

Crompton Greaves Limited
Q3 FY 2017 Earnings Conference Call
February 10, 2017

Moderator: Ladies and Gentlemen, thank you for patiently holding. We have the line for the management connected. Over to you all.

K. N. Neelkant: Good evening, everyone. Thank you for joining us on this Third Quarter Earnings Call for FY 2016, FY 2017 for **CG Power and Industrial Solutions Limited**. So, this is the first quarter when we are using the new name, though we are still awaiting the ROC approval, I think it is prudent enough to start, familiarizing ourselves in this new name of CG Power and Industrial Solutions Limited.

So, I will start with the P&L performance first, and then we will speak about the other updates, and on this I will speak both about the Q3 as well as the Y-T-D Q3 performance.

This quarter as well as the nine months ending December 2016 has been a steady and encouraging one for CG standalone India. So, let me first at the headline give you the numbers at CG India standalone level.

This quarter, we did a sales of Rs. 1,160 crores which is a double-digit growth, 10.2% growth over the Q3 of last year. Y-T-D, we have done Rs. 3,477 crores which reflects a growth of a shade over 15% over Y-T-D last year.

So, keeping modesty aside, I would say that these are good numbers compared to the peers as well as considering the environment scenario in this country.

Order input, we are at Rs. 1,220 crores for Q3, which is a 19% growth over Q3 last year. And at Y-T-D December, we are at Rs. 3,826 crores, which is a 16% growth over Y-T-D nine months last year.

EBITDA for Q3 is at 6.6% for the Company, which is a growth of about 28% from Q3 last year. Absolute number wise we are at Rs. 77 crores of EBITDA for Q3, which corresponds to a cumulative Rs. 226 crores EBITDA for the nine months ending December.

At the segmental level, obviously, the EBITDA margins were significantly better because at purely business operation level if I remove the corporates overhead, the other non-operating income, and look at purely the operational performance which you can see from the

segmental EBIT calculations also the EBITDA will correspond to approximately 12.2% for the Company.

If I were to give a little bit more granularity, power systems standalone revenue grew by about 5.6% over Q3 last year. Absolute number of Rs. 636 crores for this quarter and at Y-T-D, it is 15.4% growth over corresponding period last year with Rs. 1,980 crores.

Margins side, the EBITDA for power system would be close to about 12% for Q3 and on Y-T-D basis the EBIT would be about 7.8%. So, overall for both Q3 and Y-T-D reflects a substantial improvement and this reflects the performance efficiency initiatives which we have been talking over the last few quarters and which had been yielding results incrementally and now finally coming to the double digit's zone.

So, this was both about the performance initiatives, efficiency initiatives, the marketing strategy, and the good execution combined with the right order picking from the market.

So, I believe that these levels are sustainable and should continue as we go forward in the power systems business. The unexecuted order book for power system standalone in India in fact Rs. 2,531 crores which would roughly correspond to about 10 months to 11 months of executable revenue.

In terms of order input for the quarter, power systems trader book a shade less than Rs. 600 crores which is Rs. 597 crores which shows a growth of about 6% over Q3 last year.

Moving on to industrial system. Industrial systems continues with momentum, which has been showing over the last I would now say about five quarters to six quarters and it continues to outperform the market.

In Q3 this year now, we have shown growth of 16.2%, Rs. 524 crores of revenue which reflects into Rs. 1,497 crores of revenue for the period ending nine months ending December and corresponds to 14.8% growth over the corresponding period last year.

At the margin side for industrial system, we are at about 12.2% EBITDA and the order inflow is at 36% growth over Q3 last year which is a phenomenal performance I would say by any standard.

On the revenue side, which I mentioned Rs. 1,160 crores is CG overall. Just we repeat what I said earlier for Q3 and order input at 1221

From here, from India, if I move on to the activities happening outside India let me talk about ZIV first. After our last call, we had informed that the ZIV deal was progressing well. We had spoken about a target of January 31st for expected date for completion of deal which was an aggressive target by itself. Right now, we are in the last mile discussions in this deal and as

you are aware in these kinds of complex deals certain things have its own process time and as the process progresses we will be sharing further announcements on it.

On the other operations outside India, in last call we had talked about the realignment of the power business outside India. I am happy to share with you that most of the initiatives that we spoke about last time including converting this into geography-based structure, which are basically five geographies, Belgium, Hungary, Ireland, Indonesia, and U.S. So, these are now made independent geography-based businesses that also means that there is no duplication of corporate structure in India and outside India. So, these five geographies will have five PL heads or if you may you can call them CEOs of the respective geographies reporting directly into India.

So with that correction in place and certain other realignments in each of these geographies in place, we continue to aggressively pursue the divestment opportunities continue to talk to multiple people but at this stage, those talks are at various levels which is not sufficient enough to make a public announcement. I can answer your specific queries if any but there is no generic announcement on the same.

The write down of the solutions business in the U.S., UK which we also spoke about now that is completed and now it is only the residual affairs the final tying up of the loose ends which is there so, the structure dismantling is completed, the operation dismantling is completed. So, the power solutions in UK as well as the power solutions in U.S. right now is in the final stages of what would I say is maintenance of the final statutory and other obligation. So, the projects have been completed and I can fairly now say that we are out of that business.

Now, with all these happening, moving out of a complex product line, geography-based matrix to a pure geography-based structure, it has created an opportunity of overhead reduction for the entire business. I would not like to talk about specifics numbers of this reduction but as we move forward and in these reduction, these savings start getting actualized you will yourself see it in the numbers being reflected.

Having said that, now I will leave it open to questions if any from all of you Thank you so much.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. Next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Sir, my first question is after the divestment and reorganizing the business in five segments can you throw some insight with respect to the net loss from discontinuing operations, how is it stacked up across the five geographies which are the profit-making entities, and what are the Y-T-D numbers in these businesses looking like?

Management:

Sure I will ask Madhav take that call.

Madhav Acharya:

So, Renu, just to give you the December quarter numbers I am sure you would remember the significant losses that we used to have in the power T&D overseas business and the system and solution businesses. I am very happy to say that for the quarter of December 2016, the systems, and solutions as Neel rightly said is at the verge of the final touchdown in terms of closing of the operational issues. We are only at Rs. 2 crore loss in this particular quarter on systems and solution and on the T&D where you sound like Rs. 100 plus cores loss we only have 28 crores loss this quarter which also is now gradually winding down. So clearly, just to give you comparative numbers in September 2016, we had a loss of Rs. 62 crores in T&D overseas and Rs. 24 crore loss in systems and solution overseas. So, you can clearly see a very sharp improvement coming in here as we had planned. I hope that answer your question, Renu?

Renu Baid:

And how do these numbers look, why essentially one has to look the incremental support that India has to give for these geographies for sustaining shutdown, closedown, however you want to do it or divest? What is the kind of support required from India to these entities, in terms of loans, advances or other working capital requirements?

K. N. Neelkant:

Renu, in that our earlier stated of strategy of the businesses outside India has to sustain itself that does not change. So, the support from India, we had said that we would not need any support or give minimal support from India to these businesses and these businesses have to sustain itself. So, by operational turnaround of these businesses will contribute to the support required for those businesses. It is also the proceeds from some of these divestments which is now in the last mile which will also contributing to our support of these businesses. So, that continues to be our stated position and there will be no change in that position.

Renu Baid:

No, but I think you are planning to use the proceeds for repayment of the debt, the long-term debt that is sitting on the books which were there for acquisition of ZIV and others, so I was wanting to ask with respect to how would we be funding the working capital requirements because the entities are making losses. If aligned with this you can give some picture on what is the gross debt on books today?

K. N. Neelkant:

I got your question, Renu. So, earlier when we were speaking about the spear transaction, entire process for spear was being used to retire their completed outside India and because that was zero sum deal, and we had to make the company debt free to do away with it. In today scenario when we are talking about the spear divestment not in totality but some divestment which include ZIV which is in the last stage of conversation right now we would have an opportunity with stagger debt repayment over this which in itself makes sense because of the cost of capital of that debt is lower than the cost of capital otherwise if we raise the money in India. So, we have the opportunity of the staggering debt repayment

which is different from the situation earlier we had that if the spear had been divested in totality we would have had to also repay the debts in totality.

Renu Baid: So, your end how are we looking at the debt positions to look like and just to understand how would the proceeds from ZIV be used? What portion of debt are we looking to repay what am the portion are to remain on books and what is the current debt on books that we have along with the cash?

K. N. Neelkant: So, Renu, I will give you the debt numbers today.

Renu Baid: Gross debt and net debt.

K. N. Neelkant: Yeah, I will give you gross debt, no problem. The overall debt overseas outside of India is approximately €175 million and as you know that the ZIV deal is going to give approximately €120 million to us. So, we will be using the entire amount of proceeds for pay out of the debt. That will significantly reduce our debt and €55 million debt over the entire almost more than €500 million plus of business is a very sustainable debt level still we look at other proceeds. So, therefore we will be doing with the debt outside of India.

Renu Baid: Okay. And sir, my last question pertains to the operation performance in this particular quarter. If you look at the subs level the losses have significantly increased essentially coming in from the industrial systems business. So, if you can throw some highlight that despite standalone numbers looking well losses in the continuing international subs have increased. So, any insight on that?

K. N. Neelkant: Yeah. It is only one operation of Hungary, Renu. Hungary amongst all these divestment talk and other things and we have discussed this earlier the industrial business being part a larger complex in Hungary entire Hungarian operations had come to a standstill and hence, there was no revenue and hence, there were losses in Hungary that is the only thing. This is not something which worries me because it is only a question of timing. In fact, in the last quarter as well as it is too early, I will speak about in Q4. Hungary has been able to take some relatively very good orders which once this cloud had cleared now spear transaction and other things, Hungarian industrial operation should come back on track. That is the only thing which is distorting the console figure of industrial system vis-à-vis the standalone figure.

Renu Baid: Okay. So, there is nothing exceptional or one time in the Rs. 11 crores of EBIT loss setting in international books?

K. N. Neelkant: Nothing at all, it is an absolute loss of revenue from the Hungarian operations, which did almost nothing in 3Q.

Moderator: Thank you. We take the next question from the line of Pawan Parakh from HDFC Securities. Please go ahead.

Pawan Parakh: Sir, the reported or losses from discontinued operation is about Rs. 68 crores and you said that the India operation has a loss of Rs. 29 crores and then U.S., UK solution which is Rs. 2 crores, so the balance loss is there from ZIV, is that the right understanding?

Madhav Acharya: Okay, let me take this one. No, it is not from ZIV. If you look at the India numbers also if you will find the loss from discontinued operation, okay. So, what has happened is there have been some receivables on account of Jalgaon and as you know, we have been in discussions with the MSCDCL for settlement for Jalgaon outstanding. There are some intellectual property which was there on our books which we believe may not be a part of the settlement. So, we have taken impairment of that.

Pawan Parakh: What would be the quantum for that?

Madhav Acharya: About Rs. 28 crore, Rs. 29 crores.

Pawan Parakh: Okay, Rs. 28 crores to Rs. 29 crores.

Madhav Acharya: Yeah, as there any India numbers if you see there is a loss from discontinued operations which is coming there.

Pawan Parakh: Okay. In the standalone business, tax is negative?

Madhav Acharya: Yeah.

K. N. Neelkant: I think it is a good thing, right.

Pawan Parakh: Yeah, but how come it is negative? Is there any note I missed it?

K. N. Neelkant: No. So, if you recollect in the quarter ending March 2015, we are at a sizeable impairment of our loans advances and some amount of equity of the company. Now those write offs actually qualify for tax cut off, so as a result we are ending up into match. So, we are able to pull back a sizeable amount of excess provisions that we have done in the earlier quarter on account of taxes.

Pawan Parakh: Okay. And sir industrial business had done fairly well for us I mean if we see standalone industrial business. So, what is the outlook there going ahead?

K. N. Neelkant: See, this industrial business that is what I said industrial business now it is not a question of one quarter or two quarters but if you go back even six quarters it has been continuously having the forward momentum this forward momentum will continue. There could be a

minor bump on the road in account of commodity price hardening, etc., but as you know industrial systems everything is a short cycle time. So, let us see how the commodity behaves. But for me the positive behavior, the positive momentum of industrial systems is going to continue. There is no reason for to worry about that at all and it is two parts of it. One is of course our standard industrial business motors, etc., and second is a significant increase in the order input contributed by railways which revenue should also start happening from Q1 of next year. The so both of this will only add momentum to the existing performance and I believe industrial system is looking at even better days going forward.

Pawan Parakh: Okay. So, sir in Q3 or nine months what would be the contribution of railways in the industrial business?

Madhav Acharya: In Q3, railways industrial system business, I would have to give a ballpark figure I would not be able to give you an exact figure. But ballpark, it will be a shade less than Rs. 70 crores but that will not be the right benchmark because order input has been for the railways business. For the execution of this orders if you recollect the earlier considerations also would start from Q1 of next year.

Pawan Parakh: Okay. Sir, would it be possible for you to breakdown the balance of the industrial segment into how much is motor and how much is this drives and things like.

K. N. Neelkant: No, we do not do that usually. That level of breakdown, we do not do it, we do it as a level of industrial system but I have given the railway numbers the other large contributor is motor, drives is as you now a nascent business so you can do the math yourself.

Moderator: Thank you. We take the next question from the line of Indrajeet Singh from Macquarie. Please go ahead. Mr. Indrajeet Singh, your line is unmated. Please proceed with your question.

Indrajeet Singh Bhatia: I have two questions. Neelkant mentioned that now we are looking at our overseas businesses in the geographical break-up. Now, from a strategy perspective what happens here, we know you are looking for assets here and monetizing the businesses but in the meanwhile if that does not happen, are we looking to invest into these businesses to make them ongoing concerns and why not consider just shutting them down? So, is there a number at how much capital we are willing to put behind this to make this businesses work, in case, they are not sold?

K. N. Neelkant: First of all, let us not paint the entire outside India business with the same brush. Each of these businesses behaves differently. Our stated intent of divesting these businesses continues. There might be a small change in strategy as far as Indonesia is concerned where we may want to retain that business and it is an ongoing discussion at our end. You may have also seen the press release of significantly large order of \$100 million which we received in

the month of January which is not reflected in Q3 business per se but it will come in the Q4 results. But apart from that, our strategy of divestment continues. I strongly believe that the geographical separation would give benefit on both fronts. When I say both fronts; one, the operational turnaround as well as the ability to divest these businesses, the reason why I say this is by breaking it down geographically we are disconnecting any kind of gross subsidy, each business is seen in its own merit, each business is recalibrating its own cost structure to sustain its own business, that is from the operational point of view. From a divestment point of view, there are very few buyers in this world who will have the bandwidth to buy something from Indonesia to use. So, when we breakdown the businesses geographically, I think we are increasing the potential number of buyers who are in each of these geographies and we are already seeing signs of it. Significant amount of interest has come from each of the geographies. So, just to summarize intent of divesting continues. Indonesia is something with an asterisk mark otherwise all the other businesses strategy does not change. There is a positive development in recalibrating the cost structure and the potential number of buyers when we move ahead in this divestment increases geography wise. Have I answered your question?

Indrajeet Singh Bhatia:

Okay, my second question is with all these five geographies what is the metric you want but can you give us some idea as to how large these businesses are either it could be an outstanding order book or existing loss levels existing operational levels on any one of the metrics if you can just give us color on which business is more important or a bigger problem at this point of time?

K. N. Neelkant:

This I think we have discussed multiple times in the past. But to re-summarize, if you want a relative size of the business Indonesia top-line give or take is \$100 million; Belgium top-line is about \$200 million; U.S. top-line is about \$100; Ireland top-line is about \$60 plus million; Hungary top-line is wavering about \$40 million, \$50 million; and from a problem statement point of view, Hungary would be the key problem at this point of time from our perspective. So, we corrected actions in Hungary which includes having a closer re-look at some of the businesses within Hungary and only continuing with the sustainable business in Hungary. That action plan has already started.

Moderator:

Thank you. We take the next question from the line of Sanjay Satpathy from Ampersand Capital. Please go ahead.

Sanjay Satpathy:

Sir, my question is relating to this other expenses of your standalone how much of it can attribute to overheads which are for global businesses?

K. N. Neelkant:

Sorry, I did not get your question. Can you repeat it?

Sanjay Satpathy:

While we are reporting such a strong EBITDA number for the segment why does overall standalone margin is low and how the gap will be narrowed going forward?

K. N. Neelkant: Okay. So the point is, the front page talks about the EBITDA for the whole company. Whereas you are right the segmental gives a number and then there is an adjustment between these expenses which we cannot directly attribute to the respective segments. So, there is a certain amount of cost there and those costs we are working on to.....

Sanjay Satpathy: And then any action plan or direction that you can continue to go up instead of going down?

K. N. Neelkant: While the absolute operational cost is not going up, there are issues pertaining to stay on exchange movements which is something which is beyond everybody's control and also there is a reclassification in terms of gross sales and net sales mostly IFRS or IndAS adoption, so those are things. But broadly just to be clear we are working on various means to cut the cost further.

Sanjay Satpathy: And there are no way to give any kind of directional, quantify it?

K. N. Neelkant: No, not at this point of time we would not like to give it. But from a substitute point of view we have always said that we require a larger corporate structure to maintain a multiple geography kind of business especially with the matrix kind of a structure which we had. Hence, I believe that now the breaking down of the businesses geography-wise outside India, each of the geography will be self-contained for its own mini corporate structure and as I mentioned earlier, I think to a response to Renu's question the duplication of a corporate structure, say in Belgium which we had that has been eliminated. Similarly, in India also going forward this corporate structure requirement would reduce without each of the geographies if they are self contained in their own way so, subjectively this is it. But number-wise if you are asking, I would rather wait for a couple of quarters once these savings actually get realize and then we can see it in the paper rather than me giving a forward-looking guidance on it.

Sanjay Satpathy: Understand. Sir, my last question is your finance cost of the standalone has been increased on quarter-on-quarter basis. Will you like to explain that?

K. N. Neelkant: Yeah, sure. See, as we have said in the last call also we have taken debt somewhere in the second week of September. So, the costs in September were relatively lower compared to this quarter. So, the costs that are coming here and debt we have taken primarily retire our overseas debt and keep our refinancing those as you know that everybody is waiting for the ZIV deal to get consummated which will release a lot of our debt. So, that is why the costs are higher at this point of time but once the deal happens you will see a sizeable reduction in the interest cost.

Sanjay Satpathy: And sir, now are you going to give any deadline for the ZIV?

K. N. Neelkant: No, I would not like to give a timeline as I said this deal is going to take its own time. We are in the last mile of discussion the January 31st target by itself was aggressive while it is

endeavor of both parties to see that we come to an early completion but at this point of time, I would not like to give a specific date but I am sure it will be sooner than later.

Moderator: Thank you. We take the next question from the line of Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain: My question is order book because I joined the call late, in case you have already shared this, what is the order book in the domestic business and the order flow data as well.

K. N. Neelkant: The unexecuted order book in the domestic business total is about Rs. 3,560 crores.

Ashish Jain: Okay. And what is the breakdown of that in power and industrial?

K. N. Neelkant: The bulk of it would be in power that is about Rs. 2,531 crores. We have industrial systems at about Rs. 800 crores but industrial system as you know it is a quick turnaround it is 30 day, 60 day kind of a cycle time so, the large chunk of this would also contain railways business inside it so, that is about Rs. 824 crores and the balance would be miscellaneous whatever is residual for our other system solution business as to EPD business and automation business.

Ashish Jain: Okay. And sir, in terms of order flow, can I get the same number?

K. N. Neelkant: Order input?

Ashish Jain: Yeah, order input.

K. N. Neelkant: I thought I gave it earlier, but I will repeat it once again. At a Company level, the order input was Rs. 1,221 crores for the quarter and Rs. 3,826 crores for Y-T-D. On order input side, the power systems, order inflow for Q3 was Rs. 597 crores and industrial order inflow for Q3 the growth was about 36% Rs. 624 crores for....

Ashish Jain: Got it. And sir, secondly, in your earlier comments you have indicated that there are low margin order book which is order which is sitting in the domestic order book as well. Is all of it behind us now or there is something which is still there and we need to execute it?

K. N. Neelkant: No, that was about two quarters back.

Ashish Jain: Yes.

K. N. Neelkant: Pardon.

Ashish Jain: Yeah, that is why I am just asking is all of it is like executed or some bit of it is still sitting in the order book?

- K. N. Neelkant:** There is nothing significant now there. There would be something which is always small things still be there but two quarters back it was significant thing. See, another way of looking at it the margin expansion in business itself reflects that the margins of the orders being executed currently are significantly higher margins which reflects: one, the quality of the execution of order; and two, the right kind of order sitting in the book.
- Ashish Jain:** Sir, actually that has decided to become a last thing because if we were already executing the low margin orders and still we are seeing such a margin expansion how should we look at the trajectory going ahead and that is the reason I asked you the low margin order book is already executed or still sitting in the order book.
- K. N. Neelkant:** So, that is what I am saying, there is nothing significant, majorly significant sitting in the order book and that is where I am not overly concerned also about the order input growth being 6% in power system because this 6% growth is a good order, I would rather have 6% growth with good orders than higher number with low margin orders. So, that something is largely behind us and some of the small things will not make a huge deflection going forward.
- Moderator:** Thank you. We take the next question from the line of Bhoomika Nair from IDFC Securities. Please go ahead.
- Bhoomika Nair:** Sir, just wanted to understand, I think it was discussed a little earlier as well when we look at the segmental margins which are fairly high but when we come to the EBITDA margins it is getting little depressed and it seems even Q-o-Q the unallocable expenses are going up. So, could you just kind of explain what is the reason behind that?
- K. N. Neelkant:** Bhoomika, the point is that today we are running a global organizational setup from here. While we are in the process of fixing the overseas businesses either disposing them off or shutting them down or whatever else it is the cost of managing and maintaining those businesses is very much in India. So, that is why there is certain amount of cost which is there in the system but as we said earlier we are working hard to reduce those costs. Secondly, if I look at other unallocable cost is lower net of unallocable income there is a drop in unallocable income in this quarter. The drop is approximately Rs. 10 crores versus September. So that is the reason why there is a mix difference that is showing up there.
- Bhoomika Nair:** Okay. And can we expect this to start trending downwards over the next few quarters?
- K. N. Neelkant:** Absolutely because once we start shutting down or selling off or fixing the overseas businesses the cost of running those businesses will definitely come down.
- Madhav Acharya:** Adding to that, to repeat myself by virtue of the outside India businesses being given geographical structure the management of those businesses we are saying largely by those

geographies itself which in itself is a cost recalibration action. So, if you are asking for a timeline, yes up to next two quarters it will start paying the benefits of that, correct.

Bhoomika Nair: So, would it be correct to say that then these costs which are probably being managed from India will start getting reflected in the respective geographies?

Madhav Acharya: They will also start going down Bhoomika because for example, when we sell ZIV a sizeable trend of the business is going and the cost of managing those businesses from India will also go away, right. So, the cost will actually start trending down.

K. N. Neelkant: Okay, just to clarify, Bhoomika. Today, it is not that it will get reflected in those geographies. Today also those geographies are having those costs. Additionally there was outside India headquarters in Belgium which also had a cost and then there was India management which also had a cost. Now, we are delaying the whole thing by which there is no duplication but we are actually removing the redundancy.

Bhoomika Nair: Fair enough. If you can answer this on Hungary, I guess one is if you can give the losses for the current quarter and Y-T-D and second is in terms of when we had spoken on the last call as well, in which you also articulated in the current quarter is that Hungary is where the key problem area is. So, while rest of the businesses might be relatively easier to sell out, how easy, if you can give some qualitative sense on how is the steel process going on out there? Are you seeing buyers, are you seeing interest from potential investors, etc.?

K. N. Neelkant: First of all, let me just demystify Hungary a little bit. Hungary has rotating machine business which is attached to industrial systems, historically a profitable business. Hungary has a transformer business and then Hungary also has systems business and a switchgear business. The systems business and the switchgear business have been the businesses which have been cost guzzlers so to say and these are the two businesses when I said there is a realignment of Hungarian operations in place, these two businesses are being wound down by us. The winding down costs in Hungary are quite reasonable and very systematic in the Central European and East European geography and we have exact numbers by which they can be winding down, which is not a number which is not very attracting, the winding down costs are much more attractive than running the operations. The ROI of winding down will be less than 9 months or 10 months' kind of number. So, we are doing two things in parallel because we believe that now multiple buyers are in discussion with us but we believe that these buyers also would like to have the assets without these businesses. So, the winding down is a parallel operation continuing with the discussion with the buyers. So since, we are in discussion with these buyers at this stage of time, I would not like to specifically talk about Hungarian numbers separately, Madhav has already given the overall perimeter numbers.

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

- Aditya Mongia:** Thank you for the opportunity. Two questions from my side. The first question again is to have a little bit more on the margin side. What you are saying is that both these segments, industrial and power they are doing about 12% EBITDA margin versus overall 7% margins has been reported, is that right?
- K. N. Neelkant:** Yeah.
- Aditya Mongia:** You are saying both the segments are doing 12% and had there been no other costs, the overall EBITDA margin would also have been at that range?
- K. N. Neelkant:** Correct, absolutely.
- Aditya Mongia:** So about 6% of sales is cost to support overseas business right now?
- K. N. Neelkant:** India and overseas businesses, because we have been running a common setup to run the entire global business.
- Aditya Mongia:** Okay. If I were to just see the mix of cost there has been a sharp shift which has happened and let us say RM was 72% of your sales has become 60% to 67% and other expenses continue to increase from about 12% to 19%, is there some realignment of costs happening over here or how do we read this thing?
- K. N. Neelkant:** I mean you will have to look at when we say RM as a percentage you have to look at the line items A, B, and C it is a combination of three items, that is one. Secondly, if you look at the employee costs they are actually trending down versus even Q2 versus Q3 the cost have come down even versus last year despite the inflation and cost increases we have been able to contain the cost, okay, so that has happened. The other expenses are a combination of lot of things. For example, the exchange cost, and everything else there is so much of volatility in currency. So, overall, the costs are not trending up but there is a certain amount of realignment cost.
- Aditya Mongia:** And the support that you are getting to overseas entities from India, should be affecting in the employee costs or somewhere else?
- K. N. Neelkant:** It will be largely in the other expenses.
- Aditya Mongia:** Other expenses?
- K. N. Neelkant:** Yeah. But once the overseas businesses start getting settled in terms of all the divestments or shutting down or whatever else it is you will start see those costs trending down.
- Aditya Mongia:** So, let us say in two years' time when everything is fine the EBITDA margin number should be more than 12% is what you are saying if nothing else changes?

- K. N. Neelkant:** Assuming nothing else changes, you should say better numbers.
- Madhav Acharya:** Better numbers, and if you ask me, two years is too long a horizon if you are talking about it.
- Aditya Mongia:** Yeah, I understand. Sir, the one question now is mainly on the power side, on the power systems side domestic operations; fairly good grow at 15% plus levels should we assume a similar volume what is also happening and if so, where are we in terms of capacity utilization on the power side?
- K. N. Neelkant:** Capacity utilization on the power side overall would be in the early 70s, mid-70s percentage kind of scenario today.
- Aditya Mongia:** Okay. Have you freed certain capacity because number was fairly high earlier?
- K. N. Neelkant:** No, here there are two pieces of it. One piece of it is transformer; one piece of it is switchgear. Even within switchgear, there are some continuous processes and key processes, which we continue to do inside our factory. But there are certain other processes where I can get my outsource partners to do those things. For those processes then theoretically the capacity becomes infinite. So, it is more of a capacity realignment rather than capacity addition realignment between what should we be doing inside versus what we will be doing outside. So, there is no significant capacity addition anywhere. But yes, there have been some excellent re-engineering projects, debottlenecking projects, which have yielded good results across our factories.
- Aditya Mongia:** Sure, sir. The design capacity for the transformer payment would be how much in in AVA terms right now sir for domestic?
- K. N. Neelkant:** I will have to revert to you on that because it is a mix of multiple things, so I will have to revert, Mayura, can revert to you on that.
- Moderator:** Thank you. Well, that was the last question. I now hand this over to Mr. Neelkant for his closing comments.
- K. N. Neelkant:** Thank you so much. Most of these questions shows the kind of enthusiasm all of you have and some of these questions also help us to re-think and re-align ourselves. Thank you and see you all soon.
- Madhav Acharya:** Thank you. Have a great evening.
- Moderator:** Thank you, ladies and gentlemen. With that we conclude today's conference call. Thank you for joining. You may now disconnect your lines.