

“Crompton-Greaves Q2FY11 Conference Call”

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- Moderator** Ladies and gentlemen, good day and welcome to the Q2 FY 11 Post Results Conference Call of Crompton-Greaves hosted by Prabhudas Lilladher. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing "*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. Joining us on the call today from Prabhudas Lilladher is Ms. Amesha Vora and Mr. Dilip Bhat, Joint Managing Directors along with Mr. Kunal Sheth, Analyst, Prabhudas Lilladher. I would now like to hand the conference over to Mr. Sheth. Thank you and over to you sir.
- Kunal Sheth** Thank you Vivian. Good afternoon everyone. On behalf of Prabhudas Lilladher, I would like to welcome the management of Crompton Greaves on the call represented by Mr. Trehan, the Managing Director. And I request Mr. Trehan to give some opening remarks for the quarter and then we will open the floor for a Q&A. Over to you sir.
- Sudhir M. Trehan** Okay. For the 6 months period, Crompton Greaves standalone sales growth is 14% and the profit after tax growth is 20%. For consolidated numbers including our overseas all entities 6 months growth in net sales 7% and profit after tax growth 14%. Our unexecuted order book stands at consolidated level of 7,116 crores and order input for quarter 2 is 2,564 crores. I think we will stop here. It is much better to answer the questions. These are the key highlights. I'll take up the questions and that would be I think more meaningful for both sides.
- Moderator** Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may kindly press "*" followed by "1" on your touchtone phone. Please use only handsets while asking a question. To ask a question, please press "*" "1" now. The first question is from the line of Bikram Mahajan from Bay Capital. Please go ahead.
- Bikram Mahajan** Yes, good afternoon.
- Sudhir M. Trehan** Good afternoon.
- Bikram Mahajan** We witnessed a very strong growth from the international power segment vis a vis a de-growth last quarter YOY. So could you just explain what's the reason behind it and is this growth sustainable in constant currency terms?
- Sudhir M. Trehan** In terms of Euro local currency growth, there is a strong growth in our overseas entities. I think there is a lot of disturbance I can hear. Can you hear me? Now it is clear. There is a strong 23% growth in Euro terms in local currency Euro to Euro for quarter 2 of our overseas entities, which is pretty strong. But let's not forget that last year second quarter was a very low base. So this 23% is coming from previous year's low base second quarter. Number 2, there is a translation impact of Euro to Rupee of 15%. And hence the quarter 2 Rupee growth will _ overseas entities of about 10%. This is a see saw sort of a thing. Most of this growth has come from distribution transformer revival. Earlier windfarm projects were not closing. Banks were not giving loan. We had lots of large frame contracts but transformers were not being lifting. Now in the second quarter, most of the semi finished windfarms have started construction again. And hence power, power system, equipment has started going there. Yet the financial institutions are not as open as they were 2 years ago in giving funds and closing these windfarm developers. So we will have to keep our fingers crossed and watch. Whatever little we have seen of the October month is not that strong again. It seems to be going down again. So to me it is going to be a see saw thing in Europe definitely. And may be fourth quarter we will come back again and show a good growth. As far as Americas is concerned, I think it is heading for a second depreciation. It did improve in the second quarter, but after that it is not improving much. But having said all that, still we feel the growth will be nowhere near 23% what

happened because of low base of last second quarter as well as lots of distribution order being picked up due to windfarm activity suddenly taking a spur. Still there will be a growth of 5 to 7% in local currency when we end the year. That sort of a growth will be there.

Bikram Mahajan Fine sir. And on the consumer segment, which is continuing to show healthy growth with healthy margins, so what kind of pricing scenario are we looking there and how will it pan out in the second half?

Sudhir M. Trehan Second half should pan out the same as the first half. We are not seeing much pricing pressure because you can see our margins have improved in the consumer segment.

Bikram Mahajan Right.

Sudhir M. Trehan And we have grown. We feel we will be able to maintain the growth. The whole company as stand alone we feel should grow at 14 to 15% in the whole year and be able to maintain the margins.

Bikram Mahajan And sir but in the standalone power segment, the growth was lower than expected. So are there execution challenges or is that the effect of seasonality or broad if you could just explain this.

Sudhir M. Trehan See the power systems is basically an issue of execution at the customer side, not execution at our end. We have orders. The equipments are ready. But the customer is not picking up, because their own projects are not being executed on time. They are getting delayed. Because their projects are delayed, we are unable to invoice our jobs and give it to them. I strongly feel that there is a temporary phenomenon. Whether it will go away in one quarter or two quarters is to be seen. But by the time year ends I am sure their projects will come back on line. And hence our growth should come back on line also.

Bikram Mahajan And sir my last question is on order book, if you could just provide us a segmental breakup of the order book?

Sudhir M. Trehan See segmental breakup I am not having, but you can say when we say the order book, roughly 85% of the order book always is for Power Systems and 15% is for Industrial Systems. And there is no order book for consumers because that is sold off the shelf and there is no order for them. So when I give you the total figures which I gave in the beginning, you can roughly do 85% of that and that will be the power.

Bikram Mahajan And in this 85% how is it distributed between domestic and international?

Sudhir M. Trehan That I can give you. The unexecuted order book of 7,116 crores is split into domestic 3,818 crore and overseas 3,298 crore. So the domestic one has a growth of 22.9% and overseas one has a de growth of 8.5%. Overall it is a growth of 6.1%.

Bikram Mahajan Right. Thanks for taking my question sir.

Sudhir M. Trehan Thank you.

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

Nainesh Rajani Good afternoon sir.

Sudhir M. Trehan Good afternoon.

- Nainesh Rajani** Couple of questions, if you can first throw some light on the competitive scenario in the power section division in the domestic market, A. And second sir, as far as the industrial division is concerned, we have seen a decent amount of growth. If you can throw some light again on you know what industry you are seeing you know traction in terms of order inflow and how do you see that shaping up over the next few quarters if you can just throw some light on these two issues sir.
- Sudhir M. Trehan** There is no change as far as power system competition scenario is concerned. No new competitor has entered. It is the same competition which we have been facing for the last 70 years.
- Nainesh Rajani** In terms of 765 kv transformers do you think sir the competitive landscape is actually intensified and you know the margins going forward could be under pressure for 400 and 765 kv transformers in substation segment sir?
- Sudhir M. Trehan** In this quarter, no tender came for 765 kv. So what we will be talking is talking only what was till the last quarter scenario what we know.
- Nainesh Rajani** Okay.
- Sudhir M. Trehan** And that according to me is not a bad scenario. Yes, there is a competition from China and Korea. But we have been able to face it. We have been able to get the highest market share out of Power Grid Corporation of India Ltd. and they are the only one coming with the 750 kv. Even UP came and we took the order of the UP also. So as far as CG is concerned, we are happy that there is a competition and we are able to face up to it.
- Nainesh Rajani** Fair enough sir. The second question was on the industrial segment, if you can throw some light on that sir please.
- Sudhir M. Trehan** Industrial segment as you would have seen the numbers already, we had a decent growth. For quarter 2 our Industrial Systems have grown by 12.1% and for 6 months it is a growth of 13.4%.
- Nainesh Rajani** What segments have contributed in terms of _
- Sudhir M. Trehan** This is basically the business coming from cement, sugar, oil and gas, steel.
- Nainesh Rajani** Okay.
- Sudhir M. Trehan** These are the four major segments from which execution has happened in this quarter.
- Nainesh Rajani** Okay sir, if you can just elaborate a little bit more in terms of you know in the last 1 year industrial Capex was stagnant because of obvious reasons. Due you see that taking a faster pace going forward? Do you see this segment to grow at a faster pace in the coming few quarters sir?
- Sudhir M. Trehan** I strongly feel Industrial Systems definitely in India will grow slightly faster than what has been the growth of the second quarter. The second quarter was a slightly slower growth than the first quarter.
- Nainesh Rajani** Okay.
- Sudhir M. Trehan** First quarter growth was much higher. It was about 14.9%.
- Nainesh Rajani** That's right sir.

Sudhir M. Trehan So I have a feeling we should be able to get back to about 15% growth in Industrial.

Nainesh Rajani And no issues of off take of equipments in the Industrial Segment that you are facing like you are facing in the power division?

Sudhir M. Trehan No, in Industrial there is no execution issue a the customers and their projects of expansion are going and hence we don't have an issue like power where customer is finding reasons not to pick the equipment after it is made. That is not the scenario in Industrial.

Nainesh Rajani Sir that's all from my end. Thanks a lot and all the very best sir.

Sudhir M. Trehan Yes.

Moderator Thank you.

Sudhir M. Trehan Thank you.

Moderator The next question is from the line of Abhishek Duri from JM Financial. Please go ahead.

Abhishek Duri Sir good afternoon.

Sudhir M. Trehan Good afternoon.

Abhishek Duri Congratulations for a good set of results sir.

Sudhir M. Trehan Thank you.

Abhishek Duri Sir, just a couple of queries in the results itself. One, regarding our tax rate, it has been lower in the first half. It's about 31.5% whereas as last year we were at 34% on an average. Any specific reasons for tax rates to be low?

Sudhir M. Trehan See we are present at so many locations now that this analysis is very difficult because depending on which location whether it is Canada, whether it is US, whether it is Hungary, whether it is Indonesia, whether it is UK, whether it is Ireland, whether it is Belgium, depending on what is our carry forward losses in those places, the rates are so different right from 11% to 39%. Which quarter, where we make the profit and hence the effective tax rate is accumulative of all these 9 baskets. 1 or 2% I don't worry. It's a deviation of 31 or 33, it will be in the ballpark figure of 32. It won't dramatically change the picture.

Abhishek Duri Sir, we completely appreciate regarding your international subsidiaries, but I would my query was on the domestic business.

Sudhir M. Trehan It is almost the same isn't it what was it last year.

Abhishek Duri It was 34.1% in the second quarter.

Sudhir M. Trehan Yeah.

Abhishek Duri This quarter it is about 31.5.

Sudhir M. Trehan Okay, so it is almost same 31.4 and 31.5.

Abhishek Duri Okay so the remaining half also you believe will be in the similar range.

Sudhir M. Trehan Yeah, it will be in the same range. Okay, I am not committing that it will be 31.5. It will be anywhere between 31 to 32.

Abhishek Duri Sir, there is no additional tax benefit which we get in any of our facilities per say.

Sudhir M. Trehan Can you repeat your question, I didn't get it.

Abhishek Duri Do we get any special tax benefits in any of our facilities?

Sudhir M. Trehan Yes. Any facility which we have in Baddi is entitled to a special tax because of the hilly region tax in Himachal.

Abhishek Duri Okay.

Sudhir M. Trehan Anything we invest in Capex, in R&D is entitled to – because the 200% tax rebate on that due to our being an approved DSIR R&D unit. But these were there last year also. They are there this year also. So it's not a change. It's like for like similar scenario.

Abhishek Duri Okay. And sir secondly regarding the Power Grid ordering scenario since we haven't seen much of orders from Power Grid in the first half, is it a likelihood that they are going to improve ordering in the coming year or you know we are speaking for them independently. They said 95% of ordering for 11th plan has been done. So now the further ordering has to be done in the 12th plan which may take a breather for some time. So what's your view on high voltage ordering scenario in the country?

Sudhir M. Trehan High voltage ordering in the first half of this year has been very low. There will be definitely an improvement over the first half in the second half. But I fully agree with you that the most of the now ordering which will happen will be for the 12th plan and majority of it will come in the first half of the year 11-12.

Abhishek Duri Okay.

Sudhir M. Trehan But having said that, still the second half of 10-11 will have a higher input order, order finalization by Power Grid Corporation.

Abhishek Duri Right.

Sudhir M. Trehan Than was in the first half.

Abhishek Duri Right. My third question would be on similar lines. Sir if the ordering proportion which we have currently is more into the order proportion is tilted towards the medium voltage segment. Would we see the current trend in which you know our power segment margins have dipped slightly about 100 basis points. Would that trend continue or do we expect to maintain margins at the last year levels?

Sudhir M. Trehan We will be maintaining our margins hopefully at the last year's level.

Abhishek Duri Which was about 18.5%, 18.4% last year.

Sudhir M. Trehan I wouldn't commit to the number because it depends which way you calculate margin. So long it is like for like, the way I calculate last year the same way I will calculate this year. It will be same. And I am committing margin for the company. At my level, I don't get into the margins for power systems, for consumer, and industrial.

- Abhishek Duri** Okay.
- Sudhir M. Trehan** Otherwise it becomes too difficult if everything is done at the ...
- Abhishek Duri** Fair enough sir. I deeply appreciate. Thank you so much for taking my questions. I will come back for further.
- Sudhir M. Trehan** Thank you.
- Moderator** Thank you. The next question is from the line of Lokesh Garg from Kotak Securities. Please go ahead.
- Lokesh Garg** Hi sir. Good afternoon.
- Sudhir M. Trehan** Good afternoon.
- Lokesh Garg** Sir just wanted to talk to you on overseas subsidiaries. Essentially we have seen a very strong growth in this quarter, which was partly attributed to pick up in distribution transformers and possibly largely attributed to base effect as well as you said. Now what we notice is that this base effect should be very positive in next two quarters as well, in which case is there a possibility that on a YOY basis these companies could actually report stronger than expected numbers.
- Sudhir M. Trehan** I will be more than happy if they do that, but my guidance is knowing that the distribution transformer in the second quarter really picked up because the incomplete windfarms got the financial closure and started moving. It doesn't seem to be happening for newer ones. So I as I said see it in Europe a see saw third quarter going down fourth quarter coming up. I see USA definitely a second dip, recession now picking up. But with all that I see local currency in the whole year a growth of 5 to 7%.
- Lokesh Garg** Now my next question is related to margins. We tend to believe that these companies are roughly operating at margins of EBITA margins of about 10% or so. Structurally over next 1 to 2 years would you expect that these margins could pick up to let's say 12, 13, 14% levels or would you expect that margins would remain where they are currently?
- Sudhir M. Trehan** Margins will definitely not remain where they are today. They will definitely improve, provided the market improves. We don't see the market growing more than 5 to 7% in this year overseas units. Hence we are saying the margins will be the same as last year. But today we definitely see the markets coming back, European definitely in the year 11-12. And hence margins will improve in the overseas entities.
- Lokesh Garg** Sure. My last question is related to your commentary on the power segment at the domestic level, which is the standalone power segment. You said there are delays at customer end. Now domestic power segment essentially half of the business is exports also. So is the delay more at Indian customer's end or it's at both kinds and is it related to generation side power plants getting delayed. So can you give us more color related to some of these issues?
- Sudhir M. Trehan** It is related to both. It is the export customers also who are delaying openings LCs and we don't dispatch the transformers till we get its money. So it's a delay from export customers. It's equally true of the domestic customers after inspection of the equipment and clearance they are not giving the dispatch instructions because their sites are not ready and hence we are unable to push. So it's not confined to only one type of customer. It is confined to both domestic and international. It is again confined to both the equipment going for transmission in generation side or equipment going on the

transmission and distribution side. Everywhere we are seeing not the ideal situation which was prevailing 2 years back.

- Lokesh Garg** Sure. Thanks a lot sir.
- Moderator** Thank you. The next question is from the line of Shashi Kiran from Standard Chartered. Please go ahead.
- Shashi Kiran** Sir thanks for taking my question. A bit of question on the order book. Going forward I mean how do you see the order book picking up especially for the transformer segment. Where do you see orders coming from the segment in the third and fourth quarter? Would it be largely from Power Grid opening up orders or do you see more orders coming in from State Governments?
- Sudhir M. Trehan** We expect the orders more than in the first half definitely in the second half. And we expect the orders coming from Power Grid Corporation of India Ltd. as well as electricity boards. Both more than what we got in the first half.
- Shashi Kiran** Okay. And would these orders be for the projects let's say projects or would it be more of systems and things from the projects that we would be looking at.
- Sudhir M. Trehan** They will be for both. We are in both fields and these orders are expected both from ultra mega as well as from the routine business of the electricity boards or Power Grid.
- Shashi Kiran** Okay. Sir on _ basis, which should be the which do you expect to be predominant?
- Sudhir M. Trehan** Can you repeat your question, I didn't get it.
- Shashi Kiran** In the near term I mean say in 6 months or so which segment do you think would be dominant as compared ...
- Sudhir M. Trehan** As I said, second half of the year I expect orders from both from Power Grid Corporation, from ultra mega, as electricity boards. We know what sort of a pipeline we have, what sort of tenders are coming. And hence the eggs are in all three baskets and not in one basket.
- Shashi Kiran** Okay. And can you give the order book and total order book numbers?
- Sudhir M. Trehan** I just said that our unexecuted order book is 7,116 crores.
- Shashi Kiran** And order inflow?
- Sudhir M. Trehan** Order inflow is 2,564 crores in this quarter.
- Shashi Kiran** Okay. And can you break this up into domestic and international?
- Sudhir M. Trehan** I did I had already done that. 3,818 crores is the _
- Shashi Kiran** Order inflow.
- Sudhir M. Trehan** Order inflow 1,566 crores of India in second quarter and 998 crores of the overseas entities making total 2,564.
- Shashi Kiran** Thanks a lot sir.

Moderator Thank you. The next question is from the line of Kirti Dalvi from Enam AMC. Please go ahead.

Kirti Dalvi Good afternoon sir and congratulations once again for good performance.

Sudhir M. Trehan Good afternoon.

Kirti Dalvi A few questions sir. You did mention that there is very much uncertainty in European and American markets. But in terms of growth in Euro terms what kind of outlook you will give for the next year?

Sudhir M. Trehan Next year will be greater than 7%.

Kirti Dalvi Okay, in terms of the Euro revenue.

Sudhir M. Trehan In terms of Euro. I always talk of local currency in Euro. I don't dabble into the exchange rate.

Kirti Dalvi If you don't mind can I stretch would it be possible to do something like a double digit volume growth sir in Euro terms?

Sudhir M. Trehan Ask me this question after 1 quarter I will be more clear. Our also internal goal is to do that, but today I will say greater than 7.

Kirti Dalvi Sure sir. And on a standalone basis sir, domestic?

Sudhir M. Trehan Standalone 15 to 18 next year.

Kirti Dalvi Okay, and sir next year. Was there any kind of Forex loss or gain in this first half?

Sudhir M. Trehan Nothing substantial, nothing substantial.

Kirti Dalvi Okay and our international revenue sir all put together in the standalone business for the first half?

Sudhir M. Trehan Revenue you can arrive at. We have declared results where we have said that the half year ended revenue of standalone is 2,788 and total is 4,700.

Kirti Dalvi Sir I was talking about the exports and the domestic business.

Sudhir M. Trehan Exports out of the domestic business.

Kirti Dalvi Yeah.

Sudhir M. Trehan I will give you one moment. The second quarter exports are 253 crores.

Kirti Dalvi Okay sir. And sir planned Capex for the current year.

Sudhir M. Trehan Planned Capex for the current year is about 600 crores.

Kirti Dalvi Okay and we have figures for the next year sir as well, do we have any plans for that?

Sudhir M. Trehan About 600 crores again.

Kirti Dalvi Okay sir. And sir the last question, if you could throw a little bit light on the new JVs what we are about to form, JV as well as the other one. So could you throw a little bit light on that?

Sudhir M. Trehan We have formed a JV with the ZIV of Spain.

Kirti Dalvi Yeah.

Sudhir M. Trehan Which is 70% owned by us and 30% ZIV.

Kirti Dalvi Sure.

Sudhir M. Trehan This will do a complete protection and automation equipment starting from 66 kv upto 800 kv.

Kirti Dalvi Okay.

Sudhir M. Trehan This will take up into transforming the company from a product company to a solutions company. This will fill the gaps what we had with the major competition globally.

Kirti Dalvi Okay.

Sudhir M. Trehan For providing automation and protection solutions. We will do sale from this JV in India and in other countries.

Kirti Dalvi Okay. Sir I know it is very premature to ask this question, but what kind of opportunity in terms of revenues or sales we are looking over a period of say next 2 to 3 years from this kind of mix?

Sudhir M. Trehan Next 2 to 3 three this should be about 200 to 250 crores at the end of 2 to 3 years.

Kirti Dalvi Okay. And sir the other one which is formed.

Sudhir M. Trehan Other one which is formed is 51% our and 49% EIC of Saudi Arabia.

Kirti Dalvi Okay.

Sudhir M. Trehan This is for entering into EPC business in Saudi and the Gulf countries.

Kirti Dalvi Okay.

Sudhir M. Trehan And we already have formed 2 quarters 3 quarters back a JV with the same company for producing medium power transformers also in Saudi.

Kirti Dalvi Sure.

Sudhir M. Trehan But this will expand the market to now more than just transformers into that incomplete EPC and solutions for Saudi and Gulf countries.

Kirti Dalvi Okay and how much time sir it will take for us to ramp up this JV?

Sudhir M. Trehan This JV has been already signed production _ transformers as well as EPC should start in next 6 months to 8 months time.

Kirti Dalvi Okay. And we will be looking at a similar kind of opportunity, the one which you have mentioned earlier in this JV also.

Sudhir M. Trehan There the numbers will be much bigger may be in 3 years' time about 500 crores.

Kirti Dalvi Okay sir. Thank you. Thank you very much and wish you good luck sir.

Sudhir M. Trehan Thank you.

Moderator Thank you. The next question is from the line of Srinivas Rao from HDFC Mutual Fund. Please go ahead.

Srinivas Rao Yeah. Good afternoon sir.

Sudhir M. Trehan Good afternoon.

Srinivas Rao My question is from the project business. Can you tell us a little bit more on the business plan in terms of domestic market and overseas and what can we expect over next 2, 3 years?

Sudhir M. Trehan Which business? I didn't get you.

Srinivas Rao Projects business.

Sudhir M. Trehan We don't do projects business.

Srinivas Rao You've got few orders recently.

Sudhir M. Trehan Those are hardly talking for a company size of 10,000 crores an order of 250 crores. There is no project business for us. It so happens that that project is 765 kv and hence we want to supply all the power equipment and hence we have taken the project. But 80% of that is our power equipment. And the total value of it is 250 crores. We are not a projects company.

Srinivas Rao Right but ...

Sudhir M. Trehan We don't do business in projects.

Srinivas Rao Okay, but you are looking at getting that segment so that's where I wanted to ...

Sudhir M. Trehan We get that segment for 765 kv only, because the customer today is trying to convert a 765 kv because he does not understand today which he will change in couple of years' time into a turnkey project. But our basic interest lies with power DND equipment. And we can't get an order for DND equipment so we were forced into taking projects order. We have never burnt our fingers in projects. We have never entered projects. This company will not be a projects company in future also. But we will take these types of orders to make entry into 765 kv. And as the customer understands the business better, in 2, 3 years he will start coming the same way as 400 kv and will start splitting. What is after all project. Project is making doing some gadhas and putting some cement in it. That to me is definition of a project. And we are not good at making gadhas and putting concrete. There are other companies who do projects. We do the electrical balance of plant, design, manufacture, supply, testing, commissioning of the equipment.

Srinivas Rao Okay, right sir. And the second question is on any upgrade on this 1100 kv that you and other vendors are working with PGC.

Sudhir M. Trehan Can you just elaborate your question? I did not get you.

Srinivas Rao You've been working with the PGCL on developing this 1100 kv 1200 kv.

Sudhir M. Trehan That's right 1200 kv we are working for the experimental station. We have already supplied them a capacity voltage transformer of 1200 kv. We are already producing a power transformer of 1200 kv. We are at the last phase of testing a lightning arrester of 1200 kv. So we are on tiem in supplying our equipment, which will go to the experimental 1200 kv station.

Srinivas Rao Okay. Sir the transformers is there any other company than Crompton sir?

Sudhir M. Trehan BSEL is also tied up with them _.

Srinivas Rao Okay. Thank you.

Sudhir M. Trehan Thank you.

Moderator Thank you. The next question is from the line of Madana Gopal from Sundaram Mutual Fund. Please go ahead.

Madana Gopal Hello sir. Good afternoon.

Sudhir M. Trehan Good afternoon.

Madana Gopal Sir my first question is on can you quantify is there any order that has been invited by PGCL in the last 6 months which is yet to be released, if you can quantify that.

Sudhir M. Trehan I don't remember off hand. I don't think there is any which is that has been finalized and order not released. All orders which were finalized have been released. It is the new tenders which have to come and orders have to come out of them.

Madana Gopal Okay. Sir second is on this we hear that PGCL is likely to introduce some minimum manufacturing requirement to be in India foreign transformer and there is a minimum foreign component requirement for a 765 kv transformer. How do we read it? How does both the requirement will be met by companies?

Sudhir M. Trehan Comment about CG makes no difference. We have now an experience of making 765 kv in India. And we have our own foreign company which makes 765 kv. So let them put any condition, does not impact CG.

Madana Gopal Okay. Thank you for taking my question.

Moderator Thank you. The next question is from the line of Pranav Gokhale from Religare. Please go ahead.

Pranav Gokhale Hello.

Sudhir M. Trehan Hello.

Pranav Gokhale Good afternoon sir.

Sudhir M. Trehan Good afternoon.

Pranav Gokhale A question on the order book is the domestic and international order book the execution period any material difference among those two?

Sudhir M. Trehan No they are almost same execution.

Pranav Gokhale Any time line it is about 18 months approximately.

Sudhir M. Trehan No roughly they get executed between 8 to 10 months.

Pranav Gokhale 8 to 10 months, okay. Sir the next question is on the industrial systems, especially what you already answered. Sir the capital employed seems to have gone up from 180 crores order in FY 10 to about 330 crores to the end of this quarter. This was something like 228 crores again in Q1 FY 11. This incremental capital employed where is that more of a stocking situation or what is happening in ...

Sudhir M. Trehan We have acquired 3 businesses of Nelco which were not there last year.

Pranav Gokhale Okay.

Sudhir M. Trehan So those have come into the capital employed now. All 3 businesses of Nelco are a part of Industrial Systems. We have also acquired the 1% share holding of Group Crompton Motor Company, which is also now a part of industrial system, which earlier was not a part of it. So these are two new acquisitions which are adding to the capital required.

Pranav Gokhale Sure and sir the international business when you are talking about distribution, will you also sort of consider this more of a restocking situation when it comes to the international business? Your order, the execution and sale which has happened or is it more to do with just one of the sales which actually as you have highlighted _.

Sudhir M. Trehan I am not clear of your question.

Pranav Gokhale When you spoke about the international business, you highlighted few distribution orders which have actually picked up. And which the turnover has gone up in the international subsidiaries.

Sudhir M. Trehan Yeah.

Pranav Gokhale You consider restocking also which has already happened or do you consider the restocking situation or the company's or various dealers maintaining particular stock levels?

Sudhir M. Trehan In our case there is no restocking or stock level with dealers. These are going to the ultimate customer only. The windfarm developer is taking them to install in the windfarm. There is no in between dealer. So there is no stocking in our case.

Pranav Gokhale Sure. Thank you sir.

Sudhir M. Trehan Thank you.

Moderator Thank you. The next question is from the line of Lokesh Garg from Kotak Securities. Please go ahead.

Lokesh Garg Hi sir.

Sudhir M. Trehan Hello.

- Lokesh Garg** Actually a follow-up question from what you said in the call on the Capex side you have suggested something like 600 crore Capex for both FY 11 and FY 12. Now as far as our understanding is concerned, this is a significant scale up versus what Crompton used to do earlier which may have been of the order of 250 billion. So I just wanted to get _ you know sort of commentary from your side as to which capacities are being expanded roughly, which plants and all that to the extent that you can share with us.
- Sudhir M. Trehan** We are building capacity slowly in power systems and industrial systems, because we feel by next year we may be running out of capacity. And as we see the markets now stabilizing or improving we are just investing for building some ground field capacities in both power and industrial.
- Lokesh Garg** Sure sir. Sir lets say if we were to talk in mva for transformers, India capacity may be of the order of 50,000 mva. Is that something that's likely to go up significantly from here.
- Sudhir M. Trehan** No it won't be significantly. It will go up by about 10 to 20%.
- Lokesh Garg** Sure. Thanks a lot sir.
- Sudhir M. Trehan** Thank you.
- Moderator** Thank you.
- Sudhir M. Trehan** Thank you.
- Moderator** The next question is from the line of Lakshmi Ganti from BNP Paribas. Please go ahead.
- Lakshmi Ganti** Good afternoon sir. My first question is on, lot of my questions have been answered, but one on the Avantha Power IPO update.
- Sudhir M. Trehan** This is a CG call. I will take that separately when I call Avantha Power call.
- Lakshmi Ganti** Okay and second question is on a sequential basis we noticed that the raw material you know RM as a percentage of sales overseas entities has declined. What was the reason for this and going forward given the fact that copper prices are rising again _ how would you be positioning yourselves for that? And any color on CRGO steel prices because that information is not publicly available if you could help us with these.
- Sudhir M. Trehan** CRGO, as you rightly said, no information is available and these people don't give information to anybody. They decide when to charge what. So I won't be able to comment. We are in their hands. They are very _ players in the field. As far as copper is concerned, we take a forward cover and hedge. So to us it doesn't make a difference. When we get the order, we cover it up. And that's the reason you have being seeing for last so many years that copper and other materials have fluctuated tremendously but our margins have not fluctuated. And we believe in this philosophy and the same will be going forward.
- Lakshmi Ganti** Sure. On the RM as a percentage of sales declining for the second quarter in the overseas business, if you could comment on that and are we ...
- Sudhir M. Trehan** Loss from distribution transformers of wind have gone as we said. But still overall as we have said in the beginning, we will be able to maintain the margin for the whole year equal to the last year.

Lakshmi Ganti Perfect. And second question is along the same line as my previous I had asked. 600 crore capital looks big and if you could actually give us some sense of whether it will be in the 765 kv space or where exactly you would be committing.

Sudhir M. Trehan 765 kv we have already spent. We have already produced 765 kv equipment. So that is __. This is for general increase in the capacity. By increasing capacity both in power and industrial by 10 to 15% for the year 11-12 onwards. Even 11-12 first half we are okay. This capacity will come into play in the second half of 11-12. Just getting ready in case the market in 11-12 grows greater than 15% then we will need some capacities.

Lakshmi Ganti And last question probably is you hinted that Power Grid orders would probably pick up in the second half, however we've seen them being extremely weak in the first half. Now do you think demands from industries will sort of compensate? Are you seeing a pick up from industrial clients for DND equipment and will that be strong enough let's say if Power Grid _ for the second half also, how do you think industries would do in the next half?

Sudhir M. Trehan Industries are definitely doing much better in the second half. And they did much better in the first half also and they will do better. And that's where our confidence stems that the order input in the second half of the year will be more than what happened in the first half.

Lakshmi Ganti Okay. Sir, would you be giving us some guidance on the order intake front?

Sudhir M. Trehan No, I never give guidance on order intake. I give guidance only on sales and profit.

Lakshmi Ganti Okay. Thanks a lot and all the best sir.

Sudhir M. Trehan Thank you.

Moderator Thank you. The next question is from the line of Rupesh Kumar from KR Choksey. Please go ahead.

Rupesh Kumar Sir, congrats for the good set of numbers.

Sudhir M. Trehan Thank you.

Rupesh Kumar Sir my question, would you elaborate CG subsidiaries business in US and Canada?

Sudhir M. Trehan Elaborate the business in Canada and?

Rupesh Kumar US sir.

Sudhir M. Trehan And US.

Rupesh Kumar Yes sir.

Sudhir M. Trehan What elaboration you need?

Rupesh Kumar Sir how our subsidiaries are working there, what's their growth, and ...

Sudhir M. Trehan They are doing pretty well. The Canada one has grown about 11%.

Rupesh Kumar Yes sir.

- Sudhir M. Trehan** US one has grown about 2%. The margins are a shade better than last year.
- Rupesh Kumar** Sir in future as you are saying sir there is a double dip recession and all so we can expect growth or something?
- Sudhir M. Trehan** Double dip means one dip has already happened. We maintained the margin when the first dip happened. No reason why we will not maintain when second dip happens.
- Rupesh Kumar** Okay sir. Thank you sir. Thank you very much.
- Moderator** Thank you. The next question is from the line of Yogita Shenvi from Wealth Managers. Please go ahead.
- Yogita Shenvi** Good afternoon sir.
- Sudhir M. Trehan** Good afternoon.
- Yogita Shenvi** This is _ here. Just a ...
- Moderator** Excuse me Mr. Shenvi, sorry to interrupt, but we can't hear you clearly.
- Yogita Shenvi** Hello.
- Moderator** Yes, please go ahead.
- Yogita Shenvi** Sir in the past you have maintained that you would like to enter the EBC side of the business. That is on one side like you know heavy _ on how you would like to enter that side whether it will be organic way or inorganic method and the timeline as to when we see our presence there. So that has _ and also our geographical presence in Latin America and China what you are planning.
- Sudhir M. Trehan** HVDC we should be there in next 2 to 3 years. It will be a mixture of organic and inorganic. We are working on our own technology as well as looking for targets. As far as presence in Latin America, it's a constantly search for the company to get in that directly, because we see it as a Brazil specifically as a very growing market economy and a large size for DND as well as industrial. We are constantly looking at it. We will keep you posted as and when we find a target and zero on on to it. But that's the goal of the company.
- Yogita Shenvi** And something on the China side sir?
- Sudhir M. Trehan** China, at the moment nothing for us, no.
- Yogita Shenvi** Sir on the Latin America side any idea on what would be the you know broad size which we might be interested in _ given that we are already at a reasonable scale. So any broad outlook, no not outlook, but indication that we would be interested in certain size in particular.
- Sudhir M. Trehan** See M&A are issues which are dependent on both sides. So I won't comment on that. I may be wanting anything. What is available I'll have to do at the appropriate value, because Crompton is a very, very disciplined acquirer. It doesn't go in an undisciplined manner till it sees the value in it. I think the question is premature. As and when we are there, we will definitely share with you.

Yogita Shenvi Okay. Sir my last question on a slightly broader side sir. Is there any outlook where you know or internal target where we plan to grow to around 8 billion size by 2015?

Sudhir M. Trehan Yes, that's our vision which was set in 2005 itself, which is an 8 billion dollar company's internal vision to be an 8 billion dollar company by 2015.

Yogita Shenvi Which would be putting all consolidated revenue.

Sudhir M. Trehan Consolidated, yes.

Yogita Shenvi Sir, this is Yogita here.

Sudhir M. Trehan Yes please.

Yogita Shenvi Can I have the further intake in order backlog for standalone CG?

Sudhir M. Trehan Standalone CG I just gave the number. Order backlog of standalone CG is 3,818 crores. And order input in second quarter standalone CG is 1,566 crores.

Yogita Shenvi Okay. That is all from my side. Thank you sir, wish you all the best.

Moderator The next question is from the line of Renu Baid from BNK Securities. Please go ahead.

Renu Baid Good afternoon sir.

Sudhir M. Trehan Good afternoon.

Renu Baid Sir, actually some of my questions have already been through. Just two small queries. One, in the last quarter also you mentioned and you are saying in this quarter that you have seen increased activity in the wind power segment. And if you are seeing that business making off or offsetting the sluggishness in the housing market, then will it be right to believe that the margins on these better or more sophisticated products would be better in the international business?

Sudhir M. Trehan The margins were better. Our margins would have improved. They are obviously not better that's why our guidance is that we will be able to maintain the margins of the last year.

Renu Baid Okay. And the second question would be on regard to our 765 manufacturing side. Our Bhopal plant is almost I think should be completing or _ by the end of September after we start the first 765 kv plant _. So can we now be eligible CG be eligible for 100% local supply for 765 Power Grid orders?

Sudhir M. Trehan The conditions keep changing from tender to tender. So yes, if they keep the same conditions, we are eligible to supply 100% from Bhopal plant.

Renu Baid From India itself.

Sudhir M. Trehan From India itself.

Renu Baid Okay. Sir, I think other queries are almost through. If you can just give me one maintenance question. What was last years total export number in domestic power?

Sudhir M. Trehan I don't have the last year number here with me. I must have shared it last year.

Renu Baid Sure sir.

Sudhir M. Trehan It will be in my archives. It won't be in front of me right now.

Renu Baid Sure I will get back and check those numbers sir. Thank you so much. All the best for the year to come.

Sudhir M. Trehan Thank you.

Moderator Thank you. We have a follow on question from the line of Madana Gopal from Sundaram Mutual Fund. Please go ahead.

Madana Gopal Hello sir.

Sudhir M. Trehan Hello.

Madana Gopal Sir, just wanted a little bit more detail. Current quarter order flow from domestic which is 1,566 crores given that PGCL has not come out with much of an order where have we broadly got these orders from? Is it from private or from state power utilities, broadly?

Sudhir M. Trehan Both private and state electricity, both.

Madana Gopal Okay, so we can say equally from both probably.

Sudhir M. Trehan I am not saying that. We don't share that. Because that's more a competitive information. I don't think your analysis will change from where it came. So we don't share who are our customers, how did we get the order. But that would be too much of intelligence sharing for competition to take note of.

Madana Gopal Okay, thanks. Thank you very much.

Moderator Thank you. The next question is from the line of Siddharth Saikar from UTI. Please go ahead.

Siddharth Saikar Hello sir.

Sudhir M. Trehan Hello.

Siddharth Saikar Congratulations for numbers.

Sudhir M. Trehan Thank you.

Siddharth Saikar Sir regarding that Belgium project that off shore wind power project that we are doing in _ what is the exact scope of that?

Sudhir M. Trehan We have finished the project. It is commissioned.

Siddharth Saikar Yes sir, but ...

Sudhir M. Trehan The scope was to complete electrical substation offshore of 165 mva and bringing that power from off shore 550 km to onshore and an onshore substation then to connect it to the main grid.

Siddharth Saikar Okay. Sir there were some reports of using some technology, new technology.

- Sudhir M. Trehan** Yeah. We have used a technology where there is no moving part in a 50 km away in the sea on the substation. And all moving parts are only on the onshore substation so that the equipment which is in the rough weather sitting on a huge platform 50 km in the sea is completely maintenance free.
- Siddharth Saikar** Okay. Sir and how it will be useful in future like in future projects?
- Sudhir M. Trehan** It will make life much simpler for all offshore wind projects, because the biggest problem for offshore wind projects was how to do maintenance of the electrical sub stations.
- Siddharth Saikar** Okay.
- Sudhir M. Trehan** A turbine normally does not need a maintenance. It is the electrical equipment which used to need maintenance and how do you go with the 5 meter high waves in 50 km in to the sea where the substation is sitting on sea on a platform. And how do you maintain it? It is much worse than maintaining a deep oil rig. So you want it to be maintenance free and this technology will now make it maintenance free. And hence we feel the cost of putting offshore sub stations will become reasonable and they will be able to give much better plant load factor because there will be much less downtime.
- Siddharth Saikar** And sir how many other players this technology ...
- Sudhir M. Trehan** We have filed for a patent. So obviously we are the ones.
- Siddharth Saikar** Okay, thank you sir and best of luck.
- Sudhir M. Trehan** Thank you.
- Moderator** Thank you. The next question is from the line of Akshay Thakkar from Enam Securities. Please go ahead.
- Akshay Thakkar** Sir, most of my questions have been answered. I just have two specific questions. The cash balance and the consolidated balance sheet seems to have gone down in the first half. Any color on that? And secondly, the acquisitions that you were mentioning that you would be doing have that targets etc. been identified and what are the ticket sizes that you are looking for in these acquisitions?
- Sudhir M. Trehan** Second part of your question, you know very well I won't be able to share with you at this point of time otherwise SEBI will put me behind bars or I don't know what's the other penalty also. So second question, you know very well that I can't answer for you. First question if you tell me you are referring to the standalone or are you referring to the consolidated balance sheet.
- Akshay Thakkar** Sir standalone balance sheet 548 crore cash gone down to 222 and even the consolidated cash has come down.
- Sudhir M. Trehan** So you are talking of cash having come down from 278 on 30th September 2009 to 222.
- Akshay Thakkar** No, I was referring to the March number.
- Sudhir M. Trehan** March number, March number to I don't have in front of me.
- Akshay Thakkar** March is 550 odd crores.
- Sudhir M. Trehan** 550 odd crores in 30th March is it?

Akshay Thakkar Yeah.

Sudhir M. Trehan And 30th September is 222. And what is the March number in investments in front of you?

Akshay Thakkar 690 crores.

Sudhir M. Trehan Okay. One minute I am opening. Because it hasn't gone down so I will have to look what numbers we are having. Okay if your question is has the cash gone down compared to March, the cash hasn't gone down. It may have shifted from cash as a fixed deposit in the bank where it appears in cash to a mutual fund liquid investment which will then go in investments.

Akshay Thakkar Okay.

Sudhir M. Trehan Normally we have to add the cash and the investments. Because all those which are in liquid fund are appearing in cash for investment. So add the two, it would have gone up. It hasn't gone down.

Akshay Thakkar Okay, alright. Thank you sir.

Moderator Thank you.

Sudhir M. Trehan Thank you.

Moderator The next question is from the line of Abhishek Bhandari from Macquarie Securities. Please go ahead.

Abhishek Bhandari This is Inderjeet here from Macquaries. Thanks. Most of my questions have been answered. One, you've talked about industrial growth sustaining at a strong level even better than the first half.

Moderator Excuse me Mr. Bhandari, sorry to interrupt sir, but your voice is really low. Could you be a bit louder or switch to the handset?

Inderjeet Okay. My question is Mr. Trehan you talked about industrial growth rate sustaining may be even better than the first half. You also talked about consumer growth rate which is running at 24% that to sustain at very strong levels. Yet you are talking about a 15% kind of a revenue growth in standalone. Does that build in a very delayed pick up in the power systems in domestic power systems this year or if that pick up happens earlier than expected then there could be up side to these numbers.

Sudhir M. Trehan That's the whole idea of giving a forward-looking statement.

Inderjeet Okay. And again next year you are talking about 16 to 18. Any particular division which you expect to kind of do better than others?

Sudhir M. Trehan Power definitely should do better than this year, because I don't see the first half of power in next year growing at this low rate. That will definitely be a higher growth rate.

Inderjeet Okay. Thanks a lot.

Sudhir M. Trehan Thank you.

Moderator Thank you. The next question is from the line of Nidhi Agarwal from ShareKhan. Please go ahead.

Nidhi Agarwal Yeah sir. Thanks for taking my question. Sir I want to know what is the Capex done till date till H1.

Sudhir M. Trehan In H1 is about 300 no about 425 crores.

Nidhi Agarwal Okay. And sir does this Capex also include what you have paid for the acquisitions? Or is it just a pure ...

Sudhir M. Trehan It does include whatever has been paid for the acquisitions.

Nidhi Agarwal Okay. And sir the next question is the 600 crores expected in the next year investment in Capex, will this be financed internally or would you be taking you know some leverage on your balance sheet?

Sudhir M. Trehan It will be funded internally. Our cash flow generation, you can see yourself, is greater than this. Why will we take loan when we have internal funds?

Nidhi Agarwal Okay, and even depreciation has also increased 50% mainly because of Capex only.

Sudhir M. Trehan Because of this Capex and the acquisitions, new plant and machinery which has come in by acquiring the business of Nelco, by acquiring the PTS Manchester, by acquiring 51% share holding of ECGL etc. So all those acquisitions also bring their assets and depreciation.

Nidhi Agarwal Alright sir. And sir one question on employee cost, your employee cost we have not seen you know as a percentage of sales or either on you know Y on Y basis, we have not seen much growth there. So I mean, in the normal industry we are seeing lot of you know wage hike and all. So with what is the scenario and I mean how would you expect to retain your employees?

Sudhir M. Trehan We have retained our employees that's how we have grown 15% year after year our CAGR is 20%. That sort of a growth doesn't come till you have motivated employees staying with you.

Nidhi Agarwal Alright.

Sudhir M. Trehan So our I think last 10 year results have shown that employees are with us. Then only we are growing.

Nidhi Agarwal Okay, but it is not reflecting in terms of cost or wage hikes.

Sudhir M. Trehan It is, see those are two separate issues. I think that's where you people confuse. Wage hikes have happened as much as 35%. But productivity has improved also by 35%. If that happens, the wage cost will remain constant. If your productivity doesn't keep in line with the wage hike, the salary hike, then you are in trouble. When you give a man 35% more, you expect 35% more from him. And he has delivered it. You give a man 50% you expect 50% more from him. And that's where the productivity of this company has improved and that's why with the same number of people we have been able to produce more. But same number of people have been paid more and they have produced more. So productivity has improved. That doesn't mean that the people have not got a hike. It is not constant because people have not been paid. People have been paid increases ranging from 30% to 50%.

Nidhi Agarwal Okay.

Sudhir M. Trehan But they have delivered also. And hence the number of people have not increased. Normally why the other companies pay higher percentage of personnel cost to sales is because sales is increasing by 15% we need 15% more people also. No, same people deliver, but they are paid more.

Nidhi Agarwal Sir that answers my question. Thanks for taking my question sir.

Sudhir M. Trehan Thank you.

Moderator Thank you. Ladies and gentlemen, due to time constraints the management would be taking one last question. The last question is from the line of Dhirendra Tiwari from Motilal Oswal. Please go ahead.

Dhirendra Tiwari Thank you. Good afternoon sir.

Sudhir M. Trehan Good afternoon.

Dhirendra Tiwari I just wanted to you know get some idea about 765 kv transformer reactor range. These are new products in India. So what has been the experience in terms of you know testing, commissioning, instillation, and performance till date? Have you seen any kind of problem in terms of the performance of these products either by you or any other _ country as of now.

Sudhir M. Trehan I would not comment about others, but touch wood, we have had no problems. We are the longest experienced today in the country of 765 kv equipment both made in India by us and made outside by our own companies. And touch wood so far we have had no issues _.

Dhirendra Tiwari Alright. And secondly, how is the state of electricity boards as of now in terms of their capability to sustain the kind of ordering that they have had in the last 3, 4 years. Has there been any kind of deterioration in the health of some of these SEBs which can lead to you know adverse growth in the business as such?

Sudhir M. Trehan None of them have deteriorated, but none of them have improved either because in true sense this unbundling has not happened. It is on paper that one electricity board is unbundled into three for generation, transmission, and distribution. In affect it is still three government undertakings and another one on top now holding. So one has become four. And effectiveness and corporatization hasn't happened. So they haven't improved. So the intention was to make them financially much more viable, productive, and effective. That hasn't happened, but fortunately, they haven't deteriorated. They are the same what they were.

Dhirendra Tiwari Okay. Sir finally one data point, if it is possible for you to give the breakup of revenues in the first half of overseas subsidiaries in terms of how much in Europe and how much in US, broad numbers.

Sudhir M. Trehan Broad numbers, we can give you geography of our sales.

Dhirendra Tiwari Right.

Sudhir M. Trehan We sell about 19% of our sale in Europe and about 12% in North America.

Dhirendra Tiwari Of the consolidated sales.

Sudhir M. Trehan Of the consolidated number. So you can arrive yourself.

Dhirendra Tiwari Okay, alright. Thank you very much and all the best sir.

Sudhir M. Trehan Thank you.

Moderator Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Kunal Sheth for closing comments.

Kunal Sheth I would like to thank all the participants on the call and I would also like to thank the management for taking time out for the call and giving us this opportunity. Thank you so much sir.

Sudhir M. Trehan Thank you very much.

Moderator Thank you. On behalf of Prabhudas Lilladher, that concludes this Conference. Thank you for joining us. You may now disconnect your lines. Thank you.

END.