

Crompton Greaves Limited
Q2 FY 2017 Earnings Conference Call
December 08, 2016

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q2 FY 2017 Crompton Greaves Conference 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. Please note that this conference is being recorded.

I now hand the conference over to Mr. K. N. Neelkant - MD and CEO of Crompton Greaves. Thank you and over to you, Sir!

K. N. Neelkant: Good morning, everybody. Thank you for joining. I know that there would be multiple agenda in the call today. So I will start from the performance and then move on to the update on ZIV, and then finally, the last session we can keep for the Spear deal, FR deal, in which we were talking about the international T&D Business.

This quarter, first, if I start with the P&L, I will start with India standalone and continuing on the momentum over the last couple of quarters, Q2 has also been strong in terms of the numbers. It has been a steady one and an encouraging one. If I break it up into segmental description, let me start with the Power System business in India.

Power System, you would recollect that in Q1 optically their growth numbers were looking exorbitantly high where I had mentioned about the lower pace of Q1 in the preceding year. So now, I will talk about the half-year so that these spikes and the troughs have been evened out and it will be a good comparison to compare H1 of FY 2017 versus H1 of FY 2016. This half-year, Power System standalone revenue was Rs. 1,343 crores, which is a reflection of 21% growth over the corresponding period last year. This half-year, Power System standalone revenue was Rs. 1,343 crores, which is a reflection of 21% growth over the corresponding period last year. So it has been a good quarter on those terms, and since we are comparing on similar grounds on a steady-state basis also this level of revenue should be sustainable.

On the margin side, the EBITDA was close to 8.2% for the half-year. On quarterly basis, if you see the EBIT itself for Power Systems, it is 8.1%; this reflect the substantial improvement on the EBITDA levels for Power System which has been a query in the earlier calls from your end. We had mentioned to you earlier about choosing the right orders and bringing in operational efficiency and this improvement in the bottom-line is a reflection of the effect of the

corrective measures, which we have brought in. The unexecuted order book is also looking reasonably decent. It is at about a shade more than Rs. 2,500 crores of Power System, which represents approximately 10 months of executable revenue.

Overall, I would say that despite some pressure in the transformer pricing, the numbers are fair to expect steady state operations for the transformer business.

The switchgear business also similarly, it has been reasonably doing well and there is a significant improvement in the margins of the switchgear business also which has overall improved the, so the correction in the Power System margin has been contributed more or less equally by both transformers and switchgear.

In terms of order inflow, we are in the same bucket where everyone else in the segment is. So overall, while CG India has shown a good growth of about 14%, the Power System is in flat single-digit kind of a growth. The order input of H1 for Power System showed a modest increase of about 2% over corresponding period last year.

Coming to the Industrial Systems business, it continues now to outperform the market with revenue of about Rs. 973 crores for the half-year; it is a growth of 14% over H1 last year. Industrial System did not have a low base - high base problem in the preceding year, so it is also fair to compare Q2-on-Q2 numbers, which would show a 17% growth.

So, the growth curve of Industrial System continues its momentum where it took off about four quarters back and I would say that it is significantly outperforming the market.

On the margin side, we are at about close to 13% EBITDA now on the Industrial System business and on the Industrial System business, the corrective actions had already been taken earlier, so this improvement in the margins is now coming from the economies of scale, better utilization, and moreover a larger spread of the product portfolio. The order input was significantly high. H1 was a 35% growth for order input for Industrial System over last year.

You all are aware that in industrial input, usually we do not concentrate on the order input because the book-to-bill cycle is pretty small, but here it is interesting to see that the significant portion of the 35% growth has come from our focused segment of railways, which has now clearly started showing results in order inflow and the execution of this would start from end of Q4 this year and continue on to next year. So, this shows a steady state revenue flow going forward from the railway segment. The unexecuted order book is also a healthy jump of 27%. It has moved to Rs. 700 crores over a base of Rs. 550 crores corresponding period last year.

So overall, if you look at India numbers from an operational perspective, it had significantly improved to close to 9%, it would be somewhere about 8.8% - 8.9% for H1. And if I remove

the corporate overheads and other costs which are outside the business then the EBITDA numbers reported for CG India would be about 6.5% - 6.4% to be precise.

So CG India, on the revenue side, 18% growth for corresponding half-year period, all these numbers I am talking, half-year September ending to the corresponding half-year last year 18% growth in revenue. UOB at about Rs. 3500 crore; a share more than Rs. 3500 crores order inflow up by 15% of half-year last year. So this, in a nutshell, is India business where our continued aggression in pursuing new portfolio as well as internally correcting the operational efficiencies is now clearly started showing results.

There would be one more element to just add, the de-monetization effect. So in our business, the de-monetization will not have any effect because ours, as you are aware, it is not a discretionary spent but is a need-based spent. There were small disturbances in terms of deferment of schedules in November, but as we speak now, in December, that has also been evened out. So the de-monetization impact is negligible to nil in the overall scheme of things for CG India standalone.

The second part of the agenda, the ZIV announcement, we had accepted an offer for ZIV divestment, which was announced, to the market. This was on November 7th, this includes the ZIV facility in Spain along with its subsidiaries in businesses in UK, Ireland, and France, as well as the Indian operations of ZIV to complete 100% equity share deal. The deal has been valued at about EUR120 million and it is from Alfanar Electric System (**Alfanar Electrical Systems**), which is a significantly large sized player in the same segment, based out of Saudi Arabia. The timelines for the deal closure has been announced as January 31st and we expect that timeline should be met because considerable progress has been done prior to the binding of our acceptance as well as between the period of 7th November, when we accepted the binding offer till date. I do not foresee any changes in schedule of the ZIV closure as we stand today and look at January 31st as a closure date.

Now we come to the third piece, the Spear deal where we had announced the signing of the share purchase agreement and had announced that October 30th, 2016 is the target date for closure of the deal. Just to refresh memory, there were number of geographies involved in the deal, namely Belgium, Indonesia, Ireland, U.S., and Hungary. And within Hungary also, we were divesting the Transformer business and the Switchgear business, and we are intending to keep the rotating machine business. So, there was also a smaller carved out required within Hungary. When we signed this deal one of the condition precedents the buyer had to fulfill was to arrange the necessary requirement of banking lines as a statutory requirements in all geographies.

In a earlier update call, we had informed that all these had been done except for Hungary, and Hungary was work in process. However, this Hungary arrangement and the fulfillment of the condition precedent of the buyer could not happen by October 30th, so we extended the

date by one month up to November 30th in which we thought that they would be able to do the arrangements. However, they were unable to do the arrangements and we tried to work out some mutually agreeable solution for which we gave a smaller extension of a week. It was intentionally done because if the buyer was unable to fulfill the condition precedent, then we had to call off the deal.

Now in this period of nine months between the SPA signing and today we could not implement any significant changes because it was transitional thing. So, we thought that in the best interest of the overall thing if the deal is not getting stuck on account of Hungary then we might as well call it off and look at it in a different manner.

So considering the extended timelines and the renegotiation of deal not moving through we requested calling off the deal and both parties mutually agreed that the deal will be called off. So as of yesterday, the CG Board took a decision that the deal will be called off.

On the way forward, I am sure there would be some questions coming up, so I will answer those things on the way forward for the international perimeter when your questions come up. But broadly, I can tell you that once we got the request for extension from October 30th date, so for the last two months or slightly more than that, almost three months, we have also been working on an alternate plan, which internally we called it as Plan B.

So, it is not something that we need to start from scratch today to see what needs to be done. Enough homework has been done over the last three months. However, considering that we have made the announcement yesterday and I am yet to make the internal announcements individually to the various businesses there is some amount of sensitivity involved.

But I will take your questions and be as transparent as possible on the way forward what we suggest. So, here I hand it over to your questions.

Moderator: Sir, should we open the floor for question-and-answer? Thank you very much. We will now begin with the Question-and-Answer Session. We have our first question from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Sir, challenging question. So first, as you mentioned, you will elaborate on Plan B. So, if you can start by giving some color on how do we plan to hive-off or turnaround these businesses Europe, Indonesia and Ireland, so all the three buckets. And also aligned with that, if you can give some color on how has the performance of these entities been in the last six - nine months now that they would be continuing with us for some more time, as in a brief picture on the number and financials of these companies, and what is the way forward of knocking them off the books?

K. N. Neelkant:

That pretty much covers it all, Renu. Let me take it from the last question, which you asked. As you rightly said, if you segregate it in different buckets, the Indonesian business continues to perform very well. The Ireland and U.S. business are also continuing to perform reasonably okay. The trouble is in Belgium and Hungary, more trouble in Hungary rather than in Belgium. So, just to give a color to why we called off the deal, if the problem had been in any other geography, we could have relooked and made some other Solution; but if you recollect, the entire problem was Hungary and if Hungary was going to get stuck, there was no point in doing the deal and proceeding with the other geographies. So, that was to give a little bit of background on why the deal had to be called off. Secondly, now you asked me, what is the process you are going to do to turn it around or to divest? There is, the strategic direction of divesting this business still firmly continues there is no change in that. In fact, over the last nine months we have had expressions of interest from people individually for different geographies, which obviously we could not pursue or we could not go ahead in any way in those discussions because we had an exclusivity running with the purchaser or buyer. So we could not do anything. So, the strategic direction of divestment continues. The only change is we would not force fit it this time into one large bucket of multiple geographies because that reduces the number of potential buyers whom we could bring it. And as I had admitted in an earlier call, at that point of time, we force fitted it into one bucket because we thought that one bucket all five geographies would be much easier and faster to do. But contra to what we thought like how things have turned out, it has not happened so. The only caveat I would retain here is, while looking at this individual geographies business, Indonesian business is something which we would carefully relook before divesting whereas the other geographies it is clearly out on the blocks. So here is what we intend to do (A) the various parties who have been in touch with us during this period expressing their interest. That is something we have to get on quickly and see which geographies we are able to divest because now considerable amount of diligence has been done. I hope we have seen all possible problems that would come across in this deal, so we need not commit those same things again in the second round; that is one part of it. Second part of it, internally why I am being slightly choosy with my words is I have not yet had the occasion to speak to my team members yet on this. But internally, we would now look at these businesses as a geography-based SBU rather than a product line based SBU, which is what we were monitoring earlier. So for me, these five businesses Indonesia, Ireland, U.S., Hungary, Belgium, become five different SBUs. Hence, there are two things, which will happen there. One, of course, when we are thinking of divesting it individually that task becomes easier. But (B) the common threads between these businesses a common sales force, common other functions, we would have a re-look at it and quickly in the next few weeks undo those things so that each business is standing on its own. Even today, though those structures exist for all practical purposes Indonesia, U.S., and Ireland are almost independent in nature. The larger ties exist between Hungary and Belgium, which we would undo. That is the first thing, which we would be doing. Second thing which we would be doing, which we actually had in mind even before we signed the SPA was winding down and shutting down some businesses which are the larger holes in

the bucket. However, in view of the SPA being signed and the new buyer wanting to retain those businesses, we could not do anything in the last nine months although we had planned it earlier. But now the deal, since it is called off, we quickly get into action of doing that. And here, let me just analogically bring, there were couple of other businesses, which we had earlier said that we would close it down. This was our Solution Business out of UK, Solution Business out of U.S., which we said we would wind it down by August - September. So as an update we have actually wound it down before the timelines we have set for ourselves. Both those businesses are now totally wound down and only the core team is present, three members or four member's kind of a team to ensure the paperwork. Secondly, the budgeted cost what we had estimated as cost of closure, we did far better than that. This obviously gives us the confidence that when we move to the winding down of certain other businesses within this perimeter now it is doable and doable within a realistic time frame which we set for ourselves.

Renu Baid:

Okay. So which are these businesses, which you will re-think to wind down or shut down? Will this be largely Europe, the Belgium, and the Hungary entities? And what will be the regularly hurdles because closing businesses in Europe is not easy. And if I recollect, for European business, especially Hungarian facility, we had availed capital subsidies from the local government as well. So, if you can throw some color into individually these businesses, which would be on a wind down mode, which would be on a sale off mode and the timelines in mind if you have for them?

K. N. Neelkant:

As you rightly said, the Indonesian, Ireland, and American business are self-sustaining and profitable also. Hence, there is no need to do any tinkering there except to make them sturdier in their own right, make it individually responsible and accountable for its business, and make it operationally more efficient. So, the problems will move to Hungary and Belgium. As I was mentioning the background, large amount of background work has also been towards these statutory requirements, which you mentioned, which we have fairly a good handle on. I would not want to get into specifics of which business we will wind down now. But I will definitely, in three weeks' time once the communication is internally done and we are in a state of readiness and where we can show some progress three weeks' time we will have another call or we will meet together to take you to a granular details. But today at the broader contour line, the Power Transformer business, even in Europe, continues to be profitable. So, there is no reason for me to touch the Power Transformer business. The rotating machine business in Hungary continues to be profitable. There is no need to touch that business. The other businesses, there are some Systems businesses also in Hungary as well as in Belgium. So, those businesses would be the first ones to be re-looked at and slightly contrary to what you said, let us not paint entire Europe with the same brush as far as statutory hurdles are concerned. In fact, Hungarian regulations are far simpler than Belgium regulations from a clinical winding down process point of view, even from a statutory point of view. So, that homework has already been done and that is where I am saying, please do not

push me on that today, but in three weeks' time I will come back to you with exactly the businesses because that is the time I want to internally communicate to our employees, our vendors, because me telling out something here before sensitizing them might lead to all kinds of different disturbances in the larger ecosystem.

Renu Baid: Totally agree sir. Sir one last question if I can ask on debt.

Moderator: Thank you. We have our next question from the line of Harish Bihani from Kotak Securities. Please go ahead.

Harish Bihani: If banking arrangement was the only issue and if extended for one month and further extended for six days, could we have extended it for, say, another two months and could have closed the deal? And related question is related in the sense that, since you are doing a geography based SBUs and not a product based SBUs which means you are doing a factory sale essentially the value of the business that you will get for the factory based sale would be much lesser now. Would that be a correct understanding?

K. N. Neelkant: Let me challenge your second question first. It is not a factory based SBU. In any case, if you take Indonesia for example, Indonesia was standalone for all respects only thing that it was clubbed to a management headquartered out of Belgium and there were certain common functions in terms of supply chain or quality, which existed out of Belgium. So I see no difference in the valuation for whether it, India is a factory-based business. So there is no difference between factories based I just do not understand the factory-based business first. So let me get that out of the way. Secondly, every geography needs a different kind of approach to improve its operational efficiencies. By clubbing together Europe as well as Americas, as well as Southeast Asia, the requisite operating leverages what we could have otherwise got we would not have got it. One example is India was also part of the product line structure till about a year back. Earlier, in Jan of this year, India Power Systems was removed from our product line based business to a country based business and I hope the numbers validate whatever we are talking about in the last ten months. So that is the second part of it where I really do not agree with you. The question which you asked, to see how much we could accommodate them from a time perspective for them to manage the banking lines and bonding lines. Here, the issue of banking line, bonding line was not the primary issue. The issue was, if there had been an extended timeline between closing of the deal for divestment of other units and then subsequently at later date for Hungarian unit, the risk was far higher for us, because we were retaining the largest hole in the bucket and if some other uncertainty had crept in the interim that we would have been left with the worst performing business and all the other better businesses would have been already divested. That was a bigger risk rather than a smaller issue of just managing the bonding lines for few months or few quarters. So, that is why we gave 30 days and then six days to see how we could manage it and obviously, since the intent was clearly to divest, I am sure you will appreciate that whatever efforts could have been made without undermining the value for CG we have made

and then at some point of time when we felt that the risks involved were too different, well they are looking different now than what it was nine months back, we did not want to pass on those risks to CG for the future. So, that is where this deal broke off.

Harish Bihani:

Quick two questions. One, what does the loss number estimated from these businesses for this particular fiscal year? If I remember correctly, for the past two years the losses were upwards of 5 billion. And on ZIV, our timeline once again to an outsider looks like something, which is too tight given that we announced the deal in November and we will close in January. So is there any kind of incident that we should be aware of that may hinder the deal?

K. N. Neelkant:

I agree with you. ZIV timeline optically looks extremely squeezed between November and January closing. It was intentionally done by both parties, reason being that if the new buyer wanted to take over the operations, he did not want the organization to be in limbo during the transition period. So the urgency was from their end as well as from our end. Having said that, though we could announce to the market about the binding offer only once the binding offer was signed. But that does not take away the timeline between May of this year and November of this year, when we had been having intense discussions with this buyer on various things and one of our precondition for ourselves not for the buyer was that the buyer should sign off that the due diligence home work has been done along with the binding offer which is what gives us the confidence to talk about January 31st as a timeline. But having said that I appreciate where your question is coming from, so I will not stress upon the timeline of ZIV because ultimately now the proof of the pudding will be in eating; so we will close the ZIV deal and talk rather than me waste your time and my time just re-stressing about the closing of ZIV. Coming back to the other question of the spread of the numbers and the expectation of losses, I would request again that these numbers I will come back to you in three weeks time in more granular fashion because there are some things to be done which would significantly change the contours of these losses. Today, it is too premature for me to talk about it; but there are certain things which we are planned and certain numbers which we have low-hanging fruits which can immediately be plucked; like for instance, a single action in Hungary would plug a 4 million whole in the bucket for the year. So that is the kind of action. So that is what instead of me talking about conceptual things today what we are saying is there are three different activities, which are going to be done as part of Plan B. One part of it is, continue the divestment process. One part of it is the profitable businesses in Indonesia and the other profitable geographies continue to explore the operating efficiencies, how we can leverage that, and how we can de-bundle them from a larger bureaucratic system and three, winding down, shutting down of certain businesses which are kind of low-hanging fruits.

Harish Bihani:

Sure, sir. And is it safe to assume that it will take one year for the entire deal to close?

K. N. Neelkant:

I do not want to speculate on the timeline.

Moderator: Thank you. We have our next question from the line of Bhavin Vithlani from Axis Capital. Please go ahead.

Bhavin Vithlani: So I have a question which is in March 2016 fiscal year it shows that Rs. 500 crores of losses from the discontinued operations. So, if you could help me break this up further or correct me if I am wrong, this Rs. 200 crore - Rs. 220 crore was losses which is the systems business which you mentioned that you have already closed down. This also included about Rs. 75 crores - Rs. 76 crores profit from the Indonesian operations which leaves at about Rs. 340 crores of losses for the Belgium, Hungary, and the other European American piece and that, when I look at the first-half performance this number has come down to an annualized number of Rs. 240 crores. So, if you can help me on these numbers, would be grateful.

K. N. Neelkant: Frankly, Bhavin, I did not get your question in entirety.

Bhavin Vithlani: Sir, what I am looking for is the businesses in the European which is the Power Gen which we are trying to sell that deal has not now gone through. I wanted to know the extent of losses in that perimeter last year and the first-half. So what I arrive at is Rs. 340 crores in fiscal 2016 and Rs. 240 crores annualized numbers in the first-half of this fiscal.

Madhav Acharya: Okay. Bhavin, Madhav here. I think what we will have to do is we will have to sit down with you geography-by-geography. And as Neel said, we are doing some work in trying to exactly assess and trying to catch some low hanging fruits to be able to arrive at the right kind of sustainable numbers for this year. So I guess, once we do that, we can get back to you again reasonably quickly and give you more possible details.

Bhavin Vithlani: Or maybe if you could help, what was the System Business losses last year and in the first half of this fiscal which has been wound off?

Madhav Acharya: There has been significant saving on the system losses. Last year, as we have told you, approximately almost Rs. 200 crores was the loss approximately, last year. I think this year the loss will be significantly lower than last year.

Bhavin Vithlani: So what is the first-half number?

Madhav Acharya: The first-half number for the Systems Business, the shutdown business, as we speak about was around Rs. 20 crores.

Bhavin Vithlani: Okay. The second question is, let us assume that you will have to continue run the factory, it is a hypothetical question then we know that Crompton has been making transformers since seven decades so, basically what I would like to know is in these businesses, there were some quality related issues execution related issues which you have been in this business for a

while. So, what is it that if you correct it and these losses can be brought down in a big way, I want a qualitative answers on this, if you could throw more light on this.

K. N. Neelkant:

Let me do that. First of all, let us understand the business. There was a run for a top-line growth outside India also. Hence, we went into an aggressive posture in a couple of segments where as you rightly said, we have been making transformers for seven decades, but the kind of transformer for these applications was new to us at that point of time and it also coincided with the shift of operations from Belgium to Hungary. So in the run for top-line growth, Crompton's specialty both in India as well as internationally are the large Transformers, Large Power Transformers. But in the quest for top-line, we also looked at smaller distribution transformers as well as special application transformer. This is where the quality issues which you speak of actually came in, in the special application transformer and the margin pressure leading to losses came from the run for distribution transformers. So in the revised scenario, we will be concentrating on what we do best that is the Large Power Transformers. There will not be a chase for top-line growth. It will be more of a chase for correcting the bottom-line. Hence, if you do not want do not have to do give away some top-line for the sake of not doing Smaller Transformer Business that will be the other call. Third, since we have already stopped those special application businesses a year back the quality issues which we had faced earlier that is not a continuous thing but that is stemmed at that point of time.

Bhavin Vithlani:

And my last question is we have seen in the standalone results a significant increase in the debt in the first-half. So, if you could throw more light and how do we see this going ahead?

Madhav Acharya:

Okay. Bhavin, Madhav here. The way you have to look at the standalone debt is not just as a standalone debt, you have to look at the net debt and also the implications of the net debt vis-à-vis our overseas businesses, where as you know we have been funding our overseas businesses through India debt and also there were certain capital commitments on the overseas business on account of certain historical liabilities which were part of the transition with First Reserve, so which is why the debt has gone up by around Rs. 300 crores on a net basis. And this primarily utilize, if you see the numbers, the net debt in overseas business is down by Rs. 150 crores and the balance has been utilized primarily to pay down some old settlements.

Bhavin Vithlani:

Okay. So in the standalone business, in the other income you would be reporting interest income, so what is that part of the interest income where loans given to subsidiaries which gets knocked off in consolidation?

Madhav Acharya:

Correct. So there are a couple of things here, one is the amount of treasury income we have also borrowed some amount of money in this quarter primarily, because there are certain payouts that are coming up in the overseas business. So there is treasury income on that and also, we had some non-productive real estate which we have sold-off, not very large, and that is what has given as other income.

- Bhavin Vithlani:** So, if you could quantify the income which is coming from loans and the treasury to the support....
- Madhav Acharya:** See, largely if I look at the India other income, approximately Rs. 17 crores in this quarter has come from real estate.
- Bhavin Vithlani:** Okay. So I mean, we saw last year Rs. 125 crores as interest income from loans to subsidiary, that run rate continues?
- Madhav Acharya:** That run rate continues because whatever we have given now, the fresh that we have given we have to get interest on that. So in consolidation it will get knocked off for India it will be there.
- Moderator:** Thank you. We have our next question from the line of Venkatesh B. from Citigroup. Please go ahead.
- Venkatesh B.:** Sir, if I actually look at your numbers and if I subtract out the standalone numbers from the consolidated numbers I believe all the international power transformer businesses, which you are trying to sell, where the deal has fallen through, is part of the discontinued operations, am I correct?
- K. N. Neelkant:** Yes, you are right. The five geographies what we spoke about which was part of the FR deal, plus the Systems Businesses which we have wound down now all those put together they form the discontinuing business.
- Venkatesh B.:** Okay. Now when we subtract the consolidated minus the standalone numbers we get a loss, which is around Rs. 63 crores at the PAT level for the international side of the business. Now, when I look at your notes to accounts, I see that the B2B automation business on a consolidated basis has a loss of around Rs. 20 crores. So, what is that remaining Rs. 43 crores of loss, which is coming from the international where is it coming from? What other businesses are there which is contributing to this loss? Basically what I have done is, from the consolidated numbers I have subtracted out the standalone numbers and if I look at the continuing business losses, it is showing up at Rs. 63 crores whereas the B2B automation is around which is provided in the notes to account in number three, the loss number which is given is around Rs. 20 crores. So, what is that remaining Rs. 40 crores? What other businesses is there which is giving you this loss?
- Madhav Acharya:** Venkatesh, Madhav here. Let me take this. I am not too sure if I understand you correctly. I presume you are looking at the quarter numbers, is that right?
- Venkatesh B.:** Yes.

- Madhav Acharya:** No. So, my numbers are slightly different. I do not know which numbers you are exactly referring to. The consol that I have for the quarter we have a total consolidated loss of Rs. 10 crores at PAT level, is that right, you have the same number, right? The continuing business you have a loss of Rs. 10 crores consolidated basis. No, that includes discontinued. So total loss....
- Venkatesh B.:** is Rs. 26 crores.
- Madhav Acharya:** That is the profit.
- Venkatesh B.:** Yeah, that is the profit.
- Madhav Acharya:** That is the profit on a consolidated basis for the continuing business, right?
- Venkatesh B.:** Yeah.
- Madhav Acharya:** Okay. So, sorry, if you can just help me with the question please?
- Venkatesh B.:** Yes, Rs. 26 crores minus I think your standalone business profit is around Rs. 89 crores or Rs. 90 crores or something like that.
- Madhav Acharya:** That is right, yeah.
- Venkatesh B.:** So when I subtract the two I am getting Rs. 63 crores. So what contributes to the Rs. 63 crores? The B2B automation contributes around Rs. 20 crores losses, which you are actually showing in your notes to accounts, what is the remaining Rs. 40 crores loss?
- Madhav Acharya:** Yeah, I think I understand your question a little bit. The point is because of the intercompany elimination, okay, we charge interest from here to our overseas subsidiaries which gets into our other income but that gets knocked off. So if you see the other income on a consolidated basis, it is only Rs. 50 crores whereas other income here is Rs. 69 crores. So you will have to factor that into account, okay. Then there is the interest cost on the overseas subsidiaries, if you look at the finance cost, it is Rs. 44 crores versus Rs. 35 crores here. So you have to add that back. So you have to factor those things into account, and that will explain the losses. It is not the business loss but the consolidation effects that are coming in.
- Venkatesh B.:** Okay, understood. Now on a related note, this ZIV sale, you are supposed to get around EUR120 million or so, right?
- Madhav Acharya:** That is correct.
- Venkatesh B.:** Now this is like, you know, you will get paid EUR120 million from the buyer immediately as soon as the deal closes in January 31st, is it?

Madhav Acharya: Yes.

K. N. Neelkant: That is right.

Venkatesh B.: Okay. Now ZIV in itself, this business which you are trying to sell, does it have any debt on it?

Madhav Acharya: There is a debt on ZIV. There is a debt of approximately EUR85 million on ZIV, okay. The balance money also will be used to pay down the debt.

Venkatesh B.: Okay. So when you are actually giving us this EUR120 million number, you are actually giving the equity value you are not giving the EV....

Madhav Acharya: We are giving you the EV. It is a debt free, cash free deal, okay. The enterprise value is EUR120 million. That is the money we will get. Out of that money, we will pay down the debt.

Venkatesh B.: Okay. You will pay down the debt. In the sense that, that debt EUR85 million which is sitting on ZIV is actually the money which the Crompton Greaves standalone business has actually given to ZIV, am I right?

Madhav Acharya: Either we have given the money from here or we have borrowed money from the banks, okay, either way, that is a debt, which is pertaining to that specific perimeter. So moment we get the EUR120 million, we will pay down that EUR85 million debt and the balance EUR35 million also we will pay down. Let me also add here that this is a cash free, debt free deal. So whatever is the cash that is available in the ZIV perimeter, okay, will also come to us.

Venkatesh B.: Okay. Som how much is the cash in the ZIV perimeter?

Madhav Acharya: Look; cash number can change, as you will appreciate, on a daily basis. It can move anywhere between EUR5 million and EUR7 million to EUR10 million.

Venkatesh B.: Okay. No, so what I am trying to understand, as soon as ZIV gets sold, it is not like you get a bump up of EUR120 million, you actually get a bump up of only EUR120 million minus EUR85 million?

Madhav Acharya: We will get a cash of EUR120 million plus the cash in the perimeter. Let us assume for the sake of argument it is EUR10 million, so we get EUR130 million of cash. That cash we have an option of using it and our option as of now is to pay down the debt.

Venkatesh B.: Okay. Now the other question is, when I look at your standalone balance sheet on the asset side, there is something called loans, which is around Rs. 1,305 crores, okay. Now, this I assume is the support that is going out from the standalone business to all the international subsidiaries, partly to ZIV, which is going to get sold, partly to the transformer business. Can

you actually give us a split of this? How much is going into ZIV and how much is going into the other business, Power Transformers?

Madhav Acharya:

Okay. Now, as you would appreciate, this is a number on a given date and this is not going in this quarter but it is the historical sum of all the amounts. So like, we have been borrowing money in the overseas business, then we have been borrowing in India and paying down the overseas debt because of the availability of liquidity at different places plus there is some amount of money that has gone from India. So just to tell you, this is our position on a given date which is the effect of cumulation over a period of time, right. So if you recollect the earlier calls that we have had in the month of March we had taken a description of sustainable loans and advanced position and everything else we had impaired. So we have taken a very large impairment in the month of March, okay. As of now we have Rs. 1,300 crores of loans in advances in the balance sheet of CG India, which we believe is sustainable, okay.

Venkatesh B.:

Okay. Sir, one last question from me which is on the standalone business. In this quarter, if you look at the EBITDA margins with all the businesses put together, it is around 7% - 7.3% or so. Now, are these margins sustainable going forward? I mean, can we maintain at a standalone level 7% kind of margins?

K. N. Neelkant:

If you will map the margin improvement across the various quarters, you would see a quarter-on-quarter growth on the margin percentage every quarter in the last three-four quarters. This, in fact, on the conservative side, I would say that this level of margin is sustainable but in reality, this should continue the quarter-on-quarter growth what we have been showing in the last few quarters should continue may be not bumping wise, but incrementally.

Venkatesh B.:

Okay. Sir, is it possible to give the inflow and backlog numbers, business break-up wise, standalone, international, consolidated, which you normally give. Can you give that data, end of second quarter?

K. N. Neelkant:

Yes, of course, we can give that. In fact I went through those for standalone India. So the, order inflow for standalone India for the half-year was Rs. 2,644 crores which is a 15% growth over corresponding H1 last year. That is the order input growth. What else did you want?

Venkatesh B.:

For the International and also backlog data?

K. N. Neelkant:

The backlog for standalone CG India completely put together is Rs. 3,541 crores.

Venkatesh B.:

Okay, which is a growth of?

K. N. Neelkant:

No, the backlog has not grown; the backlog is almost flat.

- Venkatesh B.:** Okay. And for the international business, sir?
- K. N. Neelkant:** I do not have it readily with me. will you send it separately.
- Venkatesh B.:** Sir, it is okay. I mean if you do not have it, it is okay. Thank you.
- Moderator:** Thank you. We have our next question from the line of Ankur Sharma from Motilal Oswal Securities. Please go ahead.
- Ankur Sharma:** Just one question. When I look at your consolidated P&L the loss from discontinued operations in the first-half is close to about Rs. 87 odd crores. So, you did mention that you are going to be taking quite a few steps to bring this number down. But in a worst case scenario, this is pretty much the maximum loss we can have in the second-half of 2017, is that a fair assumption?
- K. N. Neelkant:** That is a fair assumption and an upside to it would be, if we are able to adhere to the ZIV, that amount of losses which is appearing here, means that will move, okay, this you are talking only about discontinuing operations. It is a fair assessment.
- Moderator:** Thank you. We have our next question from the line of Manish Jha from Copal Amba. Please go ahead.
- Manish Jha:** Now, first question would be, since this Spear deal has been called off yesterday, right. In the last call you said that, the amount which we are going to receive from this would make Crompton a net cash zero from a net cash positive situation, right. So, how do we see that now this deal has been called off?
- Madhav Acharya:** Yes. So, Manish, to answer to your question, if I look at the possibility of going through with the ZIV deal and with Spear deal having being called off and the cash that we have my own estimate is that by March 2017 we should have a net debt on the books of CG consolidated at approximately Rs. 250 crores.
- Manish Jha:** Okay. My second question would be a book keeping question. Can I just have the order book status both on a consol and standalone for domestic and international on the segmental wise as in Power Systems and Industrial Systems for the quarter Q2? If we can have those numbers on a quarterly spilt basis?
- K. N. Neelkant:** You want the order inflow or you want the backlog?
- Manish Jha:** The order inflow.
- K. N. Neelkant:** So order inflow, as I was replying to him earlier; overall, it is Rs. 2,644 crores for the half-year ended September 2016 and if you want the break-up between Power Systems and Industrial

Systems. Power System, the order inflow was flattish. In Q2, it was about Rs. 690 crores and H1 it was Rs. 1,420 crores. So, Rs. 1,420 crores of Power Systems and Rs. 1,220 crores of Industrial Systems.

Moderator: Thank you. We take our last question from the line of Ankush Mahajan from Edelweiss. Please go ahead.

Ankush Mahajan: Sir, can you throw some light on the domestic business especially for transformer, Power Transformers? How do you see the demand for next one, two years and the competition especially demand from the states and under two schemes IPDS and Deen Dayal Upadhyaya Yojana?

K. N. Neelkant: First of all, as I mentioned earlier, the executable value is sustainable for the next ten months. That is one part of it. Second part of it, we have been able to be successful at least maintaining a single-digits although small single-digit growth in order inflow, but the overall order inflow has been more than the sales growth so that UOB status just shakes a little bit upward on a CG India overall business. Transformer pricing, in my view now it has the bottoming has been, I think, over except for one or two stray cases where the pressure still continues, but the bottoming is still lower. Answering your question on the state utilities, I have always maintained that the IPDS scheme, UDAY scheme, is a desirable tailwind but my projections do not include the IPDS tailwind coming in so, that will be an upside for us. What I see in the market, the states are preparing for IPDS, preparing for boosting the requirement we pulled in. But having said that, the real action in terms of tendering I am yet to witness it from any major quantity from any state.

Moderator: Thank you. I now hand the conference over to Mr. Neelkant for closing comments.

K. N. Neelkant: Thank you so much, everyone, for being there. As I mentioned earlier, I will connect back with you tentatively three weeks from now to give you more details about the action which has been done for Spear and more granular action plan which I am sure you all will desire. So I will see you in three weeks but till then thank you so much for being on the call.

Moderator: Ladies and gentlemen that concludes this conference. Thank you for joining us and you may now disconnect your lines.