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"Crompton Greaves Discuss the Acquisition of ZIV"
July 28, 2012

MODERATORS

MR. LAURENT DEMORTIER

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Moderator

Ladies and gentlemen, good day and welcome to the conference call of Crompton Greaves to discuss the Acquisition of ZIV. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. I would now like to hand the conference over to Mr. Laurent Demortier -- Managing Director and CEO, Crompton Greaves. Thank you. And over to you, sir.

Laurent Demortier

Good afternoon, everybody. I am very happy to be with you to discuss about an important step in the future development of CG which is the acquisition of ZIV. First, I think we have been completing that acquisition so it means that the composition has been completed last night. With all the aspects and we are now owner of this company as I speak. This acquisition, this process was obtained after fierce competition with large international companies. And I think ZIV has been chosen because we are able to demonstrate first that this business was a full complementarily with the existing business that we have and especially the BU power systems. ZIV felt that they could get the highest synergy and higher development being with CG.

So we are 100% owner of the company. We have acquired the shares of the owners as well as the private equity. ZIV is not an unknown company for CG. We have a joint venture with them in India, which has a very limited scope. It was mainly to distribute ZIV product in the Indian market, which we have done successfully. We introduced ZIV products like 765 kV substations, in India market, which was a major achievement. The JV was mainly distributing those products and integrating panel, which was a very low added value activity. One of the concerns I had at the time when the company was put on sale was that if one of the competitors bought this company than it might have opened the door for them to some markets of the ZIV. This was also one of the reason to make sure that we could get the company.

ZIV is basically involved in two important activities. First is the grid automation. In this you put up a substation and the higher the voltage, the higher the content of automation. It is an activity where all the big players in



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the T&D are present. CG has been moving into that sector of high voltage and I think the fact that we had no offering in this field was starting to be a concern area for us. The second is Smart Grid. This is what we call sometimes automation meter in perfection. Basically it is a medium voltage and low voltage activity while you use numerical equipment for measuring and managing the distribution of electricity.

ZIV has many other offerings in terms of grid automation, distribution and smart grid things. They have a very unique technology in communication which allows sharing very efficiently data between the substations. It is cost efficient and is an integral part of what we have acquired. ZIV has a long history of technology development. So it may be what CG is acquiring is several technologies that we didn't have in the field and they have a long story of those developments since 1993. The management teams of ZIV I think has been there with CG since last 12 years and are fully committed to CG.

If you look at the activities of ZIV today, large part of their activity is coming from outside markets. They have operations in US, India & Brazil besides Spain. They have distribution centers around the world. Today, I think one of the big developments of this space is outside the main country.

We wanted to leverage ZIV's customers. What we realized is that to expand development, ZIV has been leveraging on very large company located in Spain going aboard and mainly with Iberdrola. As you know, Iberdrola has made several acquisitions in Europe, US, Latin America and in emerging countries. They are also talking in India. ZIV has been the partner with Iberdrola and I believe that we can sell much more of the ZIV product. We will be selling the ZIV products to all our existing customers. We believe that ZIV being the large independent company in the field will benefit greatly in getting the market access to that we have.

If you talk about the synergy that we expect, topmost will be to bring the market access in some key grid automation market to ZIV, mainly India. India will be a very important one as we know there are large investments



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happening right now for smart city projects mainly in Pondicherry, where we have positioned ourselves. The fact I believe is going to help us to expand by far the scope of what CG can offer. ZIV will bring accesses to the US market which is one of the largest in terms of potential revenue in this business, both on the grid automation and smart grid. Brazil is also growing market. I think CG is now penetrating into this market with greater technology; we have access to large utility. ZIV has the operations in Rio and we will be able to expand on this domain. In Western Europe, the automation is pretty sophisticated. We have a very high value on the automation part.

Market access in the smart grid, which is the automation with infrastructure, big markets right now in the world are France, UK, Poland, Brazil and Southeast Asia. I believe India also turn to it but not now. We need to develop solution that will lead to the distribution perfection in India. I think we have all the means to do that but on the short-term we are already a big market to focus on.

On top of the top-line synergies we accept product pull through. There will be some cost synergy. I think the first one will be on sourcing. As you know CG is buying more than EUR1.1 billion per year around the world. We will be benefiting ZIV from this bargaining power for the whole lot of things and thus improve the EBIT. We will also leverage on the sales force of CG worldwide. We have 637 sales people around the world who will now also carry the ZIV products, but there will be some foolproof especially in Western Europe and in USA.

We have also some facilities that we will combine, both of CG and ZIV. And also in terms of manufacturing capacity we will provide new capacity for ZIV to manufacture closer to our customers whether it's in Asia or in Latin America.

You might be interested to understand our plans for India. For India right now we are going to boost our JV with ZIV. As you know, we have been building a new facility in Bangalore. It is supposed to be our centre for covering the automation needs in India and in Southeast Asia. So, we are



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going to expand our capacity and accelerate in order to do more added value products. We will also certainly take the opportunity to integrate our automation activity that we have within CG in order to get high leverage on this business and then we will develop the other products.

So just to summarize, I think ZIV brings CG into a new segment. This segment is far bigger than where ZIV is present today. According to some survey, segment for this smart grid, which is a grid automation plus the automation, is of EUR90 billion. So, obviously, it is a big market. It is a market where we have the natural role to play at CG. And I think ZIV has been developing a very competitive portfolio, both in terms of technology and trust. That is why this company has achieved so many international players and we believe we are the best company to basically boost the development of this company in years to come.

At that stage, I would like to open the floor for Q&As. I have with me Madhav Acharya & Hariharan to answer your queries.

Moderator Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni Basically, my question was on the mechanics of the deal. Can you touch upon what is the kind of revenue, EBITDA and profitability that was generated by ZIV for CY2011 & CY2012? Also if you could please share other financial details regarding the deal?

Madhav Acharya If you look at year ending December '11 for ZIV, the sales figure was EUR52 mn and EBITDA of EUR8.4 mn, that is 16%. The trailing 12-month numbers, the sales has been EUR74.7 mn and EBITDA of EUR15.6 mn, which is 21%.

Pulkit Patni And also profit if you could share?

Madhav Acharya They have a significant tax shelter of almost EUR18 mn, which we will be getting in the structure and the depreciation is approximately EUR4 mn. So if



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you remove that you are talking of almost EUR11 mn of PAT. We have acquired 100% share of this company through our subsidiary in Netherlands and at the enterprise value and debt-free cash to basis of EUR150 mn.

Pulkit Patni One just follow-up question, given that we currently have about Rs500 crores of cash on the balance sheet, how would this be funded?

Madhav Acharya We are targeting internal accruals and D/E ratio of 1:1.

Moderator Thank you. The next question is from Rajesh Panjwani from CLSA. Please go ahead.

Rajesh Panjwani One question on the financials. You mentioned that 2011 sales was close to EUR50 mn and it has gone up to over EUR70 mn in the trailing 12-month. Also EBITDA has also gone up sharply. So there seems to be a pretty strong growth. Can you throw some light on that?

Laurent Demortier I think you are absolutely right. That was one thing, which we considered while finalizing the deal. The company has also been very successful on the smart grid. The management has committed for EUR85 mn sales and 21% EBITDA during CY12. Their commitment is mainly due to two things, metering business and they have been awarded the largest smart meter projects in Europe, around 500,000-collection point. It is basically independent user getting the data and they are putting the entire infrastructure. It will be one of the excellent sites in Europe for smart grid. That is the reason for the growth. The overall business, the grid automation has been more stable and it is growing steadily. But the sharp increase has been in the second section, automation mixing infrastructure.

Rajesh Panjwani Would you expect this kind of strong growth to continue, may be not at the same magnitude but pretty decent double-digit growth for a while?

Laurent Demortier In our view, there are two things. First, the growth will continue as it is and we believe that we could accelerate the same. If you look at the two businesses, the grid automation, let us imagine that this time you sell a substation; there is a grid automation process in it. Today, we are buying



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those products and selling to competition. So, we are going to provide that now with these products. This helps customers in amalgamating the products but the good thing is these products are amalgamated with CG's because we have a large Power business. We have EUR1.3 billion business in Power which is mainly in substation, high voltage substation which has the highest content automation. Now we will be able to get a lot of additional business because we will get ZIV access to a segment. They did not have direct access before as being a pure standalone automation player. On the margin front, which is the second thing, in CG we expect this business to grow mainly in Western Europe and US. There are lots of projects under scrutiny in Poland, UK. As you know in India there is a project in Pondicherry which is basically is being developed by PGCIL. They want to develop smart city and that includes smart metering. On the smart metering we will demonstrate what we can do which means that in the next two-three years we might have a growing market also in India on the smart metering.

Rajesh Panjwani

Around 70% of ZIV revenue comes from the domestic market and around 30% is the overseas market. So going forward, how do you see this mix changing?

Laurent Demortier

The management plans to have 50-50%. The reason why 70% is a little bit high today because this is mixing project I was talking about is with Iberdrola in Spain. So the large part of the growth has been coming from Spain. But historically it was very well spread. The management now expects 50% coming from the international markets. But I think it would be much more once we would be doing this.

Moderator

Thank you. The next question is from Lakshmi Narayana from Standard Chartered. Please go ahead.

Lakshmi Narayana

I have two questions. Firstly, if you could give us the segmental split in terms of top-line, how much does smart grid automation and metering contribute to the total sales? And secondly, how should we view the margin contribution from each of the two segments?



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- Laurent Demortier** The metering business has been mainly in Spain. Out of the total, it represents firstly EUR36 mn. The margin for the metering is 20.6%. So basically the metering is at the same level for time being and almost the rest.
- Lakshmi Narayana** My second question is, how do you ensure the performance, what is the structure you have in place for that? And secondly, is the management as well as the private equity player exiting with this deal?
- Laurent Demortier** Basically, the private equity 100% is exiting. The management is 100% staying. So, there are seven managers right now. Norberto Santiago being the CEO and he is not only staying but also joining the executive committee of CG. This company has been created by Norberto in 1992 his goal was to create a large company. He came from GE and so did the entire management.
- Lakshmi Narayana** Do you think this acquisition per se, the first year is an accretive to overall CG consol earnings or how should we think about it?
- Madhav Acharya** As I indicated a little while ago, this deal will be accretive to CG for the first eight months of the very first year, that is ending March 2013 and this factors in all the costs are related to the acquisition.
- Moderator** Thank you. The next question is from Jonas Bhutta from Bank of America. Please go ahead.
- Jonas Bhutta** Given that the large part of the revenue today comes in from Spain and you have already spoken of potential in UK, US, Poland, I assume all of these metering projects have a fair bit of prequalification because the metering companies themselves have to sort of, at the outset itself, of the program developed projects, products along with the utility. So, is ZIV already present in these four-five countries which you expect will drive growth over the next two to three years? I am talking on a prequalification purpose.
- Laurent Demortier** I think you are totally right. It is not only by the way for the smart grid and metering, it is also valid for the HV for the grid automation and it is the protection into substation where you need to go for an authoritative process with the large end user before being able to play. In all the countries



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mentioned before, ZIV has been working with those countries to get their products certified. So they are in the business phase wherein they are bidding and trying to participate in any projects that will arise. Yes, they are sensing for the HV production. What has been working since many years we have all the utilities, as I mentioned has been the potential top-line synergy. So that is mainly Europe, US, Latin America. And I mentioned clearly that for India they still need to go with the process, we, CG, responsible to do that for them in India. We do process still on so India will be a little bit longer to catch back on the volume, I think just because the program are not there and we need to be assertive but for the rest what I mentioned, yes, they are certified, they are known and their products are amalgamated.

Jonas Bhutta My second question would be on, is there something called an order book in this business as in? We just want to understand whether is it just on a book-to-bill basis or is there an order book that you can share with us? That probably gives us more visibility for the following two years in terms of revenues.

Laurent Demortier There is an order book, the answer number one.

Madhav Acharya Approximately, my sense, Laurent, correct me if I am wrong, would be we would have around six months of order book at any given point time.

Jonas Bhutta My last question would be again, if I get it right, you project top-line of roughly EUR200 mn in three years that is by CY15. At that point of time, what is your target mix of revenues metering versus grid automation?

Laurent Demortier It is a little bit too early. Again, the metering is a new business for us, so we need to judge the pertinence of the forecast, I think any study you see is the big business, it is not the point, and the question is that, what credibility we can give on this product. I am more sure about the grid automation, it is directly related to our business, we know exactly what competitor sells, what we sell there and we know where we can impose it, but I think too early to answer your questions on this, but give some time to see what is in the house and I think we might be much more clear after the third quarter, that would be my answer.



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Jonas Bhutta

If I can just push the last one in, barring the one major order that this company won from Iberdrola, somewhere in March, any other such orders on the short-term that you can sort of highlight? At least that will give us visibility.

Laurent Demortier

I think when I talk about the synergies, I go on the country, I mentioned because this is where the secrecy a little bit. Top line synergies, so if you take in the smart grid forms, I think forms there is a product called Link IT, it is a EUR3 billion investment which started, where we are a contender, so I think here we can play the order. In UK, there is a program launch also on the smart grid right now. Poland, there is a huge program right now. We are on the codification. Brazil, there is a program and I think the theme of ZIV are in Brazil next week to see how we can beat, so these are real projects, from these projects mainly by the distribution company to put new infrastructure in the smart new things. So, these are real projects, again, plays where ZIV is qualified as a potential supplier and I think I would be more concise on the potential order and size again after we have been able to look at the detail of the company which again, we are not able to do at that stage.

Moderator

Thank you. The next question is from Nainesh Rajani from Tata Mutual Fund. Please go ahead.

Nainesh Rajani

I actually have a couple of questions. These would be broad questions or rather than company-specific. We have done various acquisitions over the last few years. However, last few quarters or maybe more than that we have seen a restructuring going on in overseas acquisition and new problems in the US overseas subsidiaries. What I want to understand is how is this acquisition different in terms of how sure are you that over the next two, three years there would probably not be issues within these companies that we have acquired right now. So just wanted to understand that going forward would the restructuring issues that we have seen in our previous acquisitions could come up or just some broad idea understanding on how the historical financials and how the company has grown over the past few years for us to understand whether this kind of performance in terms of margins and profitability and revenues sustainable going forward as such?



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Laurent Demortier

There maybe two things. First problem with past acquisition and some of the actions we are taking right now to correct some of our performance. It is not an issue with previous acquisition, we have one issue right now in the Power Transformer business segment, and as you know we have brought a large company, larger in power transformer, which I think was a very good acquisition because there is a lot of technology to CG that we did not have. Also good manufacturing base, unfortunately, the market has been very tuff in the past 18 months, there is a price pressure in terms of new competitors in Western Europe and at the end we have now factory located in Belgium which is non-competitive. So, we need to restructure, but there is nothing to do with the acquisition, its the fact that we have assets in the wrong place at the wrong time and then we will not be able to do so. We need to streamline that. But in the power transformer business, it is a very specific segment. The company we bought to day is in a total different segment. They are in the automation, in the smart grid, those segments are fast growing, and this is the fact. The structure of the company is much more lighter. I think today it has 400 people all around the world, so we sub contract a lot of the manufacturing process we have a very light structure, it is a lot of R&D and know-how and these R&Ds, know-how is a bigger ball anywhere in the world. So, we got this technology. With flexible operations and in a faster growing segment, high value-added content. If you look at what the large company are doing in this sector, I am going to name them, but you take all the big, big shots worldwide, these segments has always been a very positive goal, in fact, growing area for them. I think we are in a different segment than what we need at least for the large acquisition like Pauwels we did a few years ago in Europe.

Nainesh Rajani

How many factories that ZIV have at this point of time? What are the location for the same?

Laurent Demortier

As I said, the process model of factories for ZIV what they do basically they assemble, the ID is an electronic device. Basically, they assemble the large thing. So they do not manufacture anything, neither the board, neither the frame nothing. They assemble, put the software, because the software is what is 3M proprietary, they take the equipment and they ship, that is the business



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for them. Today, there are two assembly line in Bilbao, it is a brand new assembly line, it is a quite cost-effective assembly that order book comes from the lowest cost country on the globe. They have one line now in India. That is the line that we are putting in Bangalore, which I think would be the ones in Southeast Asia, and they have a service centre to support the installation and the maintenance of those equipments in Brazil, in the US. So, they have sold their products all around the world. Their products are already all around the world. They have a network of distributor that take care of the maintenance and the support of the customers locally.

Nainesh Rajani One more question and one request if I can. The question would be, was the payment based in performance of the company being considered to the management and to the private equity and has the order book at the same margins that the company actually has at this point of time?

Madhav Acharya The payment has been made in full. If you are looking at the performance-linked payment that is not there. And order book has been verified during the due diligence process.

Nainesh Rajani Just one request if I can. If you could share the historical numbers of the company with the investors that that will be really great, it gives us a better understanding in terms of the growth of the company over the past few years and what we can envisage in ourselves going forward?

Madhav Acharya We just gave you the December '11 numbers and also the trailing 12 month numbers. If you are looking for numbers even before that then we will have to get back to you.

Moderator Thank you. The next question is from the line of Deepal Delivala from Citigroup. Please go ahead.

Deepal Delivala I have two questions. One is that as far as I understand, the executive team of this company used to own about 25% of the company, right?

Laurent Demortier That is correct.



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- Deepal Delivala** And since we kind of bought out the 100% stake they do not no longer own equity in the company but we are still retaining them as the management going forward. So my sense is how would we incentivize them to kind of continue to perform the way they have done in the past, because essentially it is basically now working for someone else? That is number one. And number two, from what I understand, the ED breakup would be roughly about 105 would be equity and 40 mn euros would be debt, right?
- Madhav Acharya** As I said, we are targeting at a debt to internal accruals ratio of 1:1.
- Deepal Delivala** That is the funding part of it, but when we bought it as an equity of.....
- Madhav Acharya** Enterprise value, debt-free, cash-free.
- Deepal Delivala** Because I believe they had debt about EUR40 mn?
- Madhav Acharya** Yes, we are buying a debt-free, cash-free, the enterprise value is 150.
- Deepal Delivala** So if you could revert to me over the question on the equity stake of the executive team?
- Laurent Demortier** I think yes, we both 100% including the equity that have the management. As I said the management team, there are seven people which are reversed now. The key people of this company go far beyond those seven people. I think as I said, there are 400-odd people and there is certainly 40 to 50 key executive that made the company, those one are employees, not shareholders, and I think we will make sure that we will get motivated. The seven, as I said, they created this company from scratch, they are all in the 62, 63 years old of age right now, they are very willing and very fast to go through really the next step we were and willing to continue to work and so we know all of them, we have been discussing quite a long time with them and they are committed to work with us as compact network to work to any competition obviously, and all types of those things. But there is no other scheme that we put on top of the acquisition for them.



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- Deepal Delivala** Just one small question, if you see the growth pattern of this company, the growth really spiked up in 2011 and from what the numbers you have shared with us has continued in 2012, we know about the Iberdrola project, but is it a function of only one-off such project which has caused a big uptick in the project or are there multiples such clients which have contributed to the big uptick in the revenues?
- Laurent Demortier** They have several customers all around the world. As you know first Iberdrola is expanding very fast all around the world because they are buying assets in Europe, but if you look the big utility, they have fixed payoff in Germany. If you take Iberdrola gas natural, hydro electric **Enel**, which is Italy, EON which is Germany almost 60% of the sales in the six customers. Then they work also with a lot of contractors so their work also was integrated, so company that buy their products to integrate and over so that was both hands of customers all over the world.
- Deepal Delivala** And sir my last question was, were we in a competitive bid with some other players, were there any other bids for the company?
- Laurent Demortier** Yes, there was a strong competition as I said. I do not think I can name the company but what I can tell you is a large international company, very active in the electrical space and one in Japan, one in Europe.
- Moderator** Thank you. The next question is from Amit Mahavar from Edelweiss Securities. Please go ahead.
- Amit Mahavar** Two basic questions; first is, is my understanding correct that ZIV also has releasing control panel portfolio which perfectly complements with your substation and power systems offering. So, is it correct to say that you have plugged the largest cap in Crompton greaves portfolio in this system business through this? Number two, just wanted to understand the timing rationale of this acquisition. Considering the time that most of the utilities globally are in cash flow crunch and in problems do you think you can justify the rationale of buying at this time, at this value, and also if you can also justify the India rationale for ZIV, how will you replicate this business for the Indian clientele in the current scheme of spending in the country?



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Laurent Demortier

I think you are right, on the technical point, the strong offering of ZIV relay. This is what I call grid automation, just to make sure that we all understand, and this is a key, add in our portfolio. That was already the large area that we did to compete with the international companies in the T&D arena. Now, was it the right time for the acquisition? First, the company was for sell was L+1 by the private equity, again, we have been working with this for a long time and I think we were quite careful of thought by making the JV two years ago and I think we felt we have time to get technology and development, that is what we felt. Unfortunately, L+1 put the company on sale and went from an auction process. And the question that we really participate in it and we decided to participate because there is no other company having such a range of technology for an amount which is acceptable to CG compared to some other larger players. There was another company as well as in the market and it has been booked for €1.6 billion I believe by Toshiba. So, again, my point is that this was on the market now, so we have to bid. Now, last point about the Indian arsenal one of the things I was very afraid when the company went on sale was the fact that if a competitor would buy ZIV we knew who was trying to buy them it would have killed my JV in India. Major competitors from Japan, Europe or US would not have let me continue to have the JV. So, we would have lost enough two years back to go back in this high value margins type of segment. We have been discussing about getting smart grid in India, since many years. I worked a lot with Mr. Naik from PGCIL and right now we have been positioning CG as a major technology provider for the new smart city concept of India, again the first smart city projects will be in Pondicherry, we are meeting in September, where we are going to propose the full scope and my intention is to propose the full scope on the metering side, on the substation side which will be a significant portion, we will be the only Indian company to propose technology there and I think we are going to work to make a technology which fits the Indian market. My view today is most of the smart grid solutions that are bought by US, European or Japanese companies to India sell to address the basic need of India which is basically low cost products and efficient products. So, I think we are looking very selectively now in cropping down some of the products to feed the need. So I am very optimistic on the long-term. It is still very unclear to me about when



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it will start but again, we have got very good support with PGCIL in the past months, so we have several investments done and I believe that the next wave of investments will produce on the overall efficiency of the energy distribution and utilization in India and CG will be the Indian company able to provide both technology, products and services for the ZIV.

Amit Mahavar

Just one more question, on a current fact basis, ZIV, globally, if you can name down important utilities which basically prequalifies ZIV. That is one. Second is, if I conservatively assume that ZIV largely today caters to the Spanish location and if I do not build in any other global business rationale increment, do you believe that that is still a sustainable performance considering the single country that you are only present largely today in the Spanish regions on a broader scale?

Laurent Demortier

As of today, we are driven being with CG, more than 30% of our business is not in Spain. Now, the customers that we talked about Iberrola as an important customer, this is clear. They have excellence in Germany with Eon, in France with EDF and FTE, in the UK with NGT and Brazil with ONS which is the official national grid operator, now, they are working on the USA and they would do for the USA, I think Iberrola, both companies so they already get on the market here and they are working with over utility in this country with them. They are excellence in PGCIL and this is what in India and this is what we have done and we have got already several orders as I said contract in the past for the product. Their excellence in Southeast Asia, in KLN in Indonesia, they excellence in this continues because they are eyeing more than 40 countries on the globe and they have been working for the last five years for the amalgamation of these companies. I think what has prevented them to go faster in those regions is to be weave a large T&D player because most of these automation, as we mentioned, are with the substation which is ideally done by the OEM, which is doing the transformer and in that space it has an OEM that why we are offering this kind of play. That is what has been present. It is not the fact that they do not have the products fitting the needs of those large customers.



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Amit Mahavar Just this last question was pending, you have to answer that regarding, and I assume that you are largely today do business only in Spain and the current existing geography which you are doing. If you do not add any other geography do you believe that the current performance is sustainable. Actually, I just wanted to understand incrementally whatever you are planning in new geographies, conservatively assuming that it does not hold good in the current scheme of things where utilities are in trouble around the globe, do you believe the current performance is sustainable only on the current client basis?

Laurent Demortier Today, we buy a lot of IDs from competitors that we will buy from them immediately, that will be the message. We are holding cost structure to leverage on our products today. So I am not going to add many cost structure to be able to access the front customers, I will give them the access to the customers. I think the entire CG team, our 647 salesmen all over the world, all the management is very excited about our portfolio of protection and panel to be able to sell. One of the mottos of CG is to do smart solutions, very difficult to sell the smart solutions if you do not have any numerical things buy anything. I think now we have it. So I think the synergies with CG will make the future. We have no doubt on the future. I do not know what it will be in other consideration but within CG we want to integrate fully and they are fully synergistic with our portfolio.

Moderator Thank you. The next question is from Sumedh Chaudhary from Jefferies. Please go ahead.

Sumedh Chaudhary Just one clarification, the ZIV is a debt-free company, so you have paid €150 mn for the equity, right?

CFO That is correct.

Moderator Thank you. The next question is from Sumit Kishor from JP Morgan. Please go ahead.

Sumit Kishor I have two questions; one, on the competitive intensity in the market ZIV serves both in the smart grid with metering and grid automation. Who are the



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key players and from your press release it appears that the current market price is roughly EUR26 billion. Who are the key players and the dominant players in these markets? And the debt of roughly €75 mn taken to fund the acquisition is it the Euro-denominated and what is the cost of debt?

Laurent Demortier

Just very quickly on the competition and then I would let Madhav to answer on the financial part and the cost of debt. There is a competition, as I said, the market is growing fast. The intensity of competition maybe will not be that tough. Also, you need to distinguish today, you have different players in both markets. If you take the automation market, the grid automation which is basically they are the big players of Siemens, ABB, Alstom, General Electric, and usually this offering jointly with the power product offering. So if they sell both transformers or switchgear or substation they put it with it. What we will do in CG, because we understand the business and again, in the past 12 months we are now moving up the value chain, I think in the segment by providing and making more high voltage products which is limited to little bit of competition, where as much less competition and if you are on the lower voltage we will present all our products. For the grid automation, the smart grid, then there is a full range of new players. I think I mentioned Toshiba and with the acquisition of Landis+Gyr which is a very large player right now in the smart grid. You have some pure products player like iCon in the US which are present in the smart meter segment, you also have Alastair which is doing smart meters, so you have a full range of company mainly American, also some European, which are providing smart devices to put on the distribution layers and that is where the people who will fight against for this products from what I have seen and reviewed are much smarter what I have seen than the existing products on competition and I think we will try to differentiate for the technology in this area. The key questions will be the access to the market and right now our strategy is to focus really on the large utility that have both distribution and transmission like PGCIL ,

CFO

The debt for the long-term will be in Euro terms and we are looking at a long-term pre-tax borrowing cost between 5 and 5.5%.



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Moderator Thank you. The next question is from Lokesh Garg from Kotak. Please go ahead.

Lokesh Garg While we have understood a lot about in terms of potential and markets that it can address and the products gap that it fills in, what are the risks in your perception and how do you sort of think through them over a period of time, particularly this acquisition comes in Spanish geography which also is making all kinds of news these days. So what are the risks and how do you sort of mitigate them?

Laurent Demortier We have a two type of products at this stage. I am going to talk by the Spanish, right. We spent a lot of time during the due diligence process because in fact they are not a large Spanish assets, they are large assets with Adola, that is Adola the subject. I met all the management of Adola and I felt very confident about the future that we can have with Adola, not only in Spain, but also with the supporters in the US and in Europe. As you know, they have both Scottish power in UK. We have also some orders from last month for providing solutions transformers from them, which is quite a significant order. This company is certainly one of the best performing Spanish company right now on the global side in utility and I am quite confident that with what I buy they can support us. The second type of fit that I see that to discuss a little bit is on the management, not the one from the owner, the former owner, I said they are 63-year-old, 62-year-old, so they are not going to start over something right now and are willing to boost a little bit and to concern that what they have been investing personally in the past 15 years is the right thing to do. It is more of a management that we still do not know which because again we have not been able to understand that.

Moderator Thank you. The next question is from Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain My question pertains to post acquisition. Basically I am sure we will be opened to opportunistic acquisitions going ahead as well but is this something that we could necessarily be looking out in terms of either filling any gap in our offerings or in the consumer or industry business side.



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Laurent Demortier I think our policy is always very clear. Actually what we said is we are willing to look at consolidated opportunities in consumer business in India. These acquisitions are at our works so I mean that we are looking for small acquisition that would reinforce our channel, our footprint, our manufacturing footprint of our portfolio. I do not have plant so far in consumer right as you have seen in the last quarter we were focusing a lot on our internal goals and external goals. It is not easy to find the right target in the right amount that we need but we might see two or three of the things if there is some availability. From that clearly what we have been seeing is that it's very important that we continue to acquire some technology in the motor especially to transform the strong Indian business into a global business. We started to do it on internal growth and we got some success now we are positioning our products through out. We also have a new product of manufacturing in Eastern Europe in Hungary, which is helping us right now to get to the market. But we might also see some acquisitions on the new products from new technology but that we will keep very focus. Now in the power segment the big whole we have is automation, we were always very clear that we wanted to consolidate this automation field. So I think this acquisition we have from a timing standpoint has been opportunistic. I believe that now with this portfolio in automation I have everything that I need in terms of technology so I am going to focus a lot on internal growth and the resultant of that company within CG...

Ashish Jain Okay. May I request Mr. Madhav to give the financial numbers.

Madhav Acharya You take the last year calendar numbers. The top-line is €52 mn. The EBITDA is 8.4 mn that is 16%. And if you take the trailing 12-month numbers the top-line is €74.7 mn and EBITDA is up indicated in the Management presentation is 15.6 mn that is 21%.

Ashish Jain You spoke something about the tax paid.

Madhav Acharya They have a tax shelter of €18 mn.

Ashish Jain And PAT level you said is around €11 mn.



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- Madhav Acharya** €7 to 12 mn should be the PAT level this year.
- Ashish Jain** Can you share the CY10 numbers whatever you might have with you.
- Madhav Acharya** I do not have it today but I can e-mail it to you if you want.
- Moderator** Thank you. The next question is from Mr. Misal Singh from Religare. Please go ahead.
- Misal Singh** I wanted to know a little bit about the balance sheet of the company in terms of net worth and I think they do not have any debt and on the asset side on our books now. I think I also missed the numbers that Madhav gave on the order book if you can give those numbers.
- Madhav Acharya** The first part of the answer is that the asset base of the company as on the date of acquisition is approximately €82 mn and there is no debt. The whole thing becomes the equity. And in terms of the order book I am looking at approximately 6 months of revenue.
- Misal Singh** On this asset base, what are the fixed assets and the net current assets.
- Madhav Acharya** Approximately, fixed assets are around €53 mn and the net working capital is €29 mn.
- Moderator** Thank you. The next question is from Renu Baid from B&K Securities. Please go ahead.
- Renu Baid** I just wanted to know one perspective that since you will be competing with global majors in India including Schneider, ABB, Siemens, Alstom, how would be the market share of ZIV in these countries and their addressable market?
- Laurent Demortier** I think for me my goal today will be to reach 20% market share in this segment. That is what we are going to look at in the 3 - 4 years to come and I am talking about the grid automation. What we are doing in smart grid, we need to give a little bit more time.



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- Renu Baid** But would it be fair to assume that excluding the Spain for the time being where they have the bulk of the revenues coming in the last 1 year and one-and-half a years the market share would be in single digit or lower?
- Laurent Demortier** What is interesting in this acquisition is that all of our technologies are being sold all over the world. You have product that 1.4 mn ID so you take a single box. There is 1.4 mn of box of these installed all over the world in all the utilities every where. That is the status today.
- Renu Baid** Is there an after market kind of structure that is the repeat businesses once you have an installation base you work on upgrading the systems and software?
- Laurent Demortier** This works in 2 ways. One is to sell the product which is basically sold through large OEM equipment that put the protection into the equipment this is mainly to medium voltages this is one segment. The second segment is the system business. So you put on the panel a full automation for substation or for a CT like on the smart grid. You might come back with that distribution transformer so that is the second thing is the assistance type of business with lot of product content and the third one that you mentioned is the service because those products you need to understand electronic product with software. They need a lot of upgrade and software managed services. So usually there is return business which is the upgrade of the software as utility keep those products mainly for 15 years and the lifecycle of the products is 3 to 5 years. But there is a lot of upgrade to do once it is in the store. So we are venturing into this business which is early 30% of the total turnover.
- Renu Baid** Sure. There is one more question. As you have mentioned all the opportunities and the risk that we see but in your view what will be the biggest challenge of integrating this company with CG culture and the business in the presence that we are globally and in India.
- Laurent Demortier** We have been chosen by ZIV over rest of the other bidders. We were chosen because they felt that we are global..... So there is a perfect match again we are one of the few large T&D players who is almost no footprint in this automation and even in the smart grid. So I think because of that there will



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not be too much clash as we could I think in case of transformer when we were almost the same product, the same segment so obviously you have to do to do the same which is not the case here so we have a perfect match both in terms of technology and in terms of geography. In the context of India we already are up to 80% of venture and we are recruited, we have a good team which is going to now to be even more on power to get the full scope of ZIV products both in terms of manufacturing and in terms of engineering and services than ever before. So for me we already have the platform to get synergy out of Asia and India. Also in CG we have created last year full systems platform on the world one in Indonesia in Jakarta, one in India, one in the Belgium, one in the UK, and one in the US and I think those platforms, those guy which are buying basically third party products like Areva going to immediately embrace the ZIV. So we can get a lot from our organization in ZIV immediately which I think we will show all the benefits of being together so I don't see these too many issues on the improvement as such.

Renu Baid Sure. But the total workforce that 400 total employees what proportion pertains to the R&D team would be involved consistently in improving the technology platform?

Laurent Demortier I do not have these with me. Out of 400 there is 98 people that are in R&D and engineering so few R&D are around the 50-52 out of the 98.

Moderator Thank you. The next question is from Pankaj Sharma from UBS Securities. Please go ahead.

Pankaj Sharma The EBITDA of the company looks really very good and it has also improved in last 6 months from 16% to 21%. So specifically what has led to this improvement and in general these kind of margin look really good so is there any structural advantage with the company and that would be sustainable so that the company can maintain these kinds of margins in coming years?

Laurent Demortier I am going to give you the two sides of the coin. What has been improving the profitability that has been able to sell more standard product. One of the things of CG profitability is very large variety of models. To see the different needs of different organisation and when they got the large order for the



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smart grid for the first time they got one type of products which is repeatable and that is clearly what stop it show the number because the size matter and the volume matter. They put new manufacturing lines for that which is pretty good. The second side of the coin is that the manufacture they put is good but can be slightly improved and I think we can help them to get much leaner line. There is still a lot to do from what I have seen I have visited all the plants and we are working on that. So my point is that if we can bring them access to market and still increase the volume of the products so basically to do the same type of product we should be able to not only sustain but improve the bottom-line.

Moderator

Thank you. The next question is from Bhavin Vithlani from Enam. Please go ahead.

Bhavin Vithlani

If you can help me with the first Microsol then NELCO then QEI and now ZIV. So what is the commonality? How the integration of the various acquisitions which are all graded to automations, be done? And when the acquisition of QEI was completed one point was highlighted that the network management was on the link so in the substation automation and has that been completed? That loop has been closed so that we did the acquisition?

Laurent Demortier

Today what we have done, I will just go back quickly on the acquisitions you mentioned to make sure we understand. I put ahead of all these businesses at our needle turn which is a former employee that joined us which is now trying to pilot all those acquisition we were making the automation which is my concern NELCO, QEI, to see what is the commonality. So he is working on that. Obviously this activity will be integrated into our automation portfolio so that is what the one thing we are going to work now and when will be done we will announce what it is but that is the plan we are working one. My concern as a company is doing what we call FTU, so this basically equipment that is put in substation it is one of the many you put so it is a mono product company doing a very specific product to get data in the substation and bring that in the substation. There are designed this product and sell it, they were not integrating, they were not doing any manning, it was more like an OEM type of business and lots of the people of this business are



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based in Ireland. NELCO, there is some automation activity it is mainly related to the electrical transit so they need to evaluate and it is mainly analogical technology so it is not numerical technology. So it is what I call old technology. We are developing a new hands of technology that is really based telco but it is more on the drive side and on the **conserver** side that is we will do it. b ut it has no relation. The portfolio is not related at all. Whatever is there or whether what's we need in T&B for automation or in smart grid. QEI, that deal was a little bit of surprise. I thi nk both the companies what we sell is the 70% of this business was in the utility and 30% in the transit in the electrical transportation. The reality is that 70% of the business of QEI today is in electrical transportation. So what they do basically singling components that you put on the card to basically monitor the safety of the card and they are strong in New York the company is doing very well while now I am seeing compare to when what they delivered what we are expecting is a little bit better both from top-line and profit and it has very few synergy right now in the company what we are looking at is using QEI to basically distribute an d maintain the electrical quotation this in America and there is already discussion going on and we have some discussion with some utility that are very happy to see that we have local base to sell these electronic products and people from there QEI very well the electronics but the portfolio today and the customers have nothing to do with what we are waiting for time being.

Bhavin Vithlani Last question on the same we have seen as you have highlighted there is about €18 of tax shelter, would that imply that CY10 or before the company was into losses?

Madhav Acharya Tax shelter does not necessarily come only account of losses because of difference in depreciation the way you structured depreciation also comes into play so as on date we have 18 mn of tax shelter available which we can utilize going forward paying less tax on the profits.

Bhavin Vithlani So was the company into profits in CY10 and was the margin similar at 16%.

Madhav Acharya December 2011 the numbers that I gave the company was in profit.



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- Bhavin Vithlani** CY2010.
- Madhav Acharya** I do not have the 2010 number with me but I can come back to you.
- Moderator** Thank you. The next question is from Bhargav Buddhadeb from Ambit. Please go ahead.
- Bhargav Buddhadeb** Just wanted to know what could be the tax rate once the tax shelter would be over?
- Madhav Acharya** The tax rate once the tax shelter would be over would be close to 27-28%.
- Bhargav Buddhadeb** And secondly, given that we had a JV with ZIV in India. Does the acquisition of ZIV Group make us more technologically competitive with PGCIL?
- Laurent Demortier** The answer is definitely yes. Our JV was mainly distributing the products and putting the products into panel so it was like to panel buildup technology and there are two problems with that. The first one is that our deal value compared to the investors were making was not so great. So that is something we are working on. The second is that in product PGCIL we do not have a real manufacture so PGCIL trusts us in developing the solutions from India and so that now it is going to change. So again the JV was sales arm that is the way you have to look at it and I remember that we were the majority in this JV so this never really concern us and all the technologies for us to manufacture and we are very competent. It was not the subject of the JV. The JV was mainly distributing of this products in Indian market which one you do that you are the middleman guys and PGCIL does not like the middleman guys.
- Bhargav Buddhadeb** This application of your product, is it linked to new CAPEX which happens in Europe and US A or you can utilize this product even in existing transmission lines from substation?
- Laurent Demortier** The answer is both. On the existing transmission lines as you know there is a huge focus both in America and also about product quality. To ensure product quality means that you need to distribute energy at the certain time



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and the standard in Europe is higher than in India. And in order to guarantee that you need to put out electronic equipment on the gate so this is what this product will fit. They will help to improve the product quality control of the line. There is also new CAPEX coming right now so this is old CAPEX and hardly 60% needed and another 60% will be on smart metering what today goes a lot of them to improve the energy utilization and distribution some of the new CAPEX have been pronounced and confirmed by government both in the US and Europe and we will authorize those new investment this is where they are gear up smartly. So my answer is we require both.

Moderator Thank you. Ladies and gentlemen we will take one last question from Nirav Vasa from SBI Cap Securities. Please go ahead.

Nirav Vasa My question relates to the equity aspect of the business. Can you give the breakup as to what stake was held by private equity partner and what was held by the promoters?

Madhav Acharya The private equity held 75% of the equity of the company and the promoters held 25%.

Nirav Vasa Does company have any patents filed or patent which are already finalized or is the pipeline going on for filing of patents?

Laurent Demortier There are patents and we acquire all those patents and there are several other patents indeed that valid in Spain and all over the world. Now one is just to realize is that when you do electronic product usually what is protecting is the software and the software you are protected by copyrights. It is not exactly your patent like a product and design so we have more copyright but there is also intellectual product in the company but they are all acquires. So all the design, all the products, all the software are own by us.

Nirav Vasa Can you quantify the copyright which are there with the company?

Laurent Demortier To make thing simple you get three types of competencies, one is on the hardware or design so basically for they are specifically communications products, they are basically on the line because that is the PLC line so there is



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good understanding on the hardware architecture of electronic equipment. Second on software application what is key in this field it was a high value added because protection is suppose to protect something when something goes wrong and then you need to able to understand when this will happen. So basically a sophisticated **thing** that check a lot of things and if something gets wrong they decide to cut the plant to protect the asset which is behind. All these make a very-very sophisticated and that is what make the difference between good and the bad products and these are own and people in ZIV and the competence to this or that. The third one is the application, the understanding of the application as we integrate those sophisticated numerical equipment either on the distribution gate or HV gate we need to understand how it works to design the overall system so we are those designer in these that can do that and that's I would say the key know-how that ZIV is doing.

Moderator

Ladies and gentlemen that was the last question. I now hand conference back to Mr. Laurent Demortier for closing comments.

Laurent Demortier

Thanks everybody to be there. I just want to say that this acquisition ZIV was one of the only companies available with so much technology and moral in the market so close to us. This was the target that we have in mind since many years even before I come to CG. This we have been winning against few of competition who are very large international which shows some people value a lot the technology and what this company has done in the past year. We are very motivated team in ZIV and in CG which is welcoming and his team and now we need to go a little bit in the detail of the company we would be able to answer certainly better your question in the months to come. I think what I believe will be very clear by December to be able to find out what the future could be like but I think for the time being we believe we can really do something and create a lot of value with such a company. Thank you for your time.

Moderator

Thank you very much. On behalf of Crompton Greaves that conclude this conference call. Thank you for joining us.