

## Crompton Greaves

### Q4FY11 Post Result Conference Call Transcript

**Representative:**

Mr. S.M. Trehan – Managing Director

**PL Rep.:**

Kunal Sheth – 91-22-6632 2257

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#### Moderator

Ladies and gentlemen, good morning and welcome to the Crompton Greaves conference call hosted by Prabhudas Lilladher as a reminder all participants lines would be in the listen only mode. There will an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call please inform the Operator by pressing \* and then "0" on your touchtone telephone. I would now like to hand the floor over to Mr. Kunal Sheth from Prabhudas Lilladher. Thank you and over to you sir.

#### Mr. Kunal Sheth - Prabhudas Lilladher

Yeah, thank you and good morning to everyone. On behalf of Prabhudas Lilladher, I would like to welcome the management of Crompton Greaves in the call. The Management is represented by Mr. S.M. Trehan, the Managing Director for Crompton Greaves. I would request for one last time Mr. Trehan to give the opening remarks for the quarter, over to you Sir.

#### Mr. Sudhir Trehan - Managing Director, CG.

Sure. The annual growth for the standalone company in net sales is 13% and the growth in EBITDA is 9% and the growth in PAT is 20%. Consolidated numbers growth in net sales in India rupees is 9%, the growth in EBITDA is 5% and the growth in PAT from ordinary activity is 12%. I think that's the headline summary of the operations of the company for one year. It will be good if I answer your questions rather than giving you more details because you have the accounts in front of you.

#### Mr. Kunal Sheth - Prabhudas Lilladher

Moderator, can we open the floor for Q&A please.

#### Operator

Sure sir, thank you. Ladies and gentleman we will now begin with questions and answer session. At this time if anyone would like to ask a question kindly press "\*" followed by "1" on your touchtone telephone. If you wish to withdraw your question, you may enter "\*" followed by "2". Participants are requested to please limit their questions to one for the initial round; you may come back for follow up question. You are also requested to only handsets while asking a question. Our first question is from the line of Rajesh Panjwani from CLSA, please go ahead.

**Rajesh Panjwani - CLSA**

Good morning sir. Sir my question is primarily on the material cost for the quarter, we have seen a pretty sharp increase in both standalone and consolidated numbers material cost a percentage of sales. Now the question is, is it entirely because of the increase of material metal prices and the pricing competition which we have seen or is there anything one-off as well in that this quarter and what would be the outlook for next year, should the material cost as a percentage of sales, what kind of increase should we expect from the full year FY '11 levels?

**Mr. Sudhir Trehan - Managing Director, CG.**

First of all there is no one-off in this material cost. It is purely the result of volatility in the increase of commodity price and thus of orders and hence pressure on pricing, less orders being decided. Moving forward it is very difficult for me to say what sort of a pressure will be there, it will depend on what is the commodity pricing how it behaves because in the fourth quarter commodity pricing shot up compared to third quarter and the order inflow also dried up. Going forward if commodity price keeps rising at this rate itself and the order inflow remain dry and the margin pressure will be of similar nature but I do not expect that to happen I expect that to ease the commodity also not anymore that has happened and order inflow to start improving. The order inflow issue is confined to power. We are doing pretty well on the other two segments and the order inflow and the growth there hence is far, far better in industrial about 20 and in consumer about 25%. Power is very muted with about 2% and the whole pressure is on this power.

**Rajesh Panjwani - CLSA**

Okay if the overall material cost have gone up which means as far as the power business in concerned the increase would have been higher for the overall business also. So the decrease in power business is pretty sharp.

**Mr. Sudhir Trehan - Managing Director, CG.**

You can see the segment numbers and you will see that the effect is pretty sharp in industrial and power. Industrial because we have a company which we have acquired Nelco, it has its own impact of coming on to it because those are the Nelco's old orders which we are executing which have very high MS ratios. But that will disappear after six months when we enter second quarter so industrial should come back. And there is a drop at the EBIT level if you are only talking of the fourth quarter up about 4.1% which is due to materials. We have compensated part of it by saving other costs and personnel but yes this deal has impacted power.

**Rajesh Panjwani - CLSA**

Thanks sir and best wishes for the future.

**Operator**

Our next question is from the line Nainesh Rajani from Tata Mutual Fund. Please go ahead.

**Mr. Nainesh Rajani - Tata Mutual Fund**

Just wanted to understand we have not seen order inflows as far as transmission is concerned in this year itself. We all do understand there is a lack of investment in that space what I want to understand is that within the next two three years, do you envisage that the growth we have seen in T&D between 2006 to 2008-9 will come back. And if it comes back will it actually filter it out to the bottom line because the competitive scenario has increased tremendously so will the competition eat away the margins inspite a good topline growth over the next two three years or will it not reflect in the bottom line just a broad question is what I want to understand sir?

**Mr. Sudhir Trehan - Managing Director, CG.**

That forecasting for a longer time but in my personal opinion whatever I have understood this T&D sector I definitely in a very short term see that the order inflow will not improve but say beyond 6 to 7 months I see the situation dramatically improving and in one year's time coming back to the good old days of high double digit growths. So 2013 I definitely see that second half of this year we would have got good orders.

**Mr. Nainesh Rajani - Tata Mutual Fund**

Sir, will it filter down to the bottom line also because.

**Mr. Sudhir Trehan - Managing Director, CG.**

It will filter down because the moment it comes to getting orders at a continuous stream and hopefully by that time the commodities volatility would have stopped, let it stabilize at 9800 copper which is very high but then the customer is willing to pay for it, you vote for it accordingly. And it is just not copper which is atleast to a certain extent can be hedged; it is other materials like paper oil insulating core everything which is there. So 6 months down the line, order inflow investment cycle should be back, order inflow should improve and hence we should be back to double digit growth by 12 to 13 but near term, 11 to 12 I don't see power systems growing in double digits it will 6,7 or 8 something like that.

**Mr. Nainesh Rajani - Tata Mutual Fund**

There is just one follow up to these, then can we safely say that margins are not on a perpetual down for the company and once the order inflow actually increases the margins could stabilize you know be at normal levels that we have seen over the past one and one and a half year, is that a safe statement to make sir?

**Mr. Sudhir Trehan - Managing Director, CG.**

In my opinion, yes.

**Mr. Nainesh Rajani - Tata Mutual Fund**

All right sir. Thanks and all the very best sir.

**Mr. Sudhir Trehan - Managing Director, CG.**

Thank you.

**Operator**

Our next question is from the line of Pranav Gokhale from Religare Asset Management. Please go ahead.

**Mr. Pranav Gokhale - Religare Asset Management**

Good morning sir. Sir this question is on Industrial Systems, sir we have seen a drop in Industrial Systems margins now in the fourth quarter. Now do you see that margin being sustainable going on or have you taken any kind of price increase.

**Mr. Sudhir Trehan - Managing Director, CG.**

Two things I would like to say there, Industrial Systems quarter rose standalone margins have dropped which is due to number one this is a very short cycle product and the commodity price increase you can't pass in that short cycle but we have passed it on in the quarter one now, and hence the margins will improve due to that. Number two this has a considerable portion in it of the company that we acquired Nelco, it's orders we have executed which we knew but those were you know the Nelco's erstwhile margins that those were at a very high MS ratio order and those have a contribution in bringing down the total Industrial Systems. Those orders will be over in 6 months and hence the margins will come back.

**Mr. Pranav Gokhale - Religare Asset Management**

So the next question is on the international business , this 29-30% growth which we are seeing, is this in constant currency base or does this include translation of the currencies.

**Mr. Sudhir Trehan - Managing Director, CG.**

See this has a negative impact of currency if you look at the Rupee vis-à-vis the Euro, growth in Euro terms is higher overall if you look at the annual accounts of the overseas equities in local currency the growth is 21%. While in Indian currency the growth is 8%. Because of the 12% depreciation in the currency translation.

**Mr. Pranav Gokhale - Religare Asset Management**

But the fourth quarter 29-30% growth which we have seen also has a negative impact so does that mean that the growth in the fourth quarter will be higher than the?

**Mr. Sudhir Trehan - Managing Director, CG.**

Yes.

**Mr. Pranav Gokhale - Religare Asset Management**

And going ahead do we see this kind of growth being sustainable?

**Mr. Sudhir Trehan - Managing Director, CG.**

No, there were some exceptional EPC projects which have come in at this time which were very big ones. We don't see this sort of a growth. I would say we see a growth of 12 to 15% in local currency.

**Mr. Pranav Gokhale - Religare Asset Management**

Thank you sir and all the best.

**Mr. Sudhir Trehan - Managing Director, CG.**

Thank you

**Operator**

Our next question is from the line of Abhishek Puri from JM Financial. Please go ahead.

**Mr. Abhishek Puri - JM Financial**

Yeah good morning Mr. Trehan. Just couple of questions one that just wanted to take your views on the industrial CapEx you said you expect that to improve but given the high interest rate scenario how are the orders trickling in some of the other sectors like the metals and mining or Oil and Gas which are the primary assets for us?

**Mr. Sudhir Trehan - Managing Director, CG.**

According to us there is a vast improvement, I agree with your logic that with the interest rate going up, industrial CapEx should be in trouble but on ground reality what we have seen even in the month of April is a huge inflow of HT motors, LT motors which are our Industrial Systems motors from Siemens, from metals from Oil & Gas. Huge inflow from sugar, so as on date I would say that we have a healthy trickle happening of the order inflow.

**Mr. Abhishek Puri - JM Financial**

So secondly in the Industrial systems itself could you share with us what will be the share of Nelco's topline in say Industrial Systems.

**Mr. Sudhir Trehan - Managing Director, CG.**

I think that won't be possible for me because neither I have that data in front of me and that will become too much because we have 36 divisions. I don't even have the paper sitting in front of me.

**Mr. Abhishek Puri - JM Financial**

But roughly it would be about 10%.

**Mr. Sudhir Trehan - Managing Director, CG.**

That would be a wild guess

**Mr. Abhishek Puri - JM Financial**

On the CapEx that we have done I think we have done a strong CapEx this year as our fixed assets have grown. Could you share with us what capacities could have increased for the future growths which we are likely to see in coming years?

**Mr. Sudhir Trehan - Managing Director, CG.**

We have increased the capacity in the USA in the new plant for medium power transformers; we have increased the capacity in Ireland by converting from distribution transformers to slim transformers for wind, because demand for that is growing. We have increased the capacity in our transformer plant in India by about 5000 MVA, we have added a line. We have added a new plant for distribution drives medium voltage and traction and railway electronics. We are building a plant for taking our motors which are today up to 5 megawatts for synchronous generators and 15 megawatts for motors. These capacities have been created in the year.

**Mr. Abhishek Puri - JM Financial**

Wonderful, just the last question from my side, I think the employee cost per standalone basis is up whereas on consolidated entity it is up only 1 or 2%. So would we see any retrenchments in the current year or has there been any salary declines in the international subsidiaries?

**Mr. Sudhir Trehan - Managing Director, CG.**

The international subsidiaries we had restructured and that's why the international subsidiaries the salary growth is much, much lower and in India it is not retrenchment or addition of the people but salary hikes which have been given that has resulted in the personnel cost; slightly going up but it's well below the average of the industry.

**Mr. Abhishek Puri - JM Financial**

If you can explain the restructuring of the international businesses please.

**Mr. Sudhir Trehan - Managing Director, CG.**

We have removed people in the international businesses and some places we have acquired new businesses and people have come in so both results are there in that total.

**Mr. Sudhir Trehan - Managing Director, CG.**

See plants are common. In the same location we have both the plants. So when it comes to the restructuring it is at the local level and hence that has happened and that is the impact on it.

**Mr. Abhishek Puri - JM Financial**

Sir all the very best for the future sir.

**Mr. Sudhir Trehan - Managing Director, CG.**

Thank you

**Operator**

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

**Mr. Inderjeet**

The tax rate in the fourth quarter was much lower any specific reason for that and what is the tax rate for the consolidated entity next year?

**Mr. Sudhir Trehan - Managing Director, CG.**

Let me first categorically answer your question that the consolidated level at annual tax rate you are asking is sustainable. Number two it is looking because we are invested heavily this time in R&D and these other expenditures are entitled as you know for a tax claim of 200%. And hence that has given a quite a good shield as we have a plan to invest again in R&D next year and hence I am pretty confident in saying that this time on a consolidated level at annual tax rate are easily sustainable.

**Mr. Inderjeet**

Are there any facilities which are being commissioned in say low tax areas or something like that?

**Mr. Sudhir Trehan - Managing Director, CG.**

Not conventionally we call backward areas, there is nothing like that, it is. We have not put up a facility in a green field plant; we have done brown field expansion in the existing locations only.

**Mr. Inderjeet**

Finally can you share the order inflow and order backlog numbers?

**Mr. Sudhir Trehan - Managing Director, CG.**

Sure I can, at the consolidated level the order intake is 3154 of the quarter and at the annual level 10962. And the UOIB is 7169.

**Mr. Inderjeet**

And standalone entity?

**Mr. Sudhir Trehan - Managing Director, CG.**

Standalone quarter four intake is 1706 and annual 6510. And UOIB 3486.

**Mr. Inderjeet**

Thanks a lot.

**Operator**

Our next question is from the line of Sumit Kishore from JP Morgan. Please go ahead.

**Mr. Sumit Kishore - JP Morgan**

Thanks for the opportunity. Good morning sir. Sir could you please you know repeat the segment wise growth guidance as well as the margin guidance for the next year FY '12 on a standalone and consolidated basis.

**Mr. Sudhir Trehan - Managing Director, CG.**

First of all I never gave one years along term with such volatility margins guidance, I can give you the trend. I will not give guidance because I don't know will the copper by the end of the next year will it be at 9800 or at 19000 or would it back to 3000. So I will give you my estimates based on the visibility what I have today for the orders and that tell me that the standalone entities CG in the year 11-12 will grow 12 to 15%. And this will comprise of power systems very muted 6 – 7%, consumer products 22 to 25%. And Industrial Systems 18 to 20%. Margins will be hovering around what has been for this year or slightly 20 to 50 basis points plus minus. There will be no pressure on the margins on the consumer and industrial because we can pass that on quickly. As per as overseas entities I can't predict Rupee Euro conversion rate but in Euro terms it should grow at anywhere between 12 to 13%. And the margins almost same or slight improvement because there is a room for that. And hence the room for overseas entities are a little dip of the power in standalone, should compensate but that's a trend, please don't take it as a guidance because I never give guidance on the margins. But definitely sales growth are guidance numbers because we can see that. But I can't see the commodity volatility.

**Mr. Sumit Kishore - JP Morgan**

Thanks a lot for your answer sir.

**Operator**

Our next question is from the line of Prashant Poddar from Invesco. Please go ahead.

**Mr. Prashant Poddar - Invesco**

Thank you my questions have been answered.

**Mr. Sudhir Trehan - Managing Director, CG.**

Thank you

**Operator**

Our next question is from the line of Kirti Dalvi from Enam AMC. Please go ahead.

**Ms. Kirti Dalvi - Enam AMC**

Good morning sir. Few questions, in consolidated accounts for the quarter expenditure has gone up significantly, any particular reason for that sir?

**Mr. Sudhir Trehan - Managing Director, CG.**

Let me look at the number, often I don't remember anything exceptional. So this must be the normal. Only thing in this year had been higher is we have done a lot of exports to Latin America and that is a high percentage which comes as a freight and a lot of oil for that which also has been at a very high so those are the things but I would call them more as operational issues and not one off. And hence the freight which as percentage in other expenditures.

**Ms. Kirti Dalvi - Enam AMC**

So the second question is this 30 odd crore playing for customers which is there in probably one of the acquisition which must have done, this is in which entity sir?

**Mr. Sudhir Trehan - Managing Director, CG.**

This pertains to our acquisition of Pauwels which we did in 2006 and this pertains to pre-acquisition from Bahrain and we have filed against it now but as a prudence we have put the whole thing as there is no cash flow out from this it has been provided and we have appealed against this order and you know what is happening at Bahrain at the moment. So the appeals are pending.

**Ms. Kirti Dalvi - Enam AMC**

And ok since these if I see a balance sheet there has been an increase in data as well as loans and advances. So are the advances given at the consolidated levels?

**Mr. Sudhir Trehan - Managing Director, CG.**

No there must be advance taxes and all, if there is an increase, definitely it has gone up by 6 days compared to the previous years because of the customers not picking up. It's nothing to subsidiary as an advance payment.

**Ms. Kirti Dalvi - Enam AMC**

Ok so, going forward we will see reduction in our data's or improvement in our working capital?

**Mr. Sudhir Trehan - Managing Director, CG.**

If the order inflow as I said earlier starts picking up and the projects on the transmission start coming up and hence the goods start moving, then yes but I don't see that happening in that these next three months, these 3 to 4 months will be tough and then the order inflow may start. But right now the trend on the industrial side, their input has started increasing. But not on the power side. And fourth quarter has been miserable

**Ms. Kirti Dalvi - Enam AMC**

And sir in Nelco's order probably next 6 months everything will be out, old legacy and

**Mr. Sudhir Trehan - Managing Director, CG.**

Yes, it will be over in next 6 months and larger part of it was done in the fourth quarter also and yes the margin of industrial will come back so Nelco effect will go away. But all depends of the rate of the order inflows of the industry.

**Ms. Kirti Dalvi - Enam AMC**

So what would be the consolidated CapEx next year |

**Mr. Sudhir Trehan - Managing Director, CG.**

Around 450 gross.

**Ms. Kirti Dalvi - Enam AMC**

Thank you very much.

**Operator**

Our next question is from the line of Charanjeet Singh from PNB Paribas. Please go ahead

**Laxmi Narayan – PNB**

Good morning sir, this is LaxmiNarayan from PNB. Can you color on your initiatives on the substation business. We know you have been strengthening your products offering there but recent joint ventures.

**Mr. Sudhir Trehan - Managing Director, CG.**

Definitely you know that we have started the construction of the plant in the industrial area of Bangalore for our substation automation JV with ZIV and that plant should be ready by December. We have got our first order from Rajasthan for substation automation and protection relays which we will supplied from that JV. So really we have made a beginning by entering the substation automation through this JV which should grow over the years. But in three years' time is should be a major new product addition to the company for substation automation. We have already inaugurated our new plant in Mandi for industrial drives, traction electronics, and Scada and that should add about 150 crores of turnovers in this year which was not there previous years which will be completing the package on the Industrial size with some drives. You know we are on the constant hunt for completing the package for our industrial for the drives. Hopefully in a quarter's time we should be able to do some acquisition which will give us an edge on the drive side. We are also very close to working on further acquisition for substation automation which will increase the complete package in a foreign country and in a quarter's time we should close that. So I am hopeful that in about three months' time some of the actions have already happened for getting in the industrial drive automation and some of the actions will be complete in about three months which will complete the package on substation automation.

**Laxmi Narayan – PNB**

Again focusing on substation business, you have said that what interests you more is offering products than solutions to the substation side of the business and not actually doing the project execution.

**Mr. Sudhir Trehan - Managing Director, CG.**

That's right I always call it digging a whole putting concrete in it is not our job, our job is offering complete solution and it doesn't interest me that much and I repeat my statement.

**Laxmi Narayan – PNB**

One can assume that you can also closing project build out part to someone else and hence can we assume that the margins from the business that should help you is going to be very dilutive overall power system by margins.

**Mr. Sudhir Trehan - Managing Director, CG.**

There is not much in the local of the Power projects side of the standalone side. If at all we do most of the business in overseas which is in there and that's why I said there is that exceptional growth because one big project has been done on the overseas side and hence you see on the fourth quarter an exceptional topline growth coming in which I said over the whole year will not be possible and that's where dilution in the margins because that's where. In India there is hardly any EPC sort of a business which we do to offer solutions and products only.

**Laxmi Narayan – PNB**

Ok and last question, is on the appointment on the new Managing Director, it looks like it's an external candidate; could you explain the rationale of choosing an external candidate versus somebody home grown like yourself and can be also described you know the new persons that he brings to the table and so on, can you give us more color on that.

**Mr. Sudhir Trehan - Managing Director, CG.**

Sure it's an as you know the gentleman is right now Senior Vice President of Automation and Protection business unit of Power his name is Laurent Demortier; he should be joining us around for first of June. Couple of years back the Board had formed a succession committee in which two independent Directors, myself and Chairman were the members and such process had started both internally and externally. We did shortlist number of candidates. finally the list boiled down to 2 candidates and finally by a whisker we decided that the factor point where the company is placed today it is more important that the CEO comes who has a much bigger networking in Europe and North America and is much more poised to take the company to a higher technology company. And hence by a whisker the internal candidate lost and we got a person from outside. This is no reflection on the talent pool what was available to us inside or the performance of our senior management inside but a reflection of what's the need of the company for future. And this decision has been taken by the selection committee, in our opinion it is the right decision of the company and the member of that committee. Time will tell but I am pretty certain that we had made the right call knowing where we want to place this company. Our vision to convert the company to a global company. Today we are present in few nations, we are truly not global. We do sell 48% outside India but it is just selling. There is a shift required and we feel that we have chosen the right candidate with the right capability and attitude to bring that shift and shift the gear of the organization to the next level.

**Mr. Laxminarayanan - BNP Paribas**

Sir if I may ask you one last question. After your fantastic career you have made very clear to the position that it is a roadmap for moving up the technology chain. Now if you look back and if you would like to name 2-3 acquisitions that you did which could potential be game changers in next 3-4 years? I know you talked about a couple that are coming in the next quarter. I don't want to ask any question on that but what are the game

changers that you think, I know they take time to pan out but over next 2-3 years which ones would you reckon along the ones that are potentially big?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Do you know I can't answer this question directly because of the constraint on me of the SEBI. So I will give you the answer in a manner which may not satisfy you but will give you the direction what would be the game changer. Please take note that none of those directions should be taken as if we already have the target, as if we are already there and those yellow journalisms sort of a statements that CG is entering or acquiring. We had cautioned notes, what I will say that game changers for this company now, number 1 will be balancing the portfolio between power and industrial. Today the company is too heavy on power, 67% of the consolidated revenue of the company comes from power, 33% from two other limbs which is consumer and industrial. Consumer with company's vision itself is to remain local because our brand as CG has value only in India and we are not a brand outside India. And we realize that there is no ambition to go global and our distribution channel which is again our strength is local. But the industrial definitely we want to make it grow and hence be a much bigger pie that what it is today.

So one game changer that it will be, if we can take the industrial footprint much more global than what in a miniscule size we have done with Ganz rotating machines to completing the package of industrial. Secondly although it is beginning as it has been made and Rs. 150 crores will come from it or industrial dry cell automation again a global footprint of that we have started in India. Thirdly I would say doing something on automation for power substations and protection, that sort of a global footprint will be a game changer for the company. I think these would be the three in my opinion which will take the company forward.

**Mr. Laxminarayanan - BNP Paribas**

Thank you so much sir and all the very best for the future.

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Thank you.

**Moderator**

Thank you. Ladies and gentlemen if you have any questions at this time you may please enter "\*" followed by "1" on your touchtone telephones. Our next question is from the line of Ms. Fatema Pacha from ICICI Prudential Life. Please go ahead.

**Ms. Fatema Pacha - ICICI Prudential Life**

Hello.

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Hello.

**Ms. Fatema Pacha - ICICI Prudential Life**

Sir 2 questions, I think I just missed your order inflow number for Q4 for standalone is Rs. 1760 crores, right?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Rs. 1706 crores.

**Ms. Fatema Pacha - ICICI Prudential Life**

And what is it for the consolidated?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Consolidated for the quarter, Rs. 3154 crores.

**Ms. Fatema Pacha - ICICI Prudential Life**

Ok so you are seeing continued traction in the overseas part even though domestic is within the growth?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

It is the domestic which has been the let down on the power side and even domestic has been pretty good on the industrial side.

**Ms. Fatema Pacha - ICICI Prudential Life**

And sir as in like in India I know a lot of things are not happening on EPC but I am sure globally a lot many things will be happening on EPC. So your sales growth obviously will be very high because it is EPC. Are you seeing more of your orders coming in similar segments?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Overseas definitely more of the orders are coming in from the EPC segment and in India as we said we ourselves have restricted to solutions and products and not EPC in a big way. We do undertake EPC of 765kv and ultra high voltage watts but not the run of the mill below 765kv.

**Ms. Fatema Pacha - ICICI Prudential Life**

Sir isn't that EPC from making around 10% margin on subsidiary it is not bad or do you think that ideally if we are making much more even if it is an EPC?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

On EPC you can't make that much on margins so it is a consolidated margin of overseas entity what you are reading. EPC obviously has lower margins of business...

**Ms. Fatema Pacha - ICICI Prudential Life**

You are happy with these margins, right?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Pardon.

**Ms. Fatema Pacha - ICICI Prudential Life**

You would be happy with these margins or you are looking to even increase the margins?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

There is a rule, again it is not a guidance...

**Ms. Fatema Pacha - ICICI Prudential Life**

When you bidding for a project are you bidding at 10% or you are bidding actually at 15%, that is the rational I am asking?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

That depends on tender to tender.

**Ms. Fatema Pacha - ICICI Prudential Life**

As I am saying aggression of the management will be based on what minimum margins would you want, right?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Whatever margins in overseas entities we have today, we will not let them drop and there is a potential, please mark my words, there is a potential to take them forward and up.

**Ms. Fatema Pacha - ICICI Prudential Life**

Sir second question is India power system this year the order inflow of PGCL is very miniscule. So would you just give a flavor of this mix will be of the India power system order inflow?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

As I said India, the whole order inflow annual is a 1% drop...

**Ms. Fatema Pacha - ICICI Prudential Life**

Would be Rs. 2000-3000 crores?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Total order inflow of India would be around, I will give you the correct number, one moment, let me open that part of the page but it is a huge degrowth.

**Ms. Fatema Pacha - ICICI Prudential Life**

Ok.

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

The question is, is it a growth over `09-`10?

**Ms. Fatema Pacha - ICICI Prudential Life**

I am saying in PGCL ordering it is a big degrowth

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

I will give you the number. Power Q4...

**Ms. Fatema Pacha - ICICI Prudential Life**

Sir full year will be better on.

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Full year India only?

**Ms. Fatema Pacha - ICICI Prudential Life**

India power system model.

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

I will give you India, order intake CGL, Power system order intake year `09-`10 is Rs. 3594 crores.

**Ms. Fatema Pacha - ICICI Prudential Life**

That is FY '09-'10, right?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

That is FY '09-'10, that's right.

**Ms. Fatema Pacha - ICICI Prudential Life**

'10-'11 will be lower than that.

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Rs. 2868 crores, it is a drop of 20.2%.

**Ms. Fatema Pacha - ICICI Prudential Life**

And sir if you go to see you PGCIL ordering has had a much bigger dip so who are the guys who are replacing this, even Rs. 2800 crores in this kind of environment has not been bad. So this...

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

No, in my opinion pretty bad, it is 20% down.

**Ms. Fatema Pacha - ICICI Prudential Life**

The environment I meant

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Yeah I agree but related to others we are better but still, IT has been replaced by mostly the independent power producers and other industrial customer's orders. So PGCIL is much more down than even 20.

**Ms. Fatema Pacha - ICICI Prudential Life**

Sir, is it you as the company or maybe when you competition is just bidding on gross margin basis those capacities are either way unutilized in industrial side?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

In our case as I said most of our capacities be it in power or industrial are above 75% utilized and that's the reason we are able to hold to the margins because we are not investing as much in adding capacities because we didn't foresee. It will continue this double digit growth.

**Ms. Fatema Pacha - ICICI Prudential Life**

But sir the above side will come if others are competing only on gross margin basis...?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Oh! Yes.

**Ms. Fatema Pacha - ICICI Prudential Life**

Sir, are you seeing that happening or you are seeing that raining off?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

How we have managed, I think the same scenario will continue for next

6 months and after that the order input flow will improve and then this pressure on margins should ease.

**Ms. Fatema Pacha - ICICI Prudential Life**

Ok sir. Thanks a lot and best of luck.

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Thank you.

**Moderator**

Thank you.

Our next question is from the line of Mr. Anupam Tiwari from Reliance Life Insurance. Please go ahead.

**Mr. Anupam Tiwari - Reliance Life Insurance**

Good morning sir.

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Good morning.

**Mr. Anupam Tiwari - Reliance Life Insurance**

Sir couple of questions, one little larger question on your automation...

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**Mr. Anupam Tiwari - Reliance Life Insurance**

Sure sir. One on your automation business, now we are entering into a JV and we are also scouting for a new acquisition in this space. Earlier when we discussed it was indicated that Microsol is developing capability and almost in all the protocols now they have kind of products and solutions. To take it further you have acquired certain companies which are bigger in size, it is well established with technology and at the same time you acquire a company like Microsol which was like a startup. What was the differentiating factor? Seeing it in hind side do you think that what kind of strategy was better given the fact that now in automation you have to do something more though you have developed all the products in all the capabilities?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

The acquisitions have different strategic reasons, it cannot be always one reason for acquisition and strategy of the company. If you look at our 7 acquisitions, they all had different reasons. Pauwels was acquired not for technology, we had a technology even at that time of 765kv and Pauwels was only upto 550kv, I am talking 2005. It was acquired purely to get a market access to Western Europe and North America which we had found that as an Indian company although we have technology we are at par. There is no entry into 2005 in Western Europe or North America because we are an Indian company and we don't have customer relationship with the utilities, we kept out this purpose in 6 years. If you are talking of Ganz in 2006 we acquired because of technology. We wanted technology of GIS and wanted technology of rotating machines upto 50 mega watts, we were at that time only upto 2.5. That's how you see now the new plant being built which in India also will put in that range carrying into synchronous generators.

Microsol was acquired purely a technology startup company as you rightly said. So we did get the technology with that but to enter the market you also need customer references. So what we are looking now is for automation a much bigger customer references and hence growing the business at a much faster pace. Microsol has grown but not to our satisfaction because it has the technology but not reference and hence even our market reach couldn't put on a platform where we wanted to be. Now strategically we are looking for some other parts which would obviously bring some technologies but not primarily for technologies but primarily for reference and a base from which we can take a jump. There is a bigger unit for automation and production and that's where the hunt for another one.

**Mr. Anupam Tiwari - Reliance Life Insurance**

Next question would be, in the international part EPC business grows faster than the product business. Still you feel there is a scope for improvement in margins?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Oh! Yes because our operations overseas, I strongly feel that in another one month's ex-CO but right now CO that there is a room for operational improvement in the overseas entities. That doesn't mean I am giving guidance that next year will improve, it is our internal goal and hence there is a room for improvement there in the

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margins. While on the Indian entities I feel we have reached almost the peak and the change will be 10-20-30 what you can achieve more or if the market is bad it will come under pressure and go down by 30-40-50 but overseas can improve.

**Mr. Anupam Tiwari - Reliance Life Insurance**

Can you briefly guide us regarding the environment in North America and Europe in our businesses?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Europe has started looking up but there are 2 types of economies in Europe as we see. My comment is purely confined to transmission and distribution business because we don't do any industrial much business. Economies like France, Germany have started investing back, are looking up, we are getting orders particularly the offtake of orders both on power and distribution but particularly of the wind sector renewable is showing a great increase in the Q4 as well as the month of beginning April whatever trend I have available with me of our order inflows as well as \_ of the transformers what we had made distribution on wind has been pretty high and that's why such huge growth you see in the Q4. But there are economies like Belgium, UK who are still and I am of course not talking of pickups who are not yet on the upward trend and are doubting and hence CAPEXes are not happening and it is not picking up to that level. North America is entirely different story, we don't see any pick up happening there still, Europe in that extent much better. Canada slightly better than USA because these are the two markets we take care of, Mexico we hardly sell, in North America anything. But USA definitely, nothing is visible on the ground yet of a pickup particularly on distribution, automation or power transformer business.

**Mr. Anupam Tiwari - Reliance Life Insurance**

There used to be a lot of talk about this replacement demand coming big time from Europe and US and we are discussing since a long period of time. When do you think that inflection point will come and this replacement demand will actually pick up big time?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Only Barrack Obama can answer that question.

**Mr. Anupam Tiwari - Reliance Life Insurance**

One last question from me, obviously we are all aware of lot of achievements that you have done and have achieved. Is there some unfinished agenda that you are leaving for your successor?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

There is a lot of unfinished agenda because the company is on a growth path and hence the first unfinished agenda is to put the company with a balanced portfolio between power and industrial. Second agenda is to make the product complete particularly on the industrial side with the drives in a much bigger way that what I have

initiated. Thirdly put the power business into a complete solutions business rather than a product business and it is at a nascent stage for takeoff for that today. And obviously to make it grow at a much faster rate than specifically what we have done in the year `10-`11.

**Mr. Anupam Tiwari - Reliance Life Insurance**

Earlier in your discussion you told us that your only \_ that you see for this company is human resource and nothing else. And considering we at that point of time where raw material utility is something that you are worried about and you categorically said no. Do you have the same stance even today?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

The order inflow has dried out dramatically, the order inflow in Q4 is 24% down of the standalone company. There is no issue of the order inflows we are still looking up in the overseas entities. Standalone Q4 order inflow is 24% down compared to previous year and previous year was not great shape to top up. And the whole year also power systems order inflow of standalone has gone down by 20% and the Power Grid order inflow is down further than 20, it has been compensated by other order inflows from IPPs and industrial. Now with that sort of a scenario the margins are bound to be under pressure so if the margins have to come back the order inflow has to start improving. When you have a long visibility then you can hedge atleast one metal called copper, others you can't do anything. But when you have no visibility and the order inflow also starts going down and dry then the hedging is also not possible and the whole cycle gets into a vicious circle. I don't see order inflow improving in very narrow little future of one quarter, two quarters but I see order inflows definitely on the medium term improving from the third quarter onwards and margins pressure easing out because then you can plan, you can hedge, you can do things, you have visibility. So I maintain my stand that we are not in speculative business, so long there is a visibility margins can come ok but if visibility is not there short cycles start happening, order flow inflows start drying out. If this trend was to continue of -20% for the whole next year even `12-`13 will be a bad year but in my opinions this will reverse in the second half of `12 definitely because of the need of the country and hence margins pressures will again ease out.

**Mr. Anupam Tiwari - Reliance Life Insurance**

Thank you sir, thanks a lot and congratulations to you for your achievements and best of luck.

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Thank you.

**Moderator**

Thank you.

Our next question is from the line of Mr. Yogesh Patil from Canara Robeco. Please go ahead.

**Mr. Yogesh Patil - Canara Robeco**

Good morning sir.

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Good morning.

**Mr. Yogesh Patil - Canara Robeco**

Sir, do you see any over capacity situation in domestically as well as internationally again industrial growth is a question mark everywhere?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

There has been over capacity internationally and has been there for the last 5 years and with the present order inflow it is resulting into a over capacity in India also.

**Mr. Yogesh Patil - Canara Robeco**

The second question is most of the business, I think 50% of the business is almost from international and 35% from Europe zone only?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

No, our 40% of the manufacturing is outside India, 60% is still in India.

**Mr. Yogesh Patil - Canara Robeco**

But business in terms of revenues...?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

In terms of sales then 53% of our sales is in India, only 17% is in Europe, 11% is in US and rest is in rest of Asia 12% and rest of the world, 4% Africa, 1% is Latin America like that.

**Mr. Yogesh Patil - Canara Robeco**

Thank you sir.

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Thank you.

**Moderator**

Thank you.

Our next question is from the line of Mr. Lokesh Garg from Kotak Securities. Please go ahead.

**Mr. Lokesh Garg - Kotak Securities**

Hi sir good morning.

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Good morning.

**Mr. Lokesh Garg - Kotak Securities**

Sir I just wanted to ask you on consumer businesses and some other businesses like power and industrial you have provided long term potential targets for the company and direction. But in consumers which is fans, pumps, lights, luminaries, company has done exceedingly well over the last 2-3 years and next year also we tend to expect that kind of growth. Not asking for guidance but over the medium term which is next 3-4 years would you expect that kind of growth to continue considering that these are businesses wherein existing players could launch line extensions or somebody who has not in fans launches that or something like that?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

We ourselves will be launching and hence I see in the medium term of

3-4 years in India the consumer market continue to grow at this rate and we are well ready to launch new and maintain our market share if not improve it. So I am pretty certain of that 25% growth rate of consumers.

**Mr. Lokesh Garg - Kotak Securities**

Sir in the same range as you provided for power and automation your long term vision and direction. Could you provide that for consumer as well little bit more specifically than what you just did?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

We will be launching more ranges in brown goods products going forward like we have already launched the UPS now, we will make it national, today it is at a regional level. We will be adding some other products maybe water coolers, maybe some other LED torches. It will be an extension of the brown goods small appliances.

**Mr. Lokesh Garg - Kotak Securities**

In that in addition to the normal market growth would help you...?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

That's right that's where we are quite confident that 25% in a growth will be possible because there will be normal growth in our fans, pumps, lighting anyways and with these appliances we can get a much bigger pie.

**Mr. Lokesh Garg - Kotak Securities**

From an incremental YOY growth perspective does it worry you that all of these businesses Crompton is already sitting with a huge market share?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

But economy is growing of India and hence this type of a market share even if they don't improve. The growth in the Indian economy is so high that it is still quite a room for Crompton Greaves to keep growing and even keeping the market share constant.

**Mr. Lokesh Garg - Kotak Securities**

One last question, with your perspective and experience we have seen tremendous amount of growth in consumer businesses but we have not seen similar amount of growth in let's say capacity creation type of businesses such as we have in power out here in Crompton. What do you see is the reason for disconnect and how long could that continue?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

As I said about 6 months, not longer than that. It has continued for the last 2 years now, I see another 6 months maximum and then the power systems growth should come back, industrial is already coming back.

**Mr. Lokesh Garg - Kotak Securities**

Sure. Thanks a lot sir.

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Thank you.

**Moderator**

Thank you.

Our next question is from the line of Mr. Venugopal Garre from Credit Suisse. Please go ahead.

**Mr. Venugopal Garre - Credit Suisse**

Hi, good morning sir.

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Good morning.

**Mr. Venugopal Garre - Credit Suisse**

Sir, I just wanted to understand that while you have clearly highlighted that you expect T&D recovery or rather in terms of volume pick up for the market this year second half. But in competitions side it appears specially in the high voltage despite the new JV norms, Chinese and Koreans seem to be more aggressive. They have also heard of some new competitors getting in so from a perspective of an internal looking perspective do you think that what can Crompton Greaves do even if volume recovery happens, competition comes, prices come down. Is there a room for us to further cut prices and is there anything else you can do to counter this competition from Chinese and Koreans?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

At the present rate and value and price for Chinese and Koreans are quoting let me be frank it is too difficult to compete. But I am equally convinced that this is only a starting strategy, entry strategy and cannot be a long term strategy. So if we can bear this pain which we have borned for anyway 2 years now, another 6 months, this is not the real pricing and we are not less productive compared to Chinese or less technologically inferior that we can't compete. We compete with the same Chinese and Koreans in Malaysia, I am not going faroff, we have a 60% market share of Malaysian power transformers. Competition is all Chinese and Koreans upto 550kv because there is no 765kv there. How come we have maintained our market share even in this year both in order inflow and supply. Because we are equally productive and they have not targeted Malaysian market but they have targeted Indian market only of 765kv, not below 765kv. How long will they do it at this pricing? Good luck to them if they are doing at this pricing. 26% lower price than last year when Copper is touching the roof nobody can make money, no Chinese. So it is an entry price, entry price last for a while, we will come over it. It is not a long term or a medium term threat to us.

**Mr. Venugopal Garre - Credit Suisse**

Sir, secondly if I were to ask the domestic power T&D revenues have again not been very strong in terms of growth in Q4, just want to understand that last few quarters you highlighted that there were issues for delivery schedules. I understand that probably that is something which is continued in this quarter. If there is further delay in delivery schedules what can we do because we are carrying the inventory on behalf of customers and that's a cost for us, right? It is capital which is tied up so are there any clauses which allow you to sort of take higher prices on that?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

There are plenty of clauses but do you get into a legal fight with your customer, that's the dilemma for a business house always, you have to do business. It is a very tricky question, I can always say there are clauses but fact of

the matter is can we implement those clauses? You do business with the same customer and if you are in transmission, there is one big customer, big gorilla called PGCIL. Would you fight with him and what will you do next?

**Mr. Venugopal Garre - Credit Suisse**

Sir, I would assume that your broad guidance next year assumes that deliveries happen in FY `12, right?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

That's right.

**Mr. Venugopal Garre - Credit Suisse**

And sir 2 very small questions. One is the CAPEX number you have highlighted for FY `12 of Rs. 450 crores. If you could just give us a broad breakup of where, even if international India is good enough for us in terms of getting...?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

It is majority in India and very limited internationally.

**Mr. Venugopal Garre - Credit Suisse**

And I would assume it is largely power area...?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

And industrial because we are putting up plants for taking our synchronous generators so there is more investment we are putting up on the automation and drives. We have inaugurated plant but there will be some more test plants coming there, some more quality equipments coming there.

**Mr. Venugopal Garre - Credit Suisse**

Sir, last question I just want to understand in terms of exposure to North Africa and Middle East. Are you seeing any disruptions...?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Oh! Yes, Libya is completely disrupted, we were expecting a large order which has gone on hold. Some of our overseas entities which supply to Libya, all the transformers which were made are on hold and they have not been shipped. So yes, North Africa is causing a little concern.

**Mr. Venugopal Garre - Credit Suisse**

That will be like not more than 1-2% of your revenues, right sir?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Oh! Yes, Africa total revenues of ours is about 1.5 or something.

**Mr. Venugopal Garre - Credit Suisse**

Ok sir, thanks a lot sir.

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Thank you.

**Moderator**

Thank you.

Our next question is from the line of Mr. Pankaj Sharma from UBS.

**Mr. Pankaj Sharma – UBS**

Good morning sir.

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Good morning.

**Mr. Pankaj Sharma – UBS**

One question, in terms of CAPEX in FY `11 what will be the total amount and how much of it was spent abroad and how much of it was in India?

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

It was about Rs. 450 crores, it would be about 320 or 350 in India and 130 abroad.

**Mr. Pankaj Sharma – UBS**

Ok sir. Thank you very much and all the best.

**Moderator**

Thank you.

Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Kunal Sheth for closing comments.

**Mr. Kunal Sheth – Prabhudas Lilladher**

Thank you. On behalf of Prabhudas Lilladher and indeed the entire investment community we would like to thank Mr. Trehan for giving us excellent insights into the company and the sectors for all these years. Just to add few more words, his forthrightness and transparency in sharing information for all these years has been the best amongst the corporate India. Under his leadership Crompton Greaves has made tremendous progress and made enormous wealth for many investors. As he moves to greater responsibility with Avantha Group we wish him all the very best for the future. Thank you so much sir.

**Mr. S. M. Trehan – Managing Director, Crompton Greaves Limited**

Thank you very much, I appreciate it. Thanks. Bye.

**Mr. Kunal Sheth – Prabhudas Lilladher**

Thank you.

**Moderator**

Thank you. On behalf of Prabhudas Lilladher that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.

Thank you.

END.