

Crompton Greaves Limited
Crompton Greaves Limited First Quarter and Financial 2015-2016 results
24th July, 2015

Moderator: Good day Ladies and gentlemen, Thank you for standing by and welcome to the Conference Call of Crompton Greaves to discuss the Company's First Quarter and Financial 2015-2016 Results and the way forward. As a reminder, all participants' line will be in the listen only mode, there will be an opportunity for you to ask questions at the end. Now without any further delay I would like to hand over the proceeding to Mr. Laurent Demortier who is Managing Director and CEO from Crompton Greaves Limited. Thank you and over to you, sir.

Laurent Demortier: Thank you very much. Good evening Ladies and Gentlemen and Thank you for joining us for this first quarter ending 2016 Investor Conference Call. Order excluding consumer for Q1 reached 2,005 crores or 2,006 crores which represented a minus 13% versus Q1 last year, the order decrease came from the international business which reached 1,363 crores which is a 24% decrease compared to Q1 last year. In India order reached 1143 crores which is 5% above last year. The growth has been typically strong in power where we have registered a significant order 14x765KV transformer for PGCIL for total north of 151 crores.

Consolidated revenue recorded was 3166 crores which was down 8% versus last year, the de-growth is coming from power systems minus 19%, mainly driven by the slowdown of our European operations. Automation and industrial growth was 8% of 1.3% and we have registered record quarter for consumer with a 13% increase in sales at 971 crores, a 28% increase in EBIT at 139 crores for this business alone. Consolidated EBITDA reached 125 crores of 3.9% margin and our consolidated PAT reached 16 crores. We ended the quarter with healthy backlog at the end of June which could result 7905 crores which is 4% growth over backlog and being March 2015 and that represents more than nine months of operations.

Now explaining the event of this quarter, I think starting with power international the order intake was mainly impacted because of the ongoing discussion that we have for the sales of power versus businesses, customers are waiting for clarity on this front to know who is going to be the new owner.

This quarter has been weak, you might have seen in profit for power India also, however this was because of some events, first we have Nasik operation which has been impacted by a strike, the shutdown period cost us for the period a lot of revenue of around 60 crores. The sight impact has been contained, production is not at 85% of productivity level. On the

transformer side, already in India there was a delay on the dispatch on some export orders, the customer size for this order were not ready which impacted the revenue by 75 crores and sell factor in India was the product mix where we produced during the quarter a lower rated transformer in T3. India performance has also been impacted by electrical distribution franchise that we have been discussing in the past which I have recorded 20 crores loss for the quarter.

Now on the consumer side, consumer as I said grew by 13% on revenue and 28% on EBIT, this is a very encouraging performance in line with the merger. The contribution came from orders from the client fans which covered 9.6%, so profit by the premium offerings, lighting which grew by 15.8% mainly driven by the development of our LED offering. Pumps that grew 11% and last but not least the appliances which grew by 38% mainly supported by the newly introduced fans and coolers.

Demerger plan is on track for the consumer business, it is progressing according to our schedule. In the view of the demerger process we are doing some research work in India for the reduction of our overheads and our month hour. We have recorded this quarter more than 11 crores savings on this on this front. At the start of this we have announced a VRS for them for which we have probation last quarter, the execution is on track and this will help us to reduce for the overall cost for the overall business. Industrial business is witnessing some stable market this quarter motors including HT, LT grew above 10% which I think has not happened since a long time and this will help us to achieve economies of scale to improve our profitability. It is worth to mention that we have signed this quarter, the worldwide supply demand with Lafarge, which is the leader in Cement for which we are going to deliver large motor from our Bhopal factory for the Lafarge plant all over the world.

Overall, I would say that Q1 has been good quarter for consumer and industry where both businesses have witnessed growth rate as well as market expansion. Power business in India has been impacted by some onetime events as our international power business stops to be impacted by the ongoing divesture process which we plan to close by fiscal year end.

On this I think we will open the floor for questions.

Moderator:

Thank you very much sir. Participants, with this we are going to start the Q&A interactive session. Should you wish to ask any question please press zero and one on your telephone keypad and wait for your name to be announced. At the onset few ground rules, I request all the investors to please ask only two questions at a time.

We have the first question from Charanjeet from BNK Securities. Your line is unmated, you may go ahead and ask your question.

Charanjeet: Sir if you can help us with the detailed order inflow in terms of the industrial and the power systems both in the Indian and the international markets?

Madhav Acharya: Charanjeet, if you can take down the numbers please. First I will give you the India numbers, power system India order intake for the quarter is at 716 crores, industrial system order intake for the quarter is 426 crores, total order intake for India for the quarter is 1143 crores, power systems non-India order intake is at 1278 crores, industrial systems order intake for non-India is 85 crores, total order intake non-India is 1363 crores, power systems for CG as a whole is at 1994 crores, industrial systems for CG as a whole is at 512 crores. So the total order intake for the quarter for CG as a whole is 2506 crores.

Charanjeet: Okay. And sir in the international subsidiaries, if you can help us understand like which all subsidiaries we had this loss because the whole last three quarters we have seen the loss increasing in this particular quarter. So is it the Belgium subsidiary or Hungary, where exactly we had the loss and how much was that loss?

Laurent Demortier: I think the volume effect is mainly is almost exclusively in Europe, Middle East.

Charanjeet: Okay. Can you just elaborate on that?

Laurent Demortier: I think if you look at the decrease compared to Q1 last year, this is mainly due to exclusively Europe, Middle East, Southeast Asia has been growing and US has been also growing.

Charanjeet: Okay. So till the time the negotiation for the sale continues we expect the losses to continue because the customers will not be off taking the orders or what is the primary reason that these losses are occurring?

Laurent Demortier: We are not talking about losses, just make sure we understand, we talk about order, it is just order intake. As you know the power business we sell utilities which are very large companies, which most of them are closely related to the state those large utilities, when there is a change in ownership which has been announced that they know are present on placing large order waiting to know who is going to be the next owner, it is a very classical thing.

Madhav Acharya: Just to add, whatever order book we have and whosoever are the customers, there is absolutely no impact whatsoever on the sales because of any ongoing discussion anywhere, that does not really get impacted.

Laurent Demortier: No impact on the shelf, I mean just order intake, new order, fresh order that customers are waiting to hear about what is the name to confirm and everything. So that's where the slowdown of the order intake is coming, but it does not affect at all our sales prospect.

Charanjeet: But what has lead to the increase loss in the international subsidies then?

Laurent Demortier: I think I international subsidiaries this is just volume impact.

Charanjeet: Okay. So how much has been the decline in the volumes if you could understand?

Madhav Acharya: Yes sure, if you look at the numbers, if I were to give you say Q1 last year if you look at the number, total top-line of 3442 crores and now it is 3166 crores, the drop is almost 300 crores while the drop in India is around 65 crores overall. So there is a drop in volume, for variety of reason which just Laurent has explained which we believe will be back on track.

Charanjeet: Okay. And sir maybe the last question from my side, so when do you expect this to be back on track in the international side?

Laurent Demortier: I think on the international side as the sales process has been, we said that we expect to get by the end of the year, so I think as soon as we can announce something I think that would put things back on track.

Moderator: Thank you very much. We have our next question from Mr. Misal Singh from Religare. Your line is unmuted, you may go ahead please.

Misal Singh: On the standalone business, in the power systems I wanted to understand, is there any additional impact apart from this 135 crores that you told us about because even if I add back this 135 crores there is still a decline YoY in revenues in the power systems.

Laurent Demortier: You are talking about the sell side, is it correct?

Misal Singh: Yes.

Laurent Demortier: I think there are three element on the sales side, I think as I said for power, I think I talked about Nasik and some production into option in the first quarter. The second I talked about the customer side that was not ready where we could not deliver our product and that was mainly on the international form. And the third element is the mix, the product mix, I think what happens, what I said is that during the quarter we have delivered much more transformer with lower rating instead of selling 400 MVA or 500 KV, we are doing 100 MVA transformer, that was the order that we booked last year and this mixed has direct impact on the top-line sales level that we have from this factory in both Q1 and Q3.

Misal Singh: And what is the outlook going ahead for this year, I mean should we see the product mix issue getting sorted into subsequent quarters?

Laurent Demortier: Yes, that's why I just mentioned in my speech the order that we receive at the end of the first quarter from PGCIL was 14x 765 KV transformer, these are the higher rating transformer DIS and when we produce DIS transformer we deliver higher margin, double-digit margin and we

have received 14 of those 451 crores at the end of June from PGCIL. So I think we will expect a different mix with higher rating transformer in the quarter to come.

Misal Singh: Okay. And sir there is this increase in the unallocable capital employed, so could you just tell me, I mean even on a quarter-on-quarter basis could you just remind us what is this increase for?

Madhav Acharya: See you are referring to the India capital employed unallocable from 2790 to 3037, largely one is the profit revenue that comes into play, we will get added back to the segment and also to the unallocable parts and some amount of the disposal of unproductive assets that also gets added to the account.

Misal Singh: Okay. And one last question on this, the distribution franchise business that we have, we should expect this kind of loss for each quarter going ahead?

Laurent Demortier: I think we mentioned we are looking at way to solve this problem, so we have this but we will try to before the end of the year to remove this loss. So we are working on it right now.

Moderator: Thank you very much. We have our next question from Mr. Amit Sinha from Macquarie Capital. Your line is unmuted, you may go ahead and ask your question please.

Inder: Hi, this is Inder here from Macquarie, thanks for the opportunity. My first question is on this international sale of our business, now in the last quarter we have mentioned that we had a firm bid on one piece of the business and we are discussing on the other piece. Can you share a little more granularity as to how, where have you reached on that specially on this firm bid, is that being likely to be consummated in the near term?

Laurent Demortier: I think first of all we have some small businesses that we sell abroad and for those we are closing right now the descent, but for the majority of our international power business we received non-binding letter of intent for the third parties and we are not negotiating exclusively with one party and we expect to close those discussions by year end, and these majority in the own business is the majority of the business.

Inder: Okay. Now does that also mean that key stages like due diligence and those kind of things have been completed or that is still too early?

Laurent Demortier: Ongoing, due diligence is ongoing.

Inder: Okay. My second question is on this domestic power business in quarter one, you said that there is a mix issue, is there a way to quantify how much revenues we got lost because of that? and second is, if these three issues would not had been there, we can make out on the revenue side, but what has been the profit impact because of that atleast at PBIT level?

Laurent Demortier: Okay. The top-line I think is last year on 60 crores, as I said 60 crores on this or 75 crores on the delay and you get 60 crores by the Nasik strike, so these are all the top-line impact we got. In terms of profitability...

Madhav Acharya: Inder if you look at the shortfall in the power revenue in India it is approximately 200 crores which Laurent just gave you a breakup and explained that. Basically the contribution on that had we got that revenue would have led our PBIT to a better numbers then even the last quarter.

Inder: Okay. And a last question if I may squeeze is, any update on the land sale that we are planning to conclude?

Laurent Demortier: Well, there are things in process and we will be able to update along with the regulatory update we will be able to give you in some time.

Moderator: Thank you very much. We have the next question from Renu Baid. Your line is unmuted, you may go ahead and ask your question please.

Renu Baid: Sir just couple of more clarification, I think Madhav in the previous question mentioned there is a 200 crores shortfall on the revenue side, I guess you gave explanation for about 135 crores, so for the remaining about 50 crores to 65 crores, where does that gap fill in.

Madhav Acharya: Let me explain, what loss it was firstly there is approximately a 60 crores shortfall on account of the strike that we had in Nasik, then he also explained a 75 crores shortfall which happened because the customer sites were not ready to we could not shift that equipment, that is 135. He also explained there is approximately 50-55 crores of shortfall because of the mix related issues.

Renu Baid: Okay. But mix would have been as a much more as a normal conventional business so it would not be a onetime item then?

Laurent Demortier: No, see mix I think last year we took lot of orders, mainly if you remember that T3 is a plant which is mainly exclusively working on 765KV, last year because we were short in 765KV order we have taken order on lower I think on 400KV transformer and even on a lower 35kV transformer and those are going through the shop floor during this quarter. Now as I explained, we received large order up to 765KV and our factory is full now for the three quarters to come with 765KV transformers, so that's why we say we will be able to shift this mix in the quarters to come.

Renu Baid: Okay. So I was just trying to understand the 50 crores was nothing unusual or onetime, it happens as a normal course of the business based on the business mix changes that we have?

Laurent Demortier: Yes, that's correct.

Renu Baid: Okay. And just wanted a couple of more explanation, QEI earlier in your interaction you mentioned that the sale process and everything should be completed by June-July end, so any timelines or clarity when are we expected to announce the finally close it?

Laurent Demortier: Okay. The QEI I think right now we have received a binding for that rejected because we have not accepted it so we are discussing again on this thing and I think we are continuing to look at for potential sale also of as I mentioned about the small sale like PT Canada which is the second one that we have also on the block right now in addition for the old international power business.

Renu Baid: Correct. Sir in the international if we adjust for the translation impact on currency, overall then volumes do not seem to have actually declined significantly, it was just fattish. So in that case how do we look at the profitability performance overall? Are there any provisions that were provided in the current quarter to compensate for the cost overruns and delays in the design issues that we had had earlier?

Madhav Acharya: Firstly, Renu you are right there is a sizable impact to the currency, so there has not been a very significantly decline but there is a decline in the top-line I mean if you look at between Q1 last year and Q1 this year, a sizable decline there. And that decline also leads to the effect on the EBITDA in terms of volumes.

Renu Baid: Okay. But otherwise no provisions in this particular quarter and in international sales on account of this design and testing issues which we had?

Madhav Acharya: No, there is no such problem.

Laurent Demortier: Normal operation on that.

Renu Baid: Okay. Sir if you can also elaborate a little more I think I just missed your initial comments on performance of automation including ZIV and the export performance for the quarter including the order book and revenue performance.

Madhav Acharya: Okay. First let me give you automation sales, current quarter is 201 crores, order in taken automation is 204 crores, sorry what was your third request?

Renu Baid: Order book, what is the share?

Madhav Acharya: Overall order book you are looking at are order book at point of time in automation is 565 crores.

Renu Baid: A little predominantly international?

Laurent Demortier: Yes.

Renu Baid: Sure. And on the export performance sir?

Madhav Acharya: The total export sales in Q1 is 133 crores.

Renu Baid: Order intake and order book?

Madhav Acharya: I thought I gave the detailed order intake, order book position I can tell you right away. The order book in India at this point of time is 3673 crores, non-India is 4232 crores, and total order book is 7905 crores.

Renu Baid: Okay. I think you have not shared the segment wise order book numbers yet in the call.

Madhav Acharya: I am giving you the numbers, power systems order book in India as on date is 3161 crores, industrial system is 512 crores, so the total order book in India is 3673 crores, outside of India power systems is 4100 crores, industrial systems is 132 crores, total order book outside of India is 4232 crores, total power systems orders for CG Global is 7261 crores and industrial is 644 crores, so the total order book stands at 7905 crores.

Renu Baid: Yes. And within this what is the export order book and order intake?

Madhav Acharya: Within this export order book is 889 crores from India.

Renu Baid: Okay, power systems?

Madhav Acharya: Yes.

Renu Baid: And order intake in the current quarter?

Madhav Acharya: Order intake on export front from India is 179 crores.

Renu Baid: Okay sir, thank you so much, it was helpful. And last if can ask one more, if you can elaborate a little more on the FOREX gain, that seemed to a significantly a large number in the current quarter against a big loss that we have seen in the last question. So was that largely related to operations or our loan book or advances that we had given to subs?

Madhav Acharya: See basically the whatever is the loan book outstanding you have to adjust it for the currency, and if you look at the last quarter we had a loss of around 44 crores and this quarter we had a gain of 52 crores which is what has been reported.

Renu Baid: Correct. So nothing much related to our normal sales or operations, more of the loan book mark-to-market?

Madhav Acharya: It is a loan book position it is why it gets reported separately.

Moderator: Thank you very much. We have Mr. Girish Nair from BNP Paribas for the next question. Your line is unmuted, you may go ahead and ask your question please.

Girish Nair: Firstly, I just wanted to know what is the total number of employees in your domestic and overseas operations now?

Laurent Demortier: Domestic and overseas, I don't have the number, we can provide the number which is roughly 16,000 employees including the contractors, so it gets 10,000 permanent and 5,000 contracted.

Girish Nair: And the second question that I have is, in terms of when the buyer is looking at your overseas assets, could you tell us what would be the rationale for the buyer to buy your operation, as in what are the benefits that they are looking for when they are buying?

Laurent Demortier: I think difficult for me to answer, you should do that to the buyer, but I cannot answer that, I think they have been looking at assets, they believe that assets are good assets and they can do some activity we have had. But the best thing it was the question to the buyer, not to me.

Girish Nair: Okay, sure. And finally I just wanted to know, in the domestic power systems business can we expect the operations to turn profitable from the next onwards, with regard to the power systems business?

Laurent Demortier: Yes.

Moderator: Thank you very much. We have the next question from Sanjeev Panda from Sherkhan. Your line is unmuted, you may go ahead and ask your question please.

Sanjeev Panda: Sir, continuing with the previous question, the power system domestic whatever one-time item that we spoke about, following to that you said that there are some of the order books that you have taken which is of your high margin we can expect in the transformer and other. So is it the profitability or the improvement that we are expecting should come after couple of quarters when the order will be executed or we can expect immediately in the next quarter?

Laurent Demortier: As I said roughly three reasons, so if the strike in Nasik is stopped, if my customer size are ready outside you will see an immediate improvement. For the 765KV the improvement which is because it is higher margin industry, it will take one quarter to start to materialize. So it is a mix, but that would be short-term impact and then more long-term but it will be all in this year.

Sanjeev Panda: Okay. And sir regarding the sale of our overseas subsidiaries in power system majorly, will there be any liability or any liability in terms that we have to serve or anything that you can help us to understand, because we believe the set has become a drag for our overall

performance, so is there anything that you can foresee or that if you help us to understand to comprehend beforehand?

Laurent Demortier: It is too early to comment on this, cannot comment on that now.

Moderator: Thank you very much. We have our next question from Mr. Deepak from Elara Capital. Your line is unmuted, you may go ahead and ask your question please.

Deepak: Yes, my first question, can you comment on the capacity utilization for various factories in India?

Laurent Demortier: I don't have the data with me right now but I can comment on the Nasik 85% of TVT we have been, this is the one we have been watching carefully. I think all the over Q1 and Q3 are now full so there is I think capacity should be in the normal range. Bhopal there is only one which I have seen is still not fully loaded, I think about 60% capacity for motor plant but I think as you said we start to recover some increase orders, I think we expect this will improve the profitability of the Bhopal. I think consumers they are fully-loaded also so this is not really...

Deepak: Okay. And my second question is on the stability on the power systems in the domestics, so do we see that they will revert back to normalcy from Q2 like we should be arrest this kind of a de-growth from Q2 onwards?

Laurent Demortier: Yes, degrowth will be arrested I think we are quite bullish on the power grid market in India, as you know there is a major program now on 765KV, the 765KV transformer is going to be the major element in the electrical backbone, transmission backbone that will connect all the Indian region and there is quite an aggressive expand from PGCIL for the range of all the utilities for ordering this type of products. So I think this we feel quite confident on.

Deepak: Okay. And my last question is, how is the traction that you have seen from railways during the quarter?

Laurent Demortier: Bad, so almost no traction so that is one of our worry that we are looking right now, the railway has been mute and I see we are still optimistic that it will come. As you know we provide only equipment or most of electrical equipment so usually in their investment we are at the last piece of the investment, so we are the last one to enjoy the investment, but so far we have not seen too much.

Moderator: Thank you very much. We have the next question from Ashish Jain, Morgan Stanley. Your line is unmuted, you may go ahead and ask your question please.

Ashish Jain: Sir my first question is on the domestic power business again, now if I look at the order book, roughly 60% of the order book that we have today on domestic power is something that we have booked in the last two quarters. So is it right to assume that that can impact our

momentum in the next couple of quarters because there will be certain lead time before the orders are actually delivered to the customer?

Laurent Demortier: No, some order are very short term because there is emergency, so I think the load plan of the factory they are pretty full starting now, on the transformer there is no issue.

Ashish Jain: Okay. And this 3100 crores order book that we have on domestic power, what proportion would be the low KVA order, some part of which we executed this quarter or all of that is done just to understand the potential margin implication or growth implication in future?

Laurent Demortier: No, cannot say, we can come back to you on that but I cannot give you a number out of the total backlog. But I think again as I said this is order that we took in end of last year because we were seeing some dip in the frequency of our plans for Q1, so we saw that last year, now as you said we have been taking more orders, orders have been picking up in 765 so we are getting the different segment. So I do not expect this volume is not too low, means that the low rating transformer maybe still represent one months of production but no more than that.

Ashish Jain: Okay. And sir just lastly on both the Nasik and the export customer issue, as of now both the issues persist I believe so it is possible that at least the Nasik issue might hit us in 2Q as well, any update on that?

Laurent Demortier: No, not to the extent of Q1, just tell you what happens. In Q1 the factory was blocked, was stopped so basically we could not produce anything for two weeks and then we have the partial... now people that the factory is working as I said, there is 85%, we have 200 workers which are at home, and it is no work no pay right now. So I think it impacts our flow with pace but it is much more limited, so productivity will not go down 85% and so we will not have the same trouble at least for time being we don't foresee the same trouble. We also foresee to get out of the situation in the coming months, I think we have some court order and we have some legal aspects to follow through but the impact cannot be at the level as like it has been on the first quarter.

Ashish Jain: And sir just lastly on the international business side, given the order book that you already have on the international side, is that getting impacted in any form given your conversation of potential sale of those businesses or you think that remains intact both from execution or any other risk point of view?

Laurent Demortier: No I think again slowdown in order with this type of customer we are very large customer and we keep talking with them, it is not unusual, I think we should just make sure that we conclude this contract as fast as possible to limit the potential impact on the sales, because as you said we still have large order books so I think we can resist some norms but this will need to resume we need to be able to refill our factory for mid-next year.

Moderator: Thank you very much. We have the next question from Bhavin from Axis Capital. Your line is unmuted, you may go ahead and ask your question please.

Bhavin: Sorry to harp on the domestic power system, I was doing the math, you said 130 crores is loss and fail due to the extraordinary issues and even if I take 25% gross margins that's roughly 30 crores and we have a 0.5 odd crores of PBIT loss. So are there any other projects that we have booked losses or over the execution of the overrating transformers that are lost?

Madhav Acharya: Bhavin, the total shortfall in top-line if you see, power is around 200 crores and if you take the contribution factor of almost 26%, 27% of that that expresses the EBITDA differential. So to answer your question very specifically, there is no special provision or anything like that in the books.

Bhavin: No, but even if we take 25%, 27% contribution on 200 crores but we will not reach the 8% level that we have been reporting since the last two, three quarters.

Madhav Acharya: We will also compare with Q4, Q4 we were at 7% and you look at the EBITDA differential you will reach the numbers.

Bhavin: You were also highlighting about some losses in the projects business in India, are they completed and is there any pending projects?

Laurent Demortier: I think on the EPD project on the engineering we are in the process of closing those projects, we still have projects to go through full, but I think we are continuing the closing of this project it is ongoing and as we go we will recognize losses on those projects.

Moderator: Thank you very much Bhavin. This is the last question that we have taken for today's session. I would like to hand it over back to Mr. Demortier for any final or closing comments. Over to you.

Laurent Demortier: Okay. Thank you very much everybody and thanks for joining us so late for people here in India. So I think Q2 based on what we discussed in Q2 I think we remain confident in the development of our Indian business which will come back on track. For international power business we are working on minimizing the concern due to the divestiture process. I Thank you and we will talk you next quarter. Good night.

Madhav Acharya: Thank you.

Moderator: Thank you very much Mr. Demortier. Thank you investors for joining us today. Hope you all have spent a useful time. With this we conclude the session, wish you all a great day. Thank you very much.