



“CG Power and Industrial Solutions Limited
Q1 FY '24 Earnings Conference Call”

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MODERATOR: **MS. RENU BAID PUGALIA – IIFL SECURITIES LIMITED.**

Moderator: Ladies and gentlemen, good day and welcome to the CG Power and Industrial Solutions Limited Q1 FY '24 Earnings Conference Call, hosted by IIFL Securities Limited.

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 this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded. Please note that this conference is being recorded.

I now hand the conference over to Ms. Renu Baid Pugalia from IIFL Securities Limited. Thank you, and over to you, ma'am.

Renu Pugalia: Thank you, Yusuf. Very good evening, everyone. Today we have with us the management of CG Power to discuss the 1Q FY '24 results. From the management we have with us today, Mr. N. Srinivasan, Managing Director, Mr. Susheel Todi, Chief Financial Officer, Mr. Ramesh Kumar, President-Industrial Division, Mr. Mukul Srivastava, President- Power Systems, and Mr. Ranjan Singh, Executive Vice President- Railway Division. Without taking much time, I would now like to hand over the call to the management for the opening remarks after which we can start the session for Q&A.

Thank you and over to you, sir.

Natarajan Srinivasan: Good evening, ladies and gentlemen. Let me first extend a warm welcome to you all for this first quarter of FY '24 earnings call. I'm Natarajan Srinivasan, Managing Director of the Company. I would like to briefly introduce my colleagues who are with me on this call. Ramesh Kumar, President-Industrial Division, Mukul Srivastava, President- Power Division, Ranjan Singh, Executive Vice President-Railways and then Susheel Todi, Chief Financial Officer.

On the whole, we had a very good quarter. Year-on-year, all the businesses grew in double digits and profit before tax for the quarter grew by about 55%. Profit before tax achieved in Q1 FY '24 is the highest ever recorded in quarter 1 in recent times. The order book continues to be strong as of 30th June 2023, unexecuted order book aggregate to INR4,909 crores. The company performance, Aggregate sales for the quarter were higher at INR1,766 crores, recording a growth of 13% year-on-year and lower by 1% quarter-on-quarter. Profit before tax was INR256 crores at 14.5% of sales in Q1 of FY '24 as against INR165 crores, 10.6% of sales in Q1 of FY '23 and INR252 crores on 14.1% of sales in Q4 of FY '23.

Margins were higher year-on-year on account of volume growth, softening in input costs, favorable product mix and procurement efficiencies. Return on capital employed (annualized) for this quarter was at 45% as against 38% in Q1 of FY '23. Order intake for Q1 of FY '24 was INR2,514 crores, a 47% growth year-on-year and unexecuted order book as stated earlier, as on 30th June 2023, stood at INR4,909 crores, 39% higher year-on-year.

Segment-wise performance, Industrial Systems. Aggregate sales for the quarter were higher at INR1,255 crores, recording a growth of 13% year-on-year and 5% quarter-on-quarter. Profit before interest and tax was at INR197 crores in Q1 of FY '24 as against INR153 crores in Q1 of FY '23 and INR188 crores in Q4 of FY '23.

Margins were higher year-on-year on account of volume growth, softening in input costs and procurement efficiencies. Order intake for Q1 of FY '24 was INR1,395 crores recording a growth of 27% year-on-year. And unexecuted order book for this division as of 30, June '23 was INR2,035 crores, which is a 12% growth over the year-on-year.

Power Systems, aggregate sales for the quarter were higher at INR512 crores, recording a growth of 13% year-on-year and lower by 14% quarter-on-quarter. Profit before interest and tax was at INR63 crores in Q1 of FY '24 as against INR40 crores in Q1 of FY '23 and INR75 crores in Q4 of FY '23. Margins were significantly higher year-on-year on account of higher realizations and favorable product mix. Order intake for Q1 FY '24 was INR1,119 crores, a growth of 84% year-on-year. And our unexecuted order book as of 30th June 2023 stood at INR2,874 crores, a growth of 69% year-on-year.

Consolidated financial results. Consolidated results include the performance of the operating Subsidiaries at Sweden, Germany and Netherlands, (Drives and Automation group, Europe), CG Adhesive Products Ltd, India and other non-operating and holding subsidiaries. Aggregate sales for the quarter were higher at INR1,874 crores, recording a growth of 14% year-on-year and lower by 2% on quarter-on-quarter. Profit before tax was at INR263 crores, 14% of sales in Q1 of FY '24 as against INR 167 crores, 10.1% of sales in Q1 of FY '23 and INR262 crores in Q4 of FY '23.

Unexecuted order book as consolidated, Drives & Automation in Europe as on 30th June 2023 stood at INR136 crores. The Company, subsequent to the quarter ended June 30, 2023, has concluded the sale of QEI LLC for a total consideration of about \$10.5 million free of cash and debt. Between myself and my colleagues, we'll be happy to answer any questions. Unaudited financial statements with detailed notes are available as part of stock exchange filing in the company's website i.e. www.cgglobal.com. Thank you.

- Moderator:** Our first question is from the line of Mr. Mohit Kumar. Please go ahead.
- Mohit Kumar:** Congratulations on an excellent quarter. And thanks for the opportunity. My first question is on the Power System. Are you seeing a strong inquiry for power transformers and GIS reactors, given that a lot of transmission projects are up for bidding and also depending on the RDSS is picking up materially?
- Natarajan Srinivasan:** Mukul?
- Mukul Srivastava:** Yes.
- Natarajan Srinivasan:** Can you please answer?
- Mukul Srivastava:** Yes, the short answer to your query is, yes. There's a strong inflow of inquiries for particularly all the segments, including power transformer, distribution transformer as well as medium voltage switchgears coming out of RDSS scheme, as you mentioned. And for the TBCB projects also propelling the demand for the AIS high-voltage switchgears and also the GIS switchgears in all the segments.

- Mohit Kumar:** My second question is on the railway opportunity, especially on the signalling side. I believe that there is a significant upcoming opportunities there for automotive blocks, signaling, electronic interlocking and axle counters. And I believe there is a gap in our portfolio. Am I right in saying that? And how are you trying to fill up this gap by tying up with international vendors?
- Ranjan Singh:** Yes. We do have a gap in this area, and we are pursuing partnerships or working on developing the products as well as approvals for the same. And going forward, in the next couple of years, we should be in the line.
- Mohit Kumar:** Yes. Do you think the investment in all these three ticket items, do you think it will pick up from this fiscal or next fiscal?
- Ranjan Singh:** No, it would take more than this and next. Because in signaling domain, because it's a safety critical thing, it takes a longer time to get the products made and approved by the system of RDSO and other approvals. It takes a longer time. There is a lot of kilometers of Indian railway lines where these systems have to be incorporated. Going forward, we see that there would be a demand going forward for a longer period of time. And we would not be found wanting in pursuing the technology with the partnerships that we are pursuing now.
- Moderator:** Thank you very much. We have our next question from the line of Dhananjai Bagrodia from ASK. Please go ahead.
- Dhananjai Bagrodia:** Congratulations on good set of numbers. Sir, usually in your order book, what is the execution cycle like for both segments? How many months or years there's a typical order get executed over?
- Natarajan Srinivasan:** So it depends on product-to-product, segment-to-segment. Railways, generally, you can say about a year or so. And similarly, motors actually is -- there are short lead items ranging from three months to four months. And also, there are large industrial motors which can take much longer time. Transformers, switchgears again, depending upon the power transformers, large sales capacity may take about nine months to twelve months. And switchgears also similarly depending upon the range, anything between three months to nine months, it will take.
- Dhananjai Bagrodia:** Okay. So for motors, there's no like thumb rule as such?
- Natarajan Srinivasan:** It depends on product-to-product, it will differ.
- Dhananjai Bagrodia:** Okay. Sure. And sir, in the annual report, you had mentioned something along the lines with the Indian Navy. Has any update on that, or is it too early to speak about?
- Ramesh Kumar:** Indian Navy, what?
- Dhananjai Bagrodia:** The Indian Navy plan to produce two carriers and three warships, five warships opportunity for motors and drives?
- Ramesh Kumar:** Yes. We are developing some motors for them, and we are in the process of getting approval. So that is the opportunity what we have mentioned. So we are working on these opportunities.

- Moderator:** Thank you. We have our next question from the line of Charanjit Singh from DSP. Please go ahead.
- Charanjit Singh:** Congratulations on a good set of numbers. The first question is on the power segment. If you see there's been a significant scale up in the order inflow at around INR1,100 crores. If you can give some split in terms of whether it is coming from industries, power grid or state transport. Similarly, on the industrial side, this INR1,400 crores of inflow, who could be our large customers here? Any kind of color on that?
- Natarajan Srinivasan:** So Mukul?
- Mukul Srivastava:** Yes. See, the large orders are actually coming from the utilities and the utilities are being serviced even by EPC contractor. So practically, such large rating orders, especially 400 KV line and all that are governed by the utilities in the country like Transmission or distribution side. So this is largely driven by utilities.
- Charanjit Singh:** Sir, is there a breakup, sir? What is the percentage which is coming from utilities, EPC contractors and private sector?
- Natarajan Srinivasan:** So we will not be able to share those breakup details.
- Charanjit Singh:** Okay, perfect. And sir, on both the power and the industrial side, what is the current utilization level? And any further capacity additions which we are doing in each of these segments?
- Natarajan Srinivasan:** So both the power transformer and distribution transformers, we have already in our Board has cleared an expansion. So from the power transformer from 17,000 MVA, we move to 25,000 MVA. Then similarly, the distribution transformer, capacity is less than about 6% to 7% market share, we want to go to 10% market share. So this will take about next 12 months to 15 months to implement.
- Charanjit Singh:** Okay. And sir, lastly from my side, in terms of export, any new initiatives which we are doing to pick-up in the export market?
- Natarajan Srinivasan:** No, it is there. But right now we are running full capacity to meet even the domestic demand. If we take transformers, you are seeing the order book. Therefore, we are not in a position to even cater to the domestic demand. So we are not really taking so much steps to cater export market at this point of time. But always, we are in touch with customers. Similarly, in motors, there is a little bit of exports what we do every year that we continue to do. Further focus will be done gradually in such a time when you will be able to meet the export inquiries.
- Moderator:** Thank you. The next question is from the line of Suraj Malu from Catamaran. Please go ahead.
- Suraj Malu:** I'd like to understand, what is your revenue split across the segments, the LT motor, HT motors, power transformer, distribution transformers and switchgears?
- Natarajan Srinivasan:** So within the motor, we don't give a breakup, how much is LT motor and HT motor. We don't give that breakup. So similarly, power transformer, distribution transformer, we only report only one segment. We don't give the breakup separately.

- Suraj Malu:** Okay. And if we can understand the market share?
- Natarajan Srinivasan:** So market share, as I said in both transformer business, our market share is less than 10%. So not a big market share. In the motors, LT motors, actually, our market share will be close to 35%.
- Suraj Malu:** Okay. And HT motors?
- Ramesh Kumar:** We are at 15%.
- Moderator:** Thank you. Next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.
- Ravi Swaminathan:** Congrats on a good set of numbers. My first question is in terms of what are the key factors which are driving the growth in the LT and HT motors, top 2, top 3 sectors, we can discuss?
- Ramesh Kumar:** Yes, the water and wastewater infrastructure basically and some ethanol all these sectors are doing very well. But in general, other sectors also, though they are not very high growth. This year, we saw the good growth in sugar also.
- Ravi Swaminathan:** And with respect to the HT motors, sir?
- Ramesh Kumar:** Yes. HT, both LT and HT together, I'm telling you. So it goes hand-in-hand for all the applications.
- Ravi Swaminathan:** Okay. And with respect to HT motors market share, can we think of it going up to the LT motor level market share? Is that possibility?
- Ramesh Kumar:** I don't think we will be able to reach that level because the number of players in HT is much more and capacity is also a constraint as of now. So maybe if we plan to expand our capacity, we'll get back to you.
- Ravi Swaminathan:** Got it, sir. And with respect to the consumer durability, how much revenue have we done this quarter? What is the revenue target there? Any sense on that?
- Ramesh Kumar:** We don't give a breakup actually, but we are definitely growing much, much more than the market growth and we have reached to the level of more than 2% in Fans and more than 3% in pumps in market share.
- Ravi Swaminathan:** Okay. And does the profitability at an EBIT level, is it profit breakeven or above breakeven, below?
- Ramesh Kumar:** Yes, above breakeven.
- Ravi Swaminathan:** Got it. And in terms of supply of motors for EVs, et cetera, what is the progress there, sir?

- Ramesh Kumar:** No, we are definitely working on that very seriously, not only with OEMs and we are also talking to various technology partners. But most probably, we will have both breakthroughs in a couple of quarters.
- Ravi Swaminathan:** Okay. And when will we start seeing revenues from that, sir, this year, next year?
- Natarajan Srinivasan:** So maybe next year.
- Ravi Swaminathan:** Okay. Got it, sir. And my final question is related to...
- Moderator:** Sorry to interrupt, Mr. Swaminathan, may I please request you to join the queue for the follow-up question?
- Ravi Swaminathan:** Sure.
- Moderator:** Next question is from the line of Bhoomika Nair from DAM Capital.
- Bhoomika Nair:** Congratulations on a great set of numbers. Sir, if I look at it in terms of order inflows for the IS Industrial Systems, Y-o-Y we're starting to see some bit of a kind of a flattening out of the order inflows. And if you see in the last 3 quarters, it's hover around the INR1,300 cores, INR1,400 crores kind of an order inflow range. So is it that while the base ordering remains fairly healthy now inquiry levels are starting to plateau out? Or is there something to read into this kind of flattening last couple of quarters kind of an order inflow?
- Natarajan Srinivasan:** So our understanding of this is actually the dealers do not want to stock higher inventories because of the general feeling of volatility in the commodity prices and consequence impact on finished good prices. Underlying demand continues to be strong, while the dealers actually may probably instead of stocking, they may purchase and sell, purchase and sell, like that, that strategy they may follow. This is what we are reading into this.
- Bhoomika Nair:** Okay. And sir, with the softening of commodity prices, are we starting to take some price cuts or is the industry taking any kind of price passing on the softening of this raw material prices softening?
- Natarajan Srinivasan:** So if it continues to soften like this further the graph is going to downward, then probably we have to do. So these price revisions, whether increase or downwards are not done every fortnight or every month. We have to see the trend there. The trend continues to really soften then probably market will adjust, the market will demand. And finally, prices may be softened.
- Bhoomika Nair:** Okay. And if I may just squeeze in one more question on the EV space, we were working on kind of doing some time doing some technological tie up in the sector. So if you can just give an update on where are we in the entire process, etcetera, on that aspect?
- Natarajan Srinivasan:** So we have not reached a stage where we can make any announcements. Everything is in work in progress. So once we are able to do something firm, then definitely we'll have to announce, we'll do that.

- Bhoomika Nair:** Sure. And just one last bookkeeping question on railways, the revenues inflow & backlog for that segment?
- Ranjan Singh:** The revenue would be for railways is about INR337-odd crores and the backlog will be about INR863 cores UEOB -- backlog. Yes, UEOB.
- Bhoomika Nair:** INR857 crores.
- Ranjan Singh:** Yes, INR863 crores is the backlog of orders and INR337-odd crores were the revenue of railway. The products that we sold to railway, it is going from industrial as well as power together.
- Moderator:** Next question is from the line of Harshit Patel from Equirus Securities.
- Harshit Patel:** Sir, my first question is on our drives business. So as noticed, we have been doing quite well in our European subsidiary. So are we taking any steps to bring that Emotron brand to India? Are we trying to exploit that cross-selling opportunity along with our motors?
- Natarajan Srinivasan:** So there is -- frankly, there is some thinking is there. But right now they have so much of order book, they are not able to cater to the demand of their own customers there. So it requires some preparation at various levels. So products have to be tuned to the Indian market conditions and what the Indian market customer requires you have to do those things. Maybe at some point this will happen.
- Harshit Patel:** Understood. Sir, secondly, on the motors capacity, you have already announced the doubling of capacity in LT motors. Now that the large infrastructure projects are picking up and going by your commentary as well, we have been doing quite well in that area. So why not start expanding the capacity on HT motors as well?
- Ramesh Kumar:** Yes. HT motor is also there. But initially, LT motor, what we thought was because we had never tapped the export market. So HT, now it is growing very well. So that is also on the cards of expanding HT motors going forward.
- Harshit Patel:** And sir, just lastly, an update on the 440 KV GIS switchgear that we were trying to develop. I think you have previously mentioned that we might be able to commercialize that product by the end of FY '25. So just wanted to check if we are on track on that or not?
- Natarajan Srinivasan:** Mukul, please?
- Mukul Srivastava:** Yes. We are working on various component development of it and we are on track.
- Moderator:** Next question is from the line of Ankur Sharma from HDFC Life.
- Ankur Sharma:** I had three questions. One, on the last call, you spoke about being qualified for supplies of motors to Nuclear Power Corporation of India and that you also got some orders from NPCIL. So if you could just help us what is the size of the order that you won? What could be potentially the size of the opportunity? What tenders we are coming out or already out on the motors that go into the motors side?

Natarajan Srinivasan: So I think there is some kind of confidentiality, we cannot disclose more details here. But it's a large order, I can say. So opportunities are there in this segment, if you are able to establish as a credible supplier, not only opportunity in India, but also opportunity outside India.

Ankur Sharma: Okay. Any numbers you can put, not on the orders that you won, but either in terms of market which can open up or the size of tenders which are there up for bidding at this point?

Natarajan Srinivasan: But markets can open, but it will take time. These are all given the criticality everywhere, there will be a product approval, you have to get yourself approved. It is a little bit of a longer-term thing. But the opportunity is there definitely.

Ankur Sharma: Okay, sir. Sir, second question was on the Power Systems business, where for the second quarter in a row, we've seen very, very strong order inflows. And I think in the beginning of the call, as you said, inquiry and ordering overall has been very strong on the transformer switchgear side. Order backlogs have gone up substantially, but clearly conversion of that into revenue seems to be a little bit soft. So is it just that the execution time lines which are kind of constraining us from delivering higher revenue? Is it capacity constraints? If you could just help me around that?

Natarajan Srinivasan: Both actually. These are not something mass production items. Each order has its own specification, sometimes it has to be done as a specific order. And secondly, we are constrained by capacity. So therefore, there is bound to be some lag or some lead time to complete and execute these orders.

Ankur Sharma: Okay. Sir, but we should see a pickup, right, a significant pickup in the coming quarters, right, given the way the backlog has moved, right, on the power side?

Natarajan Srinivasan: Whatever is the capacity, accordingly capacity utilization is there with respect to existing capacity. While we have taken steps to expand the capacity, that is going to take some time. Otherwise, the run rate, whatever we are doing, maybe here and there, there may be some increase by 10% to 15%, it can happen. Otherwise, there cannot be a big 10x difference.

Ankur Sharma: Sure. Sure. Okay. And just the last one was on the rail side. And we've been saying on especially the propulsion equipment side for both the Vande Bharat and maybe even on the bigger sized locos, we've been talking of a tie-up to kind of qualify. I think we've also got some trial orders on the Vande Bharat side. So if you could just update us both on the trial orders, when do we kind of complete that and we qualify independently? Or also on tie-ups with a partner to kind of qualify for some of these orders?

Natarajan Srinivasan: So the development products we execute and then qualify to get a bulk order is some time off, and it's not going to happen now. But any of the other ongoing tenders, if we are talking to some people if some like-minded companies are interested, this Vande Bharat orders are as you know, the volumes are large and the amounts are large, plus there is obviously a 35-year AMC for all these trains.

So there are globally, there are only about 10 to 12 rolling stock manufacturers of which already, three people are already in India. So the remaining of them, if they are interested to join and then

if they are like-minded, certainly, we are talking to few of them. If it comes through then we can participate as a consortium for these tenders.

Ankur Sharma: So that's still work-in-progress?

Natarajan Srinivasan: Yes.

Moderator: The next question is from the line of Amit Mahawar from UBS.

Amit Mahawar: Congratulations on consistent operational show. I just had two quick questions and also building on Ankur's question. So if you basically see the opportunity of supplies with the semi-high-speed propulsions, how difficult is it for you to scale up capacity because cost decision is always there. We have a strong track record.

We have almost INR12 billion, 13 billion kind of a railway portfolio. How difficult is it for you to build semi-high-speed propulsion capability and capacity in the next, say, 2 to 3 years, because the turnkey players and train builders have a time line to deliver? So I just wanted to understand how difficult is it for us to build the capacity there?

Natarajan Srinivasan: The question is how difficult it is to build the capacity in propulsion. That is not the problem actually.

Ranjan Singh: Yeah. That is not a problem. It is basically the qualification that is there and eligibility criteria demands that the people should be a train-builders with the proven track record of having supplied globally the number of trains and equipment in the last five years or ten years and out of which 30% should have been working satisfactorily for more than three years. These are the criteria and the numbers that thereof are limiting conditions, which create the issue of not being able to take that part of the cake of the business that we are pursuing. We are pursuing through partnerships where we can be a subcontractor or supplier to those who could win the tenders for making the locomotive or the train sets.

Amit Mahawar: Last 10 years, 15 years track record will not help us with a new product which will need a PQ to be set up for us?

Ranjan Singh: Pardon me? Can you be a bit...

Amit Mahawar: Actually I'm saying the propulsion that we supplied historically will not help in the qualification. These are going to be very new sets, which will require new PQs? That's one question.

Ranjan Singh: Each is of a different spec. The eligibility of locomotive credentials are not suitable for being in the train set, they are different for that matter.

Amit Mahawar: And second and last question is maybe Mr. Mukul and Ramesh can answer. On exports, what this company used to do around a decade ago was a very large number, switchgears, or medium-voltage, high-voltage transformers and motors. In '25, '26, is it possible for our factories to support INR1,000 crores exports? Yes. That's my last question.

- Natarajan Srinivasan:** So earlier, the Company's transformer capacity of around 50,000 MVA. Now many of the capacities have got cannibalized both in India, the Kanjurmarg factory is gone, outside factories are gone. And currently, our capacity is moving from 17,000 MVA to 25,000 MVA. You have seen the domestic order book, which is quite strong. So we need to supply those domestic orders first before think of taking fresh orders for exports.
- Moderator:** Thank you. The next question is from the line of Ashwani Sharma from ICICI Securities. Please go ahead.
- Ashwani Sharma:** So my first question is on the margin. The margin trajectory has been very strong for you. But in light of growing the order inflow, which is very strong for Power System, do you think these kind of margins are sustainable going ahead?
- Natarajan Srinivasan:** It's difficult to answer this question because you know 70% of the cost is actually the material costs where the cost of material fluctuates. We have maintained, if you compare with this Q1 and last Q1, you will see that the big difference. But if you see the margin for last financial year and then come back with Q1 that they are almost maintained. So because of this extreme volatility in market prices, which is what we call the MSR, material cost to sales. So that is not a controlling factor. So it will be difficult for us to answer this question.
- Ashwani Sharma:** Understood. Sir, my second question is again on the product portfolio. So within the Power Systems, like you mentioned about the signaling side, you're still kind of , you have a gap. But is there any product which you kind of thinking of developing over the next three years to four years in the Power System where you feel that there is a gap?
- Natarajan Srinivasan:** So signal, what you mentioned is probably relatable to railways, not relatable to power. So power actually, whatever the market demands you'll see it is all a tender-driven business in transformers and switchgear. Whatever a customer wants by way of a tender, we respond to the tender and get the order. I think what our market requirements are there in terms of transformer and switchgear is very much there in our portfolio. I don't know whether I answered your question?
- Ashwani Sharma:** Right. Last one, sir. I believe that you are still kind of building capabilities on the Vande Bharat portfolio propulsion system. But are you getting inquiries for the same?
- Ranjan Singh:** No, the inquiries are not like this. The tenders are announced. Earlier about 100-odd train tenders of propulsion were done by ICF and these were given to various players, majority of which was given to one player and balance were given, we have taken up the development order. We are in the process of doing the development for the same.
- As far as the next inquiries and other things are concerned, going forward, we expect next tenders to be also coming out. And we would be eligible only when we have done the development and supplies to the railways. It may take some time, as we have said earlier.
- Moderator:** Thank you. Next question is from the line of Mukesh Arvind from Quantum Advisors Private Limited. Please go ahead.

- Mukesh Arvind:** Can I get a brief outlook on the margin segmentally this year and next year going forward?
- Natarajan Srinivasan:** Margin. So just now I answered this question. I don't know whether you have listened to that. All our businesses, both Power Systems as well as Industrial Systems, large part of our cost of production is actually material costs. 70% is actually the material cost. So last year and the year before, if you have seen the material prices went through the roof, be it steel or copper.
- So there are global phenomena to which these prices move. So therefore, on which we have no control. And very many times, we will not be able to pass on this. And even if we want to pass on, there will be a time lag. So there are a number of issues, therefore, very difficult to make a statement on the margin outlook for this year or next year.
- Moderator:** Thank you. The next question is from the line of Ms. Renu Baid Pugalia from IIFL Securities. Please go ahead.
- Renu Baid:** My first question is, sir, can we have some update on the operational excellence activities that we have now been undertaking for more than six months to nine months? And what are the kind of savings that have started accruing the businesses, both in terms of capacities as well as in terms of financial savings to the EBITDA?
- Natarajan Srinivasan:** So the operational excellence has been going on for the last 18 months. And primarily, this is led by a lean initiative in which wherein we are working with an international consulting firm. The benefit of these lean initiatives will manifest in about two or three forms. One is actually due to improved layout and improved motions, certain activities can be reduced and therefore, the way your production cycle or your operations are carried on may witness -- may go through a change, which as well as the benefit of the plant. Therefore, the space will get reduced. So manpower may get reduced, but also productivity will go up.
- So these are the ways by which generally this initiative is helping us. We won't be able to put through a figure as to how much money has been saved on account of this activity.
- Renu Baid:** Sure. Secondly, if I look at the motors business, we have just spoken of...
- Moderator:** It seems that we lost the connection for Ms. Renu. Meanwhile, we will move to the next question from the line of Mr. Rahul Gajare from Haitong Securities India Private Limited. Please go ahead.
- Rahul Gajare:** I've got a couple of questions. One, can you discuss the cash position at the end of the quarter? And I understand the sales proceed of QEI would have received after that. So if that has already been received? That's the first question.
- Susheel Todi:** So as of June, our cash position was quite strong, it was INR650 crores-plus. And the QEI sale proceeds is, its not there as of now. It is expected to come in quarter 2.
- Rahul Gajare:** And with respect to the exit of Siemens from HT Motors, how do you think that will battle change the dynamics of the HT motor industry, given that Siemens had a leading position in HT

motor? And connected with that, is there any traction on the export business, both on industrial and power side?

Natarajan Srinivasan: So on the first question, I don't think we have any impact there. It's only -- if you ask me, Siemens, what they're doing, there's only internal. I don't think it will have any impact. The second question, so on exports, as I said, right now we are just trying to cater to the domestic demand. There are capacity constraints. And then once the capacity moves up, then we will start looking at exports.

Rahul Gajare: Okay. Sorry, I had actually joined the call late. So is there an update that you can share on the status of the capex, both on industrial and power side?

Natarajan Srinivasan: So totally, the capex is actually for motor expansion, about INR280 crores has been budgeted. Similarly, for the transformer expansion, about INR125 crores have been budgeted. In addition to that, across the divisions, we'll incur about INR100 crores of normal capital expenditure. This total expenditure of more than INR500 crores will be spent this year and next year.

Rahul Gajare: So in terms of time line of the commissioning of the capacity, that's what I would...

Natarajan Srinivasan: So it's being progressively be commissioned. All capacities will not come online. Even if it comes online, we'll have an issue. We have already said we will take about three years' time.

Moderator: Thank you. The next question is from the line of Ms. Renu Baid Pugalia. Please go ahead.

Renu Baid: Yeah, thank you. I got disconnected, earlier. Sir, my second question then was, can you highlight some of the initiatives that the Company is taking to drive, services part of the portfolio and both in terms of R&D as well as engineering services? And how do we plan to monetize these revenue streams over the medium term, given the large installed base which CG has?

Natarajan Srinivasan: So already, in Power Systems business, there is a stream already reflected in the numbers. And we are taking steps in both the businesses, both in motors and others, actually. So there are two aspects of the services, only sale of spares and service income by way of repairs. Both we are now doing several other, I cannot discuss minute details as to what we are doing. But whatever steps we are planning this year, probably will start giving results from next year and then probably from year after.

Renu Baid: Sure. Aligned with this is the other question that increasingly we're seeing all electrical equipment being a part of a smarter grid or of a smarter process equipment system. So what are the investments that we are doing on the technology side to make the product digitally ready and any new products that we are thinking of to add to a portfolio from a medium-term perspective, which could be next generation in terms of technology and digitalization?

Natarajan Srinivasan: So Renu, actually, I discussed earlier, the total amount of capex that we are planning across businesses. And when we see today actually, if you replace one machine compared to our vintage machine, that machine will be completely, whatever you said, it will be green, it will be sustainable. It will be algorithm-based. It will be software-based. Earlier, if three persons were required, now it will be one person required. This is standard and given. So when we plan the

expansion, we are looking at all these aspects. Obviously, when we replace machines or when we go for higher capacity, we go for both in terms of technology, in terms of operational convenience and also in terms of digital, I think we are going for the latest.

So it will be individually difficult for me to list each one of the items. So these total expenditure, what you said it is already built into the expansion in the total overall capex, which I mentioned.

Renu Baid: Sir, my question was also from the reference of not just the manufacturing capex, but our end products to our customers. So are we making the products more smarter digitally connected? And any changes in the mix, are product mix which would enable the digital revenue stream?

Natarajan Srinivasan: So I think you can come over here and then have a discussion. But generally, so in the power business, you know that we have to conform to the tender specification, whatever -- it's every order, whether it is transformer or switchgear, it is all won on tenders. Then whatever tender requirement if the customer wants it to be more digitally loaded, then it will happen. Otherwise, we will not get qualified. In the motors, actually, there we have introduced smart motors and then already this is work-in-progress and we have already shipped some motors using smart cards. I hope I answered your question.

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

Aditya Mongia: I wanted to kind of check with you on the opportunity regarding energy efficiency. Are you changing, are you seeing any trends that are supporting these thesis from the industry wherein the share of IE3, IE4 in India? And the related question that I had was that a recent legislation that has been passed in Europe kind of make energy efficiency even more important over there. So in your export inquiries, have you started to see any effect of that materialize?

Ramesh Kumar: As you rightly said, Europe has standardized now on IE3. In India, IE3 and IE4 is also picking up. I think almost about 35% has shift to IE3 though IE3 is not mandatory, but there are a lot of industries we are looking for IE4 also. So definitely, going forward, there will be a good demand for IE3, IE4.

Aditya Mongia: Anything on the export side that you are kind of hearing, which is making you believe that the opportunity may be even larger outside India?

Ramesh Kumar: We have IE3, IE4 complete range. So wherever in Europe, there we are meeting the requirements, wherever the inquiry is and distribution network, which we have, we are selling through that.

Aditya Mongia: And the second question that I had for you was more on the services part of it. Pardon me that we kind of already answered. But one area wherein at least my sense is European motor companies have done a lot better on the services side. Would you have any near- to medium-term targets and time lines and how is the progress going as we see through growing the services portfolio linked to motors?

- Natarajan Srinivasan:** So I think all that I can say is it's a priority area we are working on. We have put specific people. We won't be able to share more granular details.
- Moderator:** Thank you. The next question is from the line of Akash from Dalal & Broacha Stock Broking. Please go ahead.
- Akash:** great set of numbers and thank you for the opportunity. So my question is...
- Moderator:** Sorry to interrupt Mr. Akash, but there is some background noise from your end. Can you move please move to a...
- Moderator:** Mr. Akash, there is some background noise from your end. We ask you to please move to some silent zone to ask the question. It seems that there was some disturbance from Mr. Akash's line, we will check the connection and get back to Mr. Akash.
- The next question is from the line of Mr. Vikas Shrivastav from RBC Finance Service.
- Vikas Shrivastav:** My question is on the pumps and the fans. Whatever information is available on the public domain regarding this two questions. What are the geographical areas we have covered in these products in India? And then if you can give some rough idea as to by when do you think it will become a segmental reporting item where we will get into a position where we'll get that to know what the turnover from these two products are in the total turnover?
- Ramesh Kumar:** Yes. Area-wise, we cover the complete India because our existing channels and we have well spread brand across the country. So we have gone for the entire country now. So there's no place where we don't sell it.
- Natarajan Srinivasan:** So the second question, I don't know, because the other segments are also going up, therefore lot of catching up.
- Vikas Shrivastav:** True. But I believe in the accounting standard, you have to start reporting if it's more than 5%, if my understanding is right. When does that -- I'm assuming that this is a faster-growing market than you only 2%, 3% of as I heard of the market today. So just a rough estimate that when do you think we could, where are we in terms of percentage, if you don't want to disclose it, some indication as to when will we cross 5%? Some indication as a percentage of turnover, whatever you can give us, let us know where are we today and where will we say two years- three years down the line?
- Natarajan Srinivasan:** No, maybe two years- three years, you have said -- three years I can't put any number. So I don't have the number with me. I don't give guidance. If we grow, if we reach that level, we will disclose. That's all I can say.
- Vikas Shrivastav:** And can you disclose what our turnover is from these products today or that is also not possible?
- Natarajan Srinivasan:** So there are fans, geysers, pumps, etcetera. So we don't give a breakup.
- Vikas Shrivastav:** No, the gross, sir?

- Susheel Todi:** Just as a requirement from an accounting point of view until we don't touch 10% of the total turnover, it cannot be reported separately. So that is the requirement of the accounting standard.
- Moderator:** Thank you. The next question is from the line of Suraj Malu from Catamaran. Please go ahead.
- Suraj Malu:** Sir, I just had two questions. First of all, in the transformer segment, what is our utilization? And secondly, like the capacity expansion, like by when will that be expanded to 25,000 MVA, is it like three years from now? Or will it be ready in one year?
- Natarajan Srinivasan:** Mukul?
- Mukul Srivastava:** Yes, sir. Our transformer capacity utilisation is in the range of around 80%. One aspect I'd like to clarify that there are repeat inspections and multiple stage inspections of the customers in a manufacturing setup like transformer. So some degree of capacity gets lost because of that repeat inspections. Otherwise we are around 80%. And our transformer expansion projects are intended to be completed in the next 12 to 15 months.
- Moderator:** Thank you. We have a next question from the line of Alok Ranjan from 360 ONE AMC. Please go ahead.
- Alok Ranjan:** Sir, my question is pertaining to the comments that we have made in the annual report that the export revenue, we can increase export revenue contribution from 5% to 20% over the next four years, five years. And also, we are saying that currently, the domestic demand is higher. So we can't cater to the exports. And it looks like that when the capacity will come up, obviously, then we can cater to the export market. So can you say that we are confident that once the capacity will be there like by FY '25, so within three years, so let's say, by '28, we will be able to ensure our exports contribution from 5% to 20%?
- And just associated question to that, so we are hearing more about the global supply chain realignment in India having lower weight in the global supply chain in the industrial products and is likely to move up. So is it that this is also going to support us in terms of increasing the export contribution to a higher number in three years or something?
- Natarajan Srinivasan:** So to answer your question, this is the aim to which we are working. Beyond that, I won't be able to say. So what do you say if you ask your question, are you confident? I mean, this is the aim for which we are working. Therefore, we may succeed, we may not succeed. But we put out all our efforts to succeed in this area. I will stop at that level. Second question, I could not follow your question. You said something like realignment.
- Ranjan Singh:** Like it's China and all and probably...
- Natarajan Srinivasan:** So anyway, our volumes are such, I don't think it's going to have a big impact. Our volume, whatever we want to do, whether it is realignment or no alignment, we'll be able to do that. That's not a big thing.
- Alok Ranjan:** Sir, my second question is about the retrofit business opportunity. We have mentioned that around INR2,500 crores opportunities there in the export market in the retrofit business. Could

you please elaborate how we are going to target that? And how much time will it take to gain some sizable number out of it?

Natarajan Srinivasan: Retrofit opportunity in which segment?

Alok Ranjan: Sir, you have mentioned in the annual report in the power segment that there is a retrofit business opportunity closer to around INR2,500 crores in export market?

Natarajan Srinivasan: Mukul?

Mukul Srivastava: Yes, sir. See, a lot of infrastructure in Europe and USA is very old, almost to the tune of 40-45 years. So there, the requirements will come when they will replace the old, very old transformers by the new ones with the new standards, new efficiency levels. So now that part, as our portfolio is growing and we're adding the capacity, we also intend to focus on those markets to capitalize on that opportunity. So that is what we have mentioned.

Alok Ranjan: And sir, any time line that we can think about in terms of how much share we can get out of this INR2,500 crores opportunity that you're talking about?

Mukul Srivastava: We have already started quoting for them. A few orders we have already received from the markets like Greece and we are working on other inquiries from Africa, from Europe and from USA.

Alok Ranjan: Got it. Sir, last two questions from my side. One is that if you can help me with what is your market share in medium-voltage switchgear? And also any progress that you can share on the EV motor and controller, which you said that you are the forerunner in the indigenously developed EV motor and controller for three-wheeler to bus segment? So these are the last two questions.

Mukul Srivastava: On the MV switchgear side of the market share, we will be close to around 17%. In the EV part, I will request Ramesh to answer.

Ramesh Kumar: Yes. So we have already answered this question, we are trying to tie up with the technology partner for the development of this motor and controller.

Natarajan Srinivasan: Right now there is no market share.

Ramesh Kumar: Yes. And currently, our market share, it is not there. We are yet to start.

Alok Ranjan: Yes. Got it. And there will be different tech partners for different categories for the three-wheeler different and for the bus segment, it will be different? Or it will be same fixed partner across?

Natarajan Srinivasan: We really don't know this actually. It can be the same person, it can be different. We really don't know at this point.

Moderator: Thank you. Ladies and gentlemen, we will take this as a last question for the day. I will now like to hand over the conference over to the management for the closing comments.

Natarajan Srinivasan: So I thank all of you for participating in the call. I trust, we were able to answer questions to your satisfaction. I also thank IIFL team for organizing this call. Thank you.

Moderator: Thank you. On behalf of IIFL Securities Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.