in eating it. Q2 EBIT was 8.2% Industrial Systems, Q3 EBIT is 9.5, 130 basis point improvement in one quarter, which Q2 itself was about 400 basis point improvement over Q1. So overall 530 basis points improvement in two quarters.

Ranjith Sivaram: Okay. So whatever we were expecting in terms of pricing, that has…

KN Neelkant: Has completely happened now. That has happened and is the round the belt turn which we have taken and I left a statement saying that, I believe that there is some more headroom available.

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

Bhoomika Nair: Sir just wanted to get a sense at the end of this quarter, what is the current debt level, gross debt, both on the standalone and consolidated basis?

KN Neelkant: Sure, Bhoomika. That's right. Venkatesh, do you want to take this?

V. R. Venkatesh: The debt level, if I were to compare to September, would have gone up to the extent of cash losses that were financed through outside of India, so you can take cash to be 100 crore increase as compared to September.

Bhoomika Nair: And this will further increase by another 100 crores by the year end, is it right, sir?

V. R. Venkatesh: Yeah and then this correspondingly decreased to the extent of..

Bhoomika Nair: Of 30 million?

V. R. Venkatesh: Yeah 30 million, correct.

Bhoomika Nair: Okay. So by the year-end, we should be close to about 1,200 crores of debt level on a consolidated basis?

V. R. Venkatesh: The gross debt at CG, as a whole including the continuing and discontinuing businesses, will be around 2,500 crores. And the net debt will be a function of the cash at the end of the quarter. So, close to 1,500 crores.

Bhoomika Nair: Okay. Got it. And sir, the other thing was, could I get the breakup of the order backlog between Industrial and Power sections? I kind of missed that number.

KN Neelkant: The overall unexecuted order book in India at the end of Q3 is about 3,800 crores 3,786 to be precise. OpEx 2,600 crores is Power Systems and 1,200 crores is Industrial Systems. So in effect, proportion is the same. Power Systems continues to hold the order book for 10 months, 11 months of execution. The bump in the Industrial Systems is, of course, because of the bump in the railway business, and here, it's a function of how soon does railway want it. So here, it's not just a function of how soon can I deliver it, but it's also a function of how soon railway wants it.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Sir just one question on this light motor, low HT motor, we were looking that with the introduction of GST, the unorganized sector we will be able to get I mean a lot of say market share from the unorganized. How the things are panning out. You have already said that price is improving.

KN Neelkant: If you look at the Q3 growth of Industrial Systems, it is at about 20%, 20.1% to be precise. Q3 of this year of Industrial Systems is 582 crores versus 484 crores of Q3 sales in Industrial Systems last year. 20% by any standard is a highly impressive number given the economic status. I would put it, this not as an increase in the demand per se, but an increase in our reach and increase in the rural capability, including the impact of the GST. And as I mentioned earlier, this growth of industrial system, sales in this quarter is not propelled by railways, order input is propelled by railways but sales is uniform between motors and railways. So a significant amount of what we expected on account of this conversion from unorganized to organized, we are already seeing it happening and the results of which are already seen in the Q3 results. So I believe that we are in the direction what we discussed earlier, we are right bang on that direction.

Bharat Sheth: So still, how much headroom that we see, I mean still further can, I mean allow us to grow with the consolidation I mean, organized sector?

KN Neelkant: That's a good question because we are also discovering it as we go along, because the fact that these are unorganized and so there are no reported numbers. So it is a market intelligence, which of course changes on a monthly, quarterly basis. So as we go ahead, we are discovering more. But at this point of time, the estimates whatever we had made earlier, that seems to be holding good and I think I'll be able to give you more color on those two quarters from now.

Bharat Sheth: Okay, excellent, sir. So on second side, on railway, I mean, with the electrification program, so what's your view on three to five years perspective, I mean, because what I understand, not apart from I mean motor sales also to electrification, but simultaneously a lot of components that we were looking kind of applying as some assembly kind?

KN Neelkant: Let me clarify Bharat, we are not in the business of rail electrification. Our complete railway when we say railway…

Bharat Sheth: More electric locomotive, sorry, sir.

KN Neelkant: Yeah. So the locomotives, presently the aggressive growth targets which the Indian Railways are set for themselves, it's quite a big number considering the number of players in that segment who are established and the entry barriers here also are pretty high because of the safety standards and the RDSO standards for railway equipment especially coming from the safety standpoint of view, safety and reliability. So at this point of time, there is no point in talking about the market because it is an exponential growth, it is no longer a percentage growth, what we're talking about. But it's in terms of multiple growth and hence, the earlier statement which I mentioned about railways growing up to 1,000 crores. You compare that statement where I said that railways was 25% of Industrial systems, that means we are moving from 300 crores to 1,000 crores in a span of two years. That's the kind of exponential growth we are seeing in railways.

Bharat Sheth: And sir, so I mean second, I mean on Power Systems side, are we seeing any kind of, I mean of a green shoot from industrial side? Apart from switch-gear, I mean transformer?

KN Neelkant: There are very small green shoots in very specific areas. If you ask me, yes, we are playing some amount of green shoots in the Cement industry. We are seeing some amount of green shoots in the fertilizer industry. But having said that, these are more of brownfield expansion, where the power transformer might not be required for a brown field expansion. So, firstly cement industry, the fertilizer industry might be seeing some amount of debottlenecking operation brownfield expansion, that would reflect into sales for my switch-gear, for my large motors, but that may not necessarily reflect as sales for my power transformer. So if your question is specific whether the industrial CAPEX cycle is showing green shoots of power transformer, the answer would be no, we are still waiting.

Bharat Sheth: Okay, and distribution side transformer, are we participating in business?

KN Neelkant: Yes, that's where I mentioned earlier, that has been a very significant improvement in the distribution transformer business, both from our topline point of view as well as margin recovery point of view because while we have spoken multiple times on the efficiency range of motors, low voltage motors etc., there are similar legislations which has come into play in the distribution transformer segment and the organized players like us are the obvious beneficiaries of this movement of the value chain in terms of revisions of distribution transformers. So that has been showing a very good recovery in the last three quarters and I expect that momentum to continue.

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

Aditya Mongia: I had two questions on the industrial side, which I wanted to get your responses on. The first question was more on the slicing of the industrial segment revenues in terms of margins. If you could provide some more color in terms of, possibly, so I am breaking this revenue point into products, which have been recently low and may be at lower margin in today's portfolio. First, so just to get a sense that how much is the headroom of margin expansion for there on in the industrial side?

KN Neelkant: Sure. We really do not slice the margins within BU. But to answer your question, I can say that in the portfolio of Industrial Systems between the low voltage motors, large motors, and the railway business, there is no significant distortion in margin of this individual profile, so more or less they behave similarly compared to each other. Going forward if you ask me whether there is further headroom, I mentioned that, yes, there is further headroom. If you are asking me specifically how much more headroom, then I can only give an analogical example saying that the best days of Industrial Systems is to operate at 15% plus EBITDA margins. So, I will leave the balance to your imagination. I would not want to further give you guidance on that. The only specific guidance I can give you is related to the data point from 4.2% EBIT in Q1 to 9.5% in this quarter, ending up with a double digit for this financial year and further headroom on top of that available. Now whether that headroom is 100 basis points or more, is something where multiple things are to be seen as we go into the market, but I certainly do believe, there is further headroom beyond the double-digit mark available for Industrial Systems.

Aditya Mongia: Got it, sir. The second question was on the railways part, now let's say this is a 1,000 crore portfolio, how much of it would be the one which will benefit from electric locomotives kind of replacing diesel locomotives. So, I am just trying to get a sense of the one part of the portfolio, which will according to you grow multiple fold from here because of the exchange?

KN Neelkant: Say, this is an announcement by Indian Railways, we need to see how many diesel locos go into conversion mode, or how many diesel locos are stopped and more electric locos are made so, there are multiple variables in that, most of which are not within our span of control. But having said that, I can let me put it this way. For every crore what we supply for a diesel locomotive, we supply three crores worth for a similar rating electric locomotive. So a shift from a diesel locomotive to electric locomotive effectively means an expansion of my market by 3 times.

Aditya Mongia: Okay, got it. And the amount that you are supplying for these locomotives will be how much out of 1,000 crores?

KN Neelkant: I supply only for locomotives, so I don't do railway electrification. So my entire business except for a small slice of about 100 cores, which we do in signaling, the entire balance, everything goes into my locomotive business.

Aditya Mongia: Got it. Sir, last question from my side now, if I look at the consolidated financials, there is a big change in the other income, which has happened. It's a very small number this quarter versus previous quarter. Now is it better to be looking at an EBITDA plus other income and then comparing the health of the business or should we be only focusing on EBITDA and assume that other income is normalized overtime.

KN Neelkant: If you can just specify which part, you are saying the consolidated other income. If I look at the standalone other income, it is 46 crores against 61 crores for this quarter.

Aditya Mongia: Yes.

KN Neelkant: You are talking about the 46 crores to 61 crores moment?

Aditya Mongia: No, I am talking about the consolidated other income number which is very small, I think it's about 9.2 crores, if I'm not wrong. I don't have the number in front of me, but I think there was a very big decline which happened to the other income on a consolidated basis. And I guess, whenever you've discussed the subsidiary financials, typically you assume that there is some kind of brand, and everything is coming, so the best way at a consolidated level is to look at EBITDA as other income, but I just wanted to clarify if that's the right way of looking at things or not?

V. R. Venkatesh: Hi Aditya, the other income primarily stems from exchange rate fluctuation and the other income. And if we compare it quarter on quarter, we do not see much fluctuation on non-INR currencies. So that reflects the change quarter-on-quarter, but I think you would want to compare it on a nine month basis, that's roughly flat.

Moderator: Thank you. The next question is from the line of Amit Mahawar from Edelweiss. Please go ahead.

Amit Mahawar: I just have two quick questions. First is, how much cash have been used in Hungary in the first nine months. And second is, let us know the utilization levels in Industrial and Power Systems business specifically about the Product business in Power Systems. Thank you.

KN Neelkant: Industrial Systems business utilization is not a criteria for us because that is a healthy mix of in-source, out-source. So theoretically, the capacities are in signage, but what we do typically is we allow the utilization of our factories up to 93%, 94%. And then manage it to the mix of in-source, out-source. So for me the utilization is not a measure, a metric of measurement foy our Industrial Systems business. As far as the Power Systems business is concerned with the existing UEOB which lasts for 10, 11 months, which has been consistent over the last six quarters, the utilization for my transformer plant would be roughly at about 77%-78% and the utilization from a switch gear plant would be roughly at about 87%. Coming back to your second question about or the first question, which you asked about the cash going into

Hungary. So that we have been explaining to you on every quarter basis that amount of the losses in that quarter is the amount of cash. So in Q2, it was roughly about 100 crores, in Q3 it is roughly about 100 crores more. In Q4, we expect it to be slightly less than 100 crores, but for your calculation purpose, you can continue to assume 100 crores.

Moderator: Thank you. The next question is from the line of Inderjeet Singh from Macquarie. Please go ahead.

Inderjeet Singh Bhatia: My first question is on the capital deployed in Power Systems or without much topline growth that seems to have gone up on a year-on-year basis, if you could just explain that?

KN Neelkant: Here it is again a function of the lumpy sales of Power Systems, more than anything else. So by virtue of the sales being shifted from Q3 to Q4, obviously that amount of material is sitting as inventory at our end. So that is one of the reasons why the capital employed is showing a temporary bump. Secondly, we always see from a mindset of the customer point of view that there is a significant rush in the Q4, in the Jan to March Q4, not just for delivery of equipment, but also for clearance of payments which, hence both on our inventory and debtors spread. So I would treat this bump as a transitionary bump, which will be normalized by the end of this financial year. So in fact, the answer is exactly the question you asked, it is not despite lower sales why the capital employed has bumped up, it is due to lower sales, the capital employed has bumped up.

Inderjeet Singh Bhatia: Okay. My second question is slightly longer-term. Now if I look at the margin profile on the EBIT side for Industrial Systems, it is coming very close to a double-digit and it looks like that you might have room for another 100 basis point, 150 basis point expansion. Power Systems business is latest. If I look at the overall amount of profits that we are generating, that's the number close to what we used to generate and maybe part of that is due to very large amount of debt we carry. So is there a two year, three year kind of target that you have in mind, actually what could be the right leverage in the balance sheet. What is the right level of profitability that this company can generate there because currently we are running at about 50 odd crores, 30 crores, 40 crores odd from a positive quarter on a standalone basis.

KN Neelkant: Well, we have two different questions you are asking, one question you are asking is about the improvement of margin or the change in margin profile from what you think.

Inderjeet Singh Bhatia: Sorry, just to clarify, the margin has been discussed a lot, let's assume over a period of time, margin will normalize, further improve, but even if I look at this quarter, we had a fairly decent margin improvement in both the segments. Yet, we are generating profit, what we are right now. So if I look at your interest cost at this point of time, it's bigger than your profits. So is there a some kind of a roadmap that we are talking about, how is overall leverage comes down?

KN Neelkant: All our divestment discussion emanated from this point only, the divestment discussions emanated from a point where two-point things, one, how do we reduce the losses from loss-making subsidiaries, especially outside India. And two, by virtue of the divestment, how can we reduce the debt. So if you really see the delivery in this financial year, in this financial year we had committed to three divestments and today as we speak now, our Spain divestment, US and now Hungary, all three divestments we have delivered. So effectively, this was the roadmap which we have been following on a two pronged approach of one - plug the losses, and two, from the proceeds how to retire the debt. So that is a roadmap which we continue to travel. And I believe that now we have come to cross road, where moving forward into next financial year, we will talk less about divestments and more about the active business.

Inderjeet Singh Bhatia: Okay, so let me just put it this way around that in your assessment, given that all these divestments are pretty much now been done, what is the right level of debt this business can support? At what level you would ideally want to see this overall consolidated debt will be, has there been a divestment of?

V. R. Venkatesh: I mean, essentially you're asking a question within a question. I think you'll appreciate that debt is a function of the topline because debt includes both the short-term as well as long-term. Now, as long as, if I look at the short to medium term horizon, I think the debt will have to only support the working capital needs of the business. So any further increase in debt towards CAPEX related will not be significantly higher. I think the focus needs to be on managing the short-term working capital there. I hope it answers your question because given the variables…

Inderjeet Singh Bhatia: No, I understand. I will take some offline vis-à-vis these questions.

Moderator: Thank you. The next question is from the line of Sanjay Doshi from Reliance Mutual Fund. Please go ahead.

Sanjay Doshi: Sir, first I recollect to clarify a few things, one is on the debt level that you indicated at the end of March 2018, you mentioned net debt of 1,500 crores is expected. Is this after the proceeds from Hungary sale or it is before the proceeds of Hungary sale?

V. R. Venkatesh: It will be after the proceeds of Hungary.

Sanjay Doshi: And that same number would have been around 1,330 odd crores as of March 2017 end. Am I right?

V. R. Venkatesh: Yes.

Sanjay Doshi: Okay. Second, sir, can you help us with any progress on Belgium as an entity? How you are progressing on that whether we are looking to realize some money on that or is it nothing as of now?

KN Neelkant: No, presently, we focus often on divestment of Hungary and the focus on Belgium was to correct the cost structure and reduce the losses or stop the losses from Belgium. So as we speak today, the Belgium losses now for three quarters in a row has been stemmed and Belgium is at a breakeven kind of EBITDA level, so that was the first thing which we wanted to do in Belgium. And with the natural uptick in the business on account of the positive macro movement in Europe, I believe Belgium should as a business do functionally much better going forward. So at this point of time, we had taken a straighter goal of Hungary which we are completing now, so Belgium is, right now not in the envelope of discussions at this point of time over this call.

Sanjay Doshi: Okay, sir and last one thing, sir, just following it upon what Inderjeet was asking earlier, sir we appreciate that last year almost like two years, you've been focusing more on reducing cash infusions and managing debt levels, but in that same process, you would not have been able to invest into businesses where it is required, whether it is new product or capacities, so should we not think that debt levels may find it difficult to come down given that, that phase will now start for you?

KN Neelkant: Well, I differ from the conclusion you have drawn, so let me clarify, probably it was, I should have clarified it much better earlier, so that you need not. Let me give you some examples. There is no new product development which we have stopped on account of want of capital for our businesses. So, this order of 107 crores of IE3 which we mentioned, unless we had consistently invested towards ramping up the efficiency of the motors, we wouldn't have been ready for this tender and not just being ready, but it has been proved that we are better than any of the peers in India when it comes to our higher efficiency levels. So any kind of development cost, any kind of R&D cost has been done here, that is example one. Example two, for the first time ever PGCIL has accepted bushings from a manufacturer in India for its 765 KV transformers and those bushings have been manufactured by us in our Nasik plant, the 765 KV OIP bushings. So again, this was a development to the cycle time of over one year, so we have not stopped and this was part of the Make in India initiative. Third, Nuclear Power Corporation wanted to indigenize the motors which were put in the nuclear dome. So there again, we co-developed a motor with the manufacturer. Each of these items I'm talking about is the high impact, high unit price and high volume in the future kind of a gain and this motor for NPCL again has been developed by us in coordination with a cycle time of more than two years. So, there is no place where either for new product development or capacity debottlenecking has restricted ourselves in any of our business. Routine CAPEX to the extent of whatever is required, like I mentioned earlier, that distribution transformer business, a significant amount of money we are putting it there. Indonesia, a kind of growth, which Indonesia is showing wouldn't have been possible without investments of capacity enhancements. So let us not mix up these two things. Yes, that is a challenge, that is the roadmap which is planned for trimming down the debt and ultimately, as Venkatesh was mentioning at some point of time bring the debt to a requirement of the working capital and at no point of time is that hampering our new product development, capacity enhancements or any other operational requirement of the book.

Moderator: Thank you very much. Due to time constraints, we'll take that as the last question. I now hand the conference back to Mr. Neelkant for closing comments.

KN Neelkant: Thank you so much, everyone. Thank you for your time and look forward towards clarifying you, meeting you on a one-to-one or wherever we meet and actually, I came to know only when the call started today that it's a holiday for you guys. So I'm sorry for pulling you away from Maha Shivaratri holiday. Thank you and see you soon.

Moderator: Thank you very much. On behalf of CG Power and Industrial Solutions Limited, that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.