CG Power and Industrial Solutions Limited
(Formerly Crompton Greaves Limited)
Registered Office:
CG House, 6th Floor, Dr Annie Besant Road, Worli, Mumbai 400 030, India
T: +91 22 2423 7777 F: +91 22 2423 7733 W: www.cgglobal.com
Corporate Identity Number: L99999MH1937PLC002641

Smart solutions.
Strong relationships.

Our Ref: COSEC/31/2019

June 6, 2018

By Portal

The Corporate Relationship Department
BSE Limited, Mumbai,
1st Floor, New Trading Ring,
Rotunda Building,
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai 400 001
Scrip Code : 500093

The Assistant Manager – Listing
National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex,
Bandra (East),
Mumbai 400 051

Scrip Code : CGPOWER

Dear Sir/Madam,

EARNINGS CALL – Q4 FY2018 ('Transcript')

In continuation to our letter dated May 28, 2018 and pursuant to Regulation 30 read with para A of Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the Transcript of an earnings conference call held with analyst/ institutional investors on Thursday, May 31, 2018 at 10:00 am (IST).

We would appreciate if you could take the same on record.

Thanking you,

Yours faithfully,

For CG Power and Industrial Solutions Limited

Shikha

CG Power And Industrial Solutions Limited * Mumbai - 400 030. *

Shikha Kapadia
Company Secretary and Compliance Officer

Encl: As above

AVANTHA
GROUP COMPANY

CG Power and Industrial Solutions Limited
Q4 FY2018 Results Conference Call
May 31, 2018

Moderator: Good morning, Ladies and gentlemen. Welcome to the Q4 FY2018 CG Power and Industrial Solutions Limited Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Neelkant – CEO and MD of CG Power and Industrial Solutions Limited. Thank you and over to you, sir

KN Neelkant: Good Morning everyone. Welcome to the Q4 Earnings Call which is also the FY18 accounts adoption for the entire year. So like a usual practice, I will start with the standalone numbers then I will speak about the consol number and then we can move to the other updates including the Hungary divestment. So standalone revenue we had a very robust Q4 across the company in Indian operations. Revenue for the quarter was 1430 crores which is 22% growth over a last year comparable Q4 year-on-year. Over last year Q4 we have shown a 22% growth in this year Q4 top line India Performance. Please note that both these numbers have been adjusted for excise duty, GST those variations and hence are comparable like-to-like.

Segmentally power system grew by 16% whereas Industrial Systems grew by about 28%. Industrial system also showed a 14% growth over Q3 of this year and for the entire year if you see CG India has shown a top line growth of 14%, 23% growth of Industrial Systems and about 7.5% growth for power systems. They are consistent with the performance over the last few quarters and I would not say guidance, but the indications which were given to you over time and again over the previous calls.

On the margin front, the EBITDA on the standalone basis for Q4 is about 164 crores which is around 11.5% of the revenue, but the more interesting thing is the IS EBITDA number which we have spoken about number of times during the last few calls. So IS EBITDA for Q4 is at back to 11% levels. If you would recollect that Q1 was extremely subdued at 5.9% where we were chasing the commodity price and this 5.9 expanded to 9.6 in Q2 further expanding to 10.6 in Q3 and finally Q4 standalone 11% ending the year overall at about 9.5%. So we are back they are no longer catching up. **PS** EBITDA during the current quarter stood at about 67 crores which is 8.7% of the PS revenue. This overall, I would say that notwithstanding the commodity increases, compounded with the foreign exchange rupee evaluation. We have still been able to manage the margins pretty well and even if I assume status quo on the demand side yes, I am talking about the power system business. I believe that these margins are now at a comfortable sustainable level going forward and are consistent with the market in the power system business. Industrial of course I mentioned that we are back to 11% levels.

From India if I move to non-India business. During Q4 non-India business this I am talking about the continuing businesses which is mainly Indonesia and Sweden. They have continued their excellent performance starting through with the performance throughout the year and we have reported about 367 crores top line during Q4. While there has been some timing difference in the revenue recognition and the profit booking between the various quarters for Indonesia business especially. For the full year revenue, the outside India business has shown a top line of 1219 crores and an EBITDA of 117 crores which is 10% of the revenue. So if I add up this along with the India business and talk about the consol number Q4 revenues stood at about 1792 crores which is 18% growth like-to-like Q4 of last year.

Even if you see that the top line for the overall year the top line is at 6189 crores which is a 12% growth over last year 5517. Consol EBITDA during the quarter stood at about 144 crores which is almost same in terms of percentage corresponding previous year and the EBITDA stood at about 8% which is 495 crores which is about 9.2%. Order intake we close the year 31st March with an unexecuted order book of 3600 crores approximately which compares to 3540 crores which we opened the account last year, but here I would like you to also take cognizance of the fact that the composition of the business has been changing from previous year to this year.

FY17 we had a 57%-43% split between the power systems and Industrial Systems business which has now in FY18 become 54% to 46%. The reason I am making this point is as the Industrial System business expands the relevance of the opening UEOB to that extent reduces because as you are aware the book to bill cycle of the Industrial System business is significantly shorter than the book to bill cycle of the power system business. In terms of order inflow for Q4 standalone PS standalone reported a 578 crores order input and in the Indonesia side with continuous order inflow to Indonesia business the unexecuted order book close slightly above 900 crores. So that in a way also predicts the robustness of the revenue cycle for next year for Indonesia business.

Regarding the other items, other updates I would start with the Hungary update first. There have been certain delays procedural delays in the Hungary divestment partly or I would actually say mainly because of the elections in Hungary which was held in the month of April and since most of the entities were dealing with for these approvals or government entities this took a longer time because in the interim period prior to the election and post the election formation of the new government. There was a bit little movement in Hungary. However, since now it is back to normal we expect to close Hungary I have already given you a couple of timelines and we have not been able to miss so I would desist from giving you a timeline, but internally we expect that within this month we should be able to put a net to the Hungary divestment. Even this month I mean June. Also you would note that this quarter there is a significant exceptional item in the India book of accounts also.

I would like to spend a couple of I am sure you would have questions on that and we will be more than more than happy to clarify the questions. But at the headline level, I would like to explain not just where these numbers are coming from, but also the rationale behind this activity. You are aware that in the last three years we have been trying to on one hand do the divestments of the non-performing entities outside of India. On the other hand, improve the operational profitability of the India business and I think the time has also come for us to look at the other aspects of the balance sheet and do the clean-up wherever necessary and we thought it was prudent at this point of time because FY19 as a whole year we would more or less be rid of the Hungarian loss making operations, coupled with the cost restructuring exercise which we have taken up in Ireland.

Ireland would have the right cost structure for the business and I have mentioned to you earlier in the last call also that the Belgium business has at least come back to black breaking even at the EBITDA level. So we thought it was prudent that the other aspects of the balance sheet also we looked into more detail so that FY19 we start with the clean slate and also hence by these changes in the outside India business. So the exceptional items in India basically are on three accounts. If you see the total number, it would be about 450 odd crores of exceptional items in the India book of accounts.

We had mentioned to you that Hungary is running at a loss run rate of about 100 crores per quarter and this funding since we had taken a divestment this funding we were doing it from India and hence the 100 crores for Q4 what we have funded Hungary necessarily needs to be written-off in the Indian books. So that is 100 crores out of this 450 crores. We also had you remember our erstwhile division where we were doing projects and we had explained to you that we had wound down the projects most of it and all the files are closed. So that business when the final winding down was happening we had to take a look at all the aspects of that business including the other current effects where there was certain customer vendor advances where there was certain cost over billing, there were certain work carried out at sight which now since we have cancelled the orders and return to the customers these cannot be built. All that put together adds up to about 150 crores. So 453 we have broken up into 100 of Hungary, 150 of this OCA which I spoke about another 165 crores of inventory and other non-moving assets we thought that it was prudent for us to do a cleaning since we are planning for a cleaner FY19. So about 165 crores on that account and this bulk of it would be from our transformer business that has also been cleaned. So this broadly gives the breakup the 453 crores for the year and on this 100 Hungary 165 inventory 150 OCA if you add up the certain provisions towards bad debts which we had reported earlier in the year add up to the 453 crores of exceptional items. So I will stop here because I am sure you would have more questions on this, but this is the headlines here.

On the market, we continue to see a very positive trust for our Industrial System business and at this point of time consistently now for almost 9 quarters our Industrial System business has been growing significantly faster than the market and much, much faster than our competitors. I expect this momentum in Industrial System business to continue and when I say Industrial System business I mean all three legs of Industrial System business the motors business, the railways business as well as our fledgling drives and automation business all three are contributing both to the top line and the bottom line and railways story as you know it has been a robust story and we expect the order input momentum to continue through this year as well as the revenue from the order input of last year to significantly spike up this year from railways point of view with all these three things put together Industrial System continues to be robust for us.

Power Systems , yes, We move along with the market while we see certain spots of investments we do not see a big bang investment coming through which obviously means that power system will continue to grow at a same level where it has grown in FY18. However, it is prudent to say that this is also behaving consistently with the market. On the cost front, we have a very sharp eye kept towards the commodity increase especially in view of certain other disturbances in the country especially in the copper sector which is a significant raw material for our business and we have been working on that and trying to be proactive to mitigate any kind of risk coming out of this.

If the question I am just preempting your questions that are we prepared for any kind of commodity increase? Yes, in our mind it is very clear that the commodities are poised for an increase how much I would not want to speculate at this point of time and compounded by the rupee to dollar conversion which is also putting us at disadvantage. These two things are the top most in our mind going forward for our overall discuss. So apart from the alternate sourcing strategies and the cost saving strategies in this area., I am also quite optimistic that the market will see an increase in price levels because this phenomena is not specific to CG but this is sector phenomena and I am sure my competitors are also working on the same. So overall, I would say that the market will have to reimburse for this commodity increase and this year we would like to be proactive and we prepare for this increases mentally so that we are able to pass on these increases to the market at an appropriate time and hence expand the margins further in Industrial System somewhere we left.

With this, I will stop my part of it and we open the line for any questions you may have.

Moderator: Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Inderjeet Singh from Macquarie. Please go ahead.

Inderjeet Singh: My first question is on the domestic standalone performance, can you throw some lights on whether the margins that we have now reported especially in the Industrial System are these now the sustainable margins to work with or is there some element of certain previous profits which have now been booked in this quarter and can we work with this as a run rate for FY19?

KN Neelkant: That is where I elaborated on the quarter wise margins for Industrial Systems I will repeat that. Industrial system in the beginning of the year in Q1 reported a margin of 5.9 moving on to 9.6 in Q2, 10.6 in Q3 and slightly shade I think more than above 11 or approx around 11 in Q4. So this shows clearly a trend of expansion of margin quarter-on-quarter for Industrial Systems. There has been no specific one off bulky order or high margin order which is there in Q4. It has been consistent across the four quarters and order book reflects the same levels of margin with further expansion given by the leverage of economies of scale also that has also playing a part here.

So as far as the perfect order book is concerned, as far as the market capability to keep these margins I am quite confident of it and that is why I preempted it by saying the risk factor here if at all, would be the unpredictability of the commodity price coupled with some I do not know, but it looks like temporary challenges in the copper manufacturing sector in this country. So there I preempted that because we have been thinking very actively on that and mitigating measures are already been put in place to ensure that this margin I would in fact slightly be more aggressive here forget about these margins slipping I would expect a further expansion of margin going forward in the Industrial Systems.

Inderjeet Singh: My second question is on the top line growth, can you kind of highlight as to what is the outlook for the next year? What is driving this strong double digit growth, what are the sectors you think so earlier we knew railways was very strong, but have other sectors also started to now contribute to the growth? so that is it from my end.

KN Neelkant: So repeating the numbers which I spoke about the FY18 overall growth story was 23% growth for Industrial System top line and about 7.5% for power systems. On the railways front, in fact last year FY18 I would not attribute railways significantly for the top line growth of revenue. Railways was a significant contributor for growth of order input. That order input has to be converted into revenue in FY19. Hence, I would say that compare to FY18 the railways business is a further upside in FY19 as far as the sales contribution goes but having said that it is not just railways but all three legs of Industrial System the motors business, the railways business and although the business is small and India presently the drive business, but the percentage growth there would be exponential. So all three would continue to contribute for the Industrial System business if I look at it from our internal CG perspective.

Coming back to your question of the external perspective the answer is a mixed bag. We continue to see significant traction in government funded projects, infrastructure projects especially water apart from railways and the momentum continues in the road sector including the road equipment manufacturing sector, but apart from that the private investment CAPEX cycle are in very small pockets we can definitely see something is happening in the cement space, but I would not say that the private investment cycle is is playing a big factor in our planning for FY19. We expected to continue to be at the same levels of FY18.

So it is largely government projects, infrastructure projects, water projects which will be guiding FY19. On the power system, although its a slightly different story while India market continues to be at the same level with our expansion of portfolio especially in the switch gear segment including us being now the first manufacture of 800 KV bushings. We have successfully demonstrated RIP bushings in this country that palette of portfolio will increase and the served market would increase. And more importantly some baskets of export market especially in South Asia where of course we were doing transformers in a big way from Indonesia, but for switch gear it was subdued market that would open up significantly in FY19.

And also I see significant investment aided by World Banks happening in Africa in which we should be able to gain a significant shell. So power system summarizing it India story is still a wait and watch, but outside India and overall expansion of our portfolio should give the growth. If you ask me from guidance perspective, I would still maintain this 7.5% what we demonstrated in power system for FY18. FY19 would continue to be more or less the same. Industrial system yes we have grown by 23% in FY18. So the base itself has become larger. So I would not put my neck out to say that we will grow at the same pace, but a mid-teen kind of a number mid-teens to high teens kind of number for IS growth if there is a definite possibility looking forward to FY19. I hope I answered your questions.

Moderator: The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: I have few questions my end. First if we see on the overall and if you look at the standalone books clearly the capital employed both in the power systems and Industrial Systems have come down, so seems like a good improvement in working capital, but just two or three elements here A) overall on the balance sheet still loans and advances remains a bit sticky though they are declined YOY, so if you can share with us detail and what is the L&A status to the various subsidiaries at the end of the year and how do we expect it to move in the next financial year and also on the balance sheet what is our road map to reduce the leverage on books?

KN Neelkant: I will ask Venkatesh to respond to that, but before he gives you the details just at an overall level. Our overall gross debt situation despite all these additional funding and this exceptional item loss funding to Hungary have not increased that means this money has come from India operations, so this is continuing our trust which you mentioned earlier of not leveraging ourselves further one. And before I hand over to Venkatesh for the details on a lighter tone yes the capital employed has reduced so automatically ROE number are going to look significantly different going forward in FY19.

Venkatesh: Just to capture the loans and advances picture as comparable to September. So end of September if you recall the loans and advances where 2192 crores and that has gone up to 2747 crores and adjusted for Fx it is more closer to 2650 crores. Now I will answer your questions in two parts. In terms of the increase in loans and advances there are two factor that drove this. One is the retirals of overseas debt through borrowings in India that is one that is to the tune of around 200 crores. The second one is the continuing loss financing of the Hungarian business primarily which was to the tune of around 200 crores between Q3 and Q4 and the shortfall in working capital financing that is funded from India.

So this is the one that drove the growth in loans and advances on the India balance sheet. Now in terms of how this structure is expected to move going forward. I think you are aware that we are looking at overseas debt refinance solution which we expect to complete which is very close to completion and is imminent. Now with that the whole purpose of doing external borrowing is to hold. One is to borrow at overseas bring it to India through the retiral of the loans and advances and then retire the term debt in India to the tune of around 1100 crores.

Now it will give us essentially a twofold impact. One it will bring down the cost of borrowing which should add about 30 to 40 crores as a reduction in interest cost plus it pushes the tenure of the current maturity of these term loan to a later period because the average term of the borrowing which we are planning to do overseas is 3.5 years meaning that the actual maturity of the loan is over 5 years. So these are broadly from the balance sheet side what we intend to do and what we want to do and this is very close to being done.

Renu Baid: So it essentially means that the funding that you are trying to do will remain on the books for 3 to 5 years. It will be more of a gradual deleveraging exercise rather than expecting it in the next two years itself.

KN Neelkant: This is immediate plan as of now as of now as we see it. Now clearly with the Hungarian deal being complete we will straight away see a reduction of around 250 crores. It is essentially to give us the elbow room to finance the growth initiatives going forward just we have to keep it as something like that.

Renu Baid: If you can also help us understand what is the total debt on book at the end of FY18 it should be both for continued as well as for discontinued operation gross debt as well as net debt numbers?

Venkatesh: The continued gross debt is 1880 crores. The discontinued gross debt is 660 crores. Leaving us with the gross debt of 2540 crores. Similarly, the net debt continued is 1200 crores and the discontinued net debt is 530 crores leaving us with the net debt of 1730 crores.

Renu Baid: The second question coming back to Neelkant here would be if you can help us understand if you spoke of the overall performance, but how has been the growth in the motor, railway segment in the last financial years in terms of the sales mix and also in power if you can highlight how was the growth for switchgear segment which should have grown and aligned with this one more thing you mentioned of 165 crores of inventory write down that you had to take. So just wanted to understand because power business usually the order driven business so such 165 crores is not a small number of inventory write down in domestic power. So was it because of domestic orders, international order little more color on that side please.

KN Neelkant: Before that let me just recap what all Venkatesh told with one sentence. See if you look at our overall debt profile, our debt had been increasing mainly because of the loss funding for the international subsidiaries. Please do not miss the points that in Q4 these loss making especially Hungary continued despite which the debt did not increase. So there are two aspects of the debts one is we had to arrest any kind of increase in debt and then subsequently plan for the reduction in debt while Venkatesh elaborated on the future plans of debts reconsidering of the debt to change the profile of the debt for us the first priority has been despite the continuance of operational losses outside of India the debt profile has not increased.

Having said that answering your questions as far as Industrial System is concerned it has been again I repeat consistent across from a percentage growth irrespective of the base it has been consistent across motors, railways, and drives it is not that one single segment is driving the growth. So even if you look at the other figures whether it is IEEMA published figure or peer information you would see a significant increase in our market share in motors which is the published information source for motors and hence on that if you extrapolate the percentage growth of railways all remain the same. So from here all three remain the driver for growth in Industrial System.

So I am not saying that one has contributed so it is a nice thing to have when all three engines are firing. On Power system front you ask me about specifically switched gear growth. Switch gear and transformers are more or less performed at the same level. So if I were to further break it up in transformers yes the smaller transformers, the distribution transformer business showed a much more steadier growth than power transformers which is a natural reflection of what is happening in this country in terms of investment cycle where small debottlenecking projects requiring these kinds of smaller transformers are still selling, but large transformers, the big bank projects are still waiting. So switch gears same kind of growth as in transformers I will not differentiate anything between switch gears and transformers in the power system.

I agree with you 165 crores is a not a small amount in terms of inventory for a power system business, but then this was we thought that we will do this exercise because we wanted to start FY19 on a very clean slate so I will just explain to you where it comes from, how it comes from.

In my earlier calls, I had also mentioned to you that even at the cost of losing revenue we will not do sales or sake of sales unless the other parameters of receivables assurance from those customers are ensured. So there have been projects where the customer have yes you are right saying that these are all largely made to order kind of equipment. There have been orders in which we have made to order from the customer point of view, we have kept those transformers with us for some time now, but we cannot keep it forever hence we had to now redo it and hence it also led to the other thing of maybe returning some customer advance or reaching some settlement with them.

So as from the geography point of view I would say the proportion of it is lesser in Indian customers. The proportion of it is significantly larger from Latin American customer it can be very specific that because that was one of the reasons we have been earlier telling you that Latin America is a geography where we would like to exit so there it is a mix of export customer but largely concentrated around the LATAM geography.

Moderator: The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar: Couple of questions which I had for you. One was in relation to the Hungarian deals and I know we have been as you mentioned in your opening notes has been pushed back, but is there a timeline or is there a concern that the deal may not happen let say over the next 30 days, 60 days because the fact is that we continue to bleed out of that assets at the rate of 100 crores of quarter it is got delayed by two quarters that is more than the value that we expect to receive out of the deal?

KN Neelkant: Well, it has been delayed by one quarter if I am talking 30th June because the earlier indication was 31st March but I do not want to get into those. Yeah you are right there is a significant risk of further bleeding because of those delays and hence Hungary divestment is a very critical focal point for us also in terms of divesting that. Having said that, you ask me whether there is any possibility of those deals not happening etc. Any deal is not done till the deal is done. So for me to say that it is done no but for the last two months we have been working as I said the agreements have been reached and we have been working on the process of the paper work etc.

Let me give you slightly more granular details. We expected to saw the deal as communicated earlier to conclude by March 31st. The reason why it was March 31st in fact internally it was middle of March because we knew that there was an oncoming election in Hungary the first week of April. And once we miss the March date all those practically nothing happened in April and most of May. So it is only the last couple of weeks that we have Hungary as again reached on the momentum and it is working towards it. I would slightly defer with you saying that two quarter loss is equal to the deal value. No it is two quarter loss plus carry forward in case the deal does not happen.

While I do not want to get into the territory to start contemplating what happens if the deal does not happen, but as part of our risk management plan we always keep working on alternate plans that in case plan A does not work what do we do as plan B. Although here plan B first and foremost would be to make the plan A work. But having said that, it is not that we are not thinking of any alternative scenario. Yes, it is the most significant thing right now in our books. So the complete management focus and bandwidth is applied to resolve this at this point of time.

Ashish Kumar: Any timeline do you expect it to be there in the next two, three, four weeks or is it a couple of months where do you see the whole process?

KN Neelkant: The stage at which the paper work is there the actual time required for closure is less than 15 days. So even if I say that we should target it by June 30 it will be quite significant amount of time for the actual work. Here it is not that the actual work is going around in circles but it has come to a stock. So if you ask me the quantum of time required for the physical activity June 30th should be a good date for us to target and close it by then.

Ashish Kumar: And second thing was that when we change the auditors you talked about appointment of a before auditors by when do you think you would be expecting that announcement to come through. Is that only thing to that overseas funding or was it because of the large write off that was saw is there anything else that we need to be worried about as investors?

KN Neelkant: No the write off has nothing to do with the appointment. We are already in discussion with them. They also would like to see that the years is ending and the March 18 now since we have adopted the accounts and as the process it should be reached at some time during the AGM because that is how the auditor appointment happens, so it has to be initiated during the AGM which we may expect sometime early September, mid-September.

Moderator: The next question is from the line of Sanjay Doshi from Reliance Mutual Fund. Please go ahead.

Sanjay Doshi: Couple of questions. First is on a standalone balance sheet, we have non-current investment gone up on a YOY basis by almost like 600 crores plus, can you please explain what is this regarding I mean 440 odd crores is moved up to 1030 crores?

Venkatesh: I mean the increase is primarily on account of shoring up the net worth of the overseas subsidiaries those got that negative and we had to convert the loan to equity to meet the regulatory norms that exist overseas.

Sanjay Doshi: Sir we have been taking write-off on our loans and advances over the year this is after all that there has been increase of almost 600 crores so the write-off was only with respect to Hungary cash losses right and the rest has been reflecting in the balance sheet?

Venkatesh: You are right Sanjay.

Sanjay Doshi: And the other question is our net debt guidance at the end of last quarter was almost 1500 crores at the total level we have ended at 1730, what is the reason for this 230 crores of extra net debt?

Venkatesh: I explained that to you I mean if I look at the need for financing there were essentially three, four actually one was to continue to finance losses in Hungary and that was what has been the driver all along for debt. So if I take you back to the net debt number of 1730 which if adjusted for Fx is about 60 crores. It is more or less the same amount as what was in December. So what it means is that the losses that has happened over the last two quarters has been internally financed through internal accruals.

Sanjay Doshi: At the close of the deal this number is unlikely to move much right?

KN Neelkant: It will come down to the extent of the debt that is on the balance sheet of Hungary which is roughly about 250 crores.

Sanjay Doshi: One last thing just wanted to clarify in our notes we have mentioned that we continued to look for buyers for our Belgium, France and others businesses, so is there any change in our intent as compared to earlier guided?

KN Neelkant: As far as the focus is concerned as I mentioned the complete management focus and bandwidth right now is on the Hungary divestment. So till such time the Hungary divestment is closed. We would not like to open up a new chapter. Having said that, I mentioned in the opening statements that as far as Ireland is concerned we have in fact we have almost completed of cost restructuring exercise there by virtue of which Ireland should be significantly more profitable operation going forward. Belgium as you are aware in the last few quarters I have been continuously making it a point to mention it and this in my today opening statement also I mentioned that Belgium operations are back in black. So as far as Belgium and Ireland are concerned they are no longer a concern for us from operating loss perspective so it is Hungary which we are to close. Having closed Hungary then we will rethink about Belgium and Ireland how to classify. So at this point of time we continue to maintain the status quoof Belgium, Ireland definition as it was in the past quarter so no application of mind has happened there because the management is right now focus on closing Hungary. So possibly by September call we should have a definite clarity in the way forward in case there is a change etc but at this point of time no change.

Moderator: The next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.

Bhoomika Nair: Just a couple of clarifications on the balance sheet numbers that you spoke about if you say that earlier that the loans and advances number has gone up from 2200 to about 2650 which is increase of 450 crores partly quarter 2 with the 200 crores Hungary loss that we have to fund. Now we have also taken a write-off which is what is there in the exceptional item related to this. So what I am missing there should not then the loans and advances actually not have increased?

Venkatesh : Loans and advances increased by 450 crores. Now to capture the utilization of this increase 200 crores has been largely towards the loss financing in Hungary there is an additionally 40, 50 crores working capital financing to the overseas business. The third item which you are missing is the debt repayment overseas which is financed from increased borrowing in India.

Bhoomika Nair: Okay which is where the loans and advances has gone up.

Venkatesh : Absolutely.

Bhoomika Nair: And what we are saying is that our net debt today stands at 1730 once by June hopefully the deal closes out so this will reduce closer to 1500 odd crores with the 250 crores reduction in the Hungary cash flow that we receive.

Venkatesh : Absolutely correct Bhoomika Nair.

Moderator: The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: So just trying to understand for this quarter would you still need to fund the 100 crores loss for Hungary?

KN Neelkant: This Hungary run rate is going at 100 crores per quarter. So April to June quarter also which run at the same rate of funding till such time the deal is closed it has to reflect in our book of accounts. Now it is not necessary that the operating loss of Hungary be a cash loss depending on the timing of the closure if the deal closes somewhere earlier and asset is handed over then the funding goes on to the buyer, but yes from accounting point of view the reflection of the operating losses will have to be reflected in our books.

Puneet Gulati: So basically what you are saying is even if the deal closes by June and they pay you by December for three quarter from accounting perspective you will still need to record these losses?

KN Neelkant: First of all there is no payment here from the buyer to the seller. The terms of the deal is that the buyer takes over the loan which is there inside the Hungarian entity. As far as accounting procedure is concerned, if the deal is closed and effectively the asset is handed over that is the cut-off date till which we have to take the losses into our accounts and in any case there is no payment involved here and even payment was involved here that would have no bearing of this.

Puneet Gulati: So basically if you are saying it will close by June then we should not be expecting anything beyond June unless the deal itself extends?

KN Neelkant: That's right. That is where in the last call also we very categorically gave the run rate of losses of Hungary for you to estimate this, but here I am putting a positive caveat I am saying that while we book loss has to be anyway reflected that is a given we cannot do anything with that. Whether that book loss will translate into a cash loss or not we will have to be seen as we go along with the exact timing of the deal.

Puneet Gulati: Secondly in your discontinued operations for Q4 there is a 210 crores loss so 100 with Hungary what is the balance 100?

KN Neelkant: Discontinued business if you look at you are talking about the consol numbers?

Venkatesh : The consol number is 210 crores which roughly translates to about 180 crores of EBITDA loss. Now 180 crores of EBITDA loss is we got the three components. One is as you rightly captured the 100 crores of Hungary more like 105, 110 crores and then we have a 50 crores write-off on account of the distribution franchise of MSEDCL which is 50 crores and then 30 crores which is a combination of the multiple items including the winddown business of system in UK US.

Puneet Gulati: In your inception of 450 crores there was a 150 crores items of some final winding down of that division, what was that I could not quite understand that part.

KN Neelkant: That of the erstwhile engineering projects division of India.

Puneet Gulati: And there is nothing more left in that?

KN Neelkant: Hopefully nothing more because this time around across all the cleaning up we have done, we are trying to ensure that there is nothing more which is recurring so there is nothing more which is there at this point of time.

Puneet Gulati: Also in your notes to accounts there is still a 75 crores outstanding from MSEDCL would you foresee as a risk of another write-off or you think that is definitely going to come?

KN Neelkant: Background to this. Let me recap the background. There was a distribution franchise which we held in Jalgaon at an agreement with MSEDCL. We wound out this agreement in August 2015 at that point of time there were claims and counter claims from both sides from us to MSECDCL and from MSEDCL on to us. At that point of time my memory if I speak from memory this number was close to about 250 to 270 crores at that point of time. As time progressed and we entered into various discussion negotiations with MSEDCL. Finally, this 74.8 crores what is there mentioned as a note to account is the amount which has emerged of a final settlement agreement between us and MSEDCL.

So this number is a reflection of a final agreement between us and MSEDCL. Hence, I do not foresee that because MSEDCL whatever agreement they have made to us in last two, three years not questioning what was pending for negotiation that would be different things. Whatever they had agreed they had honored including paying us physical cash towards some of our claims and other things. Now this 74.8 will be final minuted amount between us and MSEDCL.

Puneet Gulati: But it is contingent on MSEDCL receiving the money from customer?

KN Neelkant: That was part of the original franchise agreement. So our claims also were in two parts. One part was the claims on account of some investment we have made etc which was negotiated and settled. And as far as this part is concerned the franchise agreement itself changed that this money MSEDCL is supposed to give us within 7 days or 15 days of them receiving the money. So this write-off which we took on Jalgaon franchise over a period was also identifying some of the risky collectables etc which MSEDCL is also not confident whether they will be collect after knocking that off this final figure emerged.

Puneet Gulati: And what is the expected timeline for this?

KN Neelkant: It took us two years now to close out close to 200 crores of MSEDCL. So prorata for 70 crores you can do the math.

Puneet Gulati: Lastly on this commodity price increase it is already now reflected in the current spot prices, what in your view is a kind of price increase you will need to take to manage the same level of EBITDA margin for your industrial business?

KN Neelkant: If you are restricting your question to copper. A 10% increase in the copper prices impacts 1.5% of my highest margin that is the correlation.

Puneet Gulati: You think that should be fairly easy to take that kind of?

KN Neelkant: So it affectively 1.5% increase which I have to take from the market to negate a 9%, 10% increasing cost.

Puneet Gulati: And that should be fairly easy to take in your view because you are guiding for sustained margin.

KN Neelkant: This is not something which is a CG specific matter. This is a market matter and reviewing the signs in the market by the behavior of the customer as well as the competition everybody understand this, realizes this so there is no hide and seek here. It is an open transparent game which is the way we like to operate with our OEM customers.

Puneet Gulati: So just one more question if I can you know you have been consistently outperforming the Industrial System markets, what do you think is driving that and how sustainable can that be for next two years also if you can give some color?

KN Neelkant: Give us also some credit our team is working very hard so that is driving it hard. So that is one part of it. Sustainable building is now that question I think it is slightly outdated because even if we map out Industrial System over a 10, 12 quarter period. So it is a not a spike that we have outperformed our competition for one quarter or two quarter. If you layout a map of 12 quarters the pattern is the same. So if 12 quarter the behavior has been consistently the same then I think both of us can fairly make a statement that this is sustainable.

Puneet Gulati: So is it more internal driven or is it just some change in business conditions for peers or the way market thinks about players some insight into that?

KN Neelkant: It is always a mix of things there is never only one thing which contributes the success, but yes there has been a significant amounts of internal things which we had done both from a go to market perspective as well as if you look at our motors business or the railways business inching up the value chain whether it is the higher efficiency in motors or whether it is the larger value-added component of railways including the traction electronic etc. So we have been continuously building our portfolio on one end to cater to a larger market. It is more too for railways segment and we have been sharpening our go to market strategies and evolving long term strategies with our OEM customers from a front-line perspective, so it is a mix of both.

Moderator: The next question is from the line of Salil Desai from Premji Invest. Please go ahead.

Salil Desai: Question is again on write-off the Hungary loss funding was 100 so Venkatesh mentioned 200 crores number in the L&A increasing so how are these two related?

Venkatesh : Essentially, I was comparing the balance sheet of September to March so that is essentially two quarters and the 100 crores pertains to 1 quarter

Salil Desai: Finally given the inventory write down and all you are saying it will be a clean plate, so you are not anticipating any incremental foreseeable losses is any of projects in any division within India it is not the right way to look at it?

Venkatesh : I did not quite understand your question sorry for that can you come closer.

Salil Desai: What I am saying is when you have written off inventory in the power sector division in India 165 odd crores, now this is all that you see foresee right now or you think that there are customers where the PL risk is still there?

Venkatesh: The endeavor was to clean up across all divisions and the fact of the matter that we have taken the brunt of it in power systems is more post factum than anything else. As of now we do not force anything in the future.

Moderator: The next question is from the line of Mohit Pandey from CitiGroup. Please go ahead.

Mohit Pandey: Sir on the industrial side what would be our capacity utilization currently across motors, railways and drive automation?

KN Neelkant: Industrial system business the capacity utilization is not a metric which actually governs the business because it is a mix and match of how much we decided to do in house and how much we decided to do outsource. So typically, we keep the capacity utilization at about 95%, 96% and whatever there is an excess of that we outsource it. So for a Industrial System is not a capacity utilization management business. But having said that, yes in our motors portfolio we are putting in some additional CAPEX for a couple of things. One is to have a dedicated facilities for the higher efficiency level motors which I believe would be the norm going forward whether it is 2 years, 3 years we will have to wait and watch. So we had an active preparation of that and two we had a common facility for our large rotating machines, catering to railways as well as industry this we are segregating into two different facilities so that with the increase railways volume the railways business has a independent capacity and at some point of time we also have to prepare ourselves for the upturn in the large rotating machines required for the industrial segment which I believe we would be seeing in 18, 24 months from now. So while capacity utilization per se it is not a metric. We are working towards realigning and segregating our facilities from a customer point of view.

Mohit Pandey: Just a follow up on that so what proportion of our industrial sales coming from outsource operations and secondly what would be the amount of CAPEX that you are planning for this business?

KN Neelkant: There is nothing which comes as outsourced full unit per se. When I say outsource it is different processes of value addition which is shared between inside the factory and outside the factory. So I will not be able to give you a number because these are at various levels of value addition in the Industrial System. Secondly if you are asking me the CAPEX the Industrial System CAPEX from an overall perspective is very small number so I were to give a CAPEX plan for the motors business in FY19 it would be in the ballpark range of about 35 to 40 crores.

Mohit Pandey: Secondly on the power system business what proportion of our sales that currently come in from exports, so you mentioned that on the export side especially in Africa you expect better traction this year currently what would be the proportion?

KN Neelkant: Roughly about 25% to 30%.

Mohit Pandey: 25% to 30% is the export.

KN Neelkant: Yeah that is the historical numbers which is spread between both transformers and switch gear roughly about 25% to 30% is what comes from export.

Mohit Pandey: Lastly could you please repeat the order inflow and backlog number I think I missed that you mentioned initially that would be last question?

KN Neelkant: Backlog at CG India level 31st March 2018 is 3600 crores.

Mohit Pandey: And segment wise power?

KN Neelkant: Segment wise power would be about 2200 industrial would be about 1400.

Mohit Pandey: In terms of inflow sir?

KN Neelkant: In flow for us what is more relevant is the power system as I mentioned because of the book to bill cycle in the Industrial System very much shorter. So power system standalone order intake for Q4 was about 580 crores and for the year if I will talk about power systems order inflow it will be 2660 crores.

Moderator: The next question is from the line of Pawan Kumar from Unifi Capital. Please go ahead.

Pawan Kumar: I just wanted to understand how much of the international business losses will continue I mean in the sense I understand 100 crores of Hungary losses are going to continue until the deal is closed, but apart from that is there any other portion of it which is expected to come up going forward?

KN Neelkant: Let me break the losses into first two parts inside India and outside India. The losses were significantly from outside India at the operating level. Outside India also if I were to break up geography wise Indonesia has been a consistently profitable organization and our drives business in Sweden have consistently been reporting positive EBITDA number. However, in Sweden there is a significantly high depreciation content because we capitalize the R&D expenses in Sweden the R&D even for the drive business in India and sweden and we capitalize that. So at operating level if I restrict myself to EBITDA number, operating levels it is also positive. Belgium, I mentioned to you that over the last few quarters including Q4 of this year operationally it has been breakeven or a small positive. For the Challenges we had in Ireland and Hungary. Ireland, I mentioned earlier that we are undergoing and almost completed the cost restructuring exercise. Hence for the year FY19 I do not expect Ireland to make any further losses. So the loss making bucket would be restricted to Hungary which I think we spent sufficient time analyzing the Hungary losses spread quarter-wise everywhere.

Pawan Kumar: Post restructuring of Ireland operations so we are saying it is an issue under EBITDA level or at the PAT level?

KN Neelkant: I was speaking the EBITDA level for the various business. If I leave Hungary out all the operations of Indonesia and other things together then even at the PBT level we would be positive.

Moderator: The last question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Questions have been broadly answered just from data clarification the backlog that you have suggested are these number excluding GST or including GST?

KN Neelkant: All the numbers we spoke about including the sales numbers including the order input numbers are of net of GST.

Moderator: Thank you. Ladies and Gentlemen that is the last question. I now hand the conference over to Mr. Neelkant for his closing comments.

KN Neelkant: Thank you so much everyone. I hope we have been able to clarify your queries and give data clarification. In case you have any subsequent rejoinder or thoughts please do connect with our office and I am more than happy to clarify it. Thank you so much and have a great day.

Moderator: Thank you very much. On behalf of CG Power and Industrial Solutions Limited, that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.