



“CG Power and Industrial Solutions Limited Q1 FY23 Earnings Conference Call”

July 27, 2022



MANAGEMENT: **MR. N. SRINIVASAN – MANAGING DIRECTOR**
MR. SUSHEEL TODI – CFO
MR. RAMESH KUMAR – PRESIDENT, INDUSTRIAL
DIVISION
MR. MUKUL SRIVASTAVA – PRESIDENT, POWER
SYSTEMS
MR. P. VARADARAJAN – COMPANY SECRETARY AND
COMPLIANCE OFFICER

MODERATOR: **MS. BHOOMIKA NAIR – DAM CAPITAL ADVISORS**
LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the CG Power and Industrial Solutions Limited's earnings conference call hosted by DAM Capital Advisors. 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 touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors. Thank you and over to you, Ma'am.

Bhoomika Nair: A warm good evening to everyone. On behalf of DAM Capital, I would like to welcome you to the Q1 FY23 earnings call of CG Power and Industrial Solutions Limited. We have the management today being represented by Mr. N. Srinivasan – Managing Director, Mr. Susheel Todi – CFO, Mr. Ramesh Kumar – President, Industrial Division, and Mr. Mukul Srivastava – President, Power Systems. I'll now hand over the call to Mr. N. Srinivasan for his opening remarks, post which we will open up the floor for Q&A. Over to you, sir.

N. Srinivasan: Good evening ladies and gentlemen. Let me first extend a warm welcome to you for the Q1 earnings call. I am Srinivasan – Managing Director of the Company.

I would like to again introduce my colleagues who are with me on this call. Ramesh Kumar – President, Industrial Division; he takes care of motors and drives business; Mukul Srivastava – President, Power Systems; he takes care of the transformer and switchgear business; Mr. Ranjan Singh who takes care of our railway business is not with us today, he is traveling; Sushil Todi – CFO of the Company is with us; Mr. Varadarajan who is the Company Secretary and also incharge of legal, who is also with us.

Company performance:

All the businesses of the Company performed very well in this quarter. Sales and profit before tax before exceptional items for the standalone Company for Q1 FY2022-23, the highest in the last 26 quarters contributed by growth in all the business divisions. Aggregate sales for the quarter were higher at 1,559 crores recording a growth of 63% year on year and 11% quarter on quarter. Q1 of last of course was impacted by Covid lockdown. To that extent, the figures are not comparable. Profit before tax was at 165 crores at 10.6% of sales in Q1 FY23 as against 73 crores, 7.6% of sales in Q1 of FY22, and Rs. 131 crores, 9.3% of sales in Q4 of FY22. Margins were higher due to cost-saving initiatives and procurement, increased productivity, and reduction in finance cost on account of repayment of term loans. Return on capital employed on an annualized basis for Q1 of FY23 was at 39% as against 24% in Q1 of FY22. Free cash flow generated for the quarter was Rs. 70 crores.

Now, I move onto segmental performance.

Industrial systems:

Aggregate sales for the quarter were higher at 1,106 crores recording a growth of 61% year on year and higher by 15% quarter on quarter. Profit before interest and tax was at 153 crores, 13.8% of sales in Q1 of FY23 as against 64 crores, 9.3% of the sales in Q1 of FY22 and Rs. 135 crores, 14% of sales in Q4 of FY22. Margins were again higher in Q1 of FY23 compared to Q1 of FY22 due to improvement in productivity and cost-saving initiatives. Unexecuted order book for this division as on 30-6-2022 stands at 1,959 crores which grew by 16% compared to 1,691 crores as on 30th June 2021.

Moving onto power systems:

Aggregate sales for the quarter were higher at 453 crores recording a growth of 70% year on year and 1% quarter on quarter. Profit before interest and tax was at 40 crores in Q1 of FY23 as against 28 crores in Q1 of FY22 and 27 crores in Q4 of FY22. Margins were higher sequentially but lower year on year. Q1 of FY22 margins were better due to execution of certain export orders with higher margin. Unexecuted order book at the end of June 30th, 2022, was 1,713 crores which grew by 43% compared to 1,197 crores as on 30th June 2021. A good demand was observed for transformers and switchgears.

Consolidated performance:

Consolidated results include the performance of operating subsidiaries at USA namely QEI Incorporate and in Sweden, Germany, and Netherlands which are Drives and Automation companies in Europe and other non-operating and holding subsidiaries.

Q1 consolidated performance:

Sales for the quarter were at 1,665 crores as against 1,050 crores in Q1 of FY22 and profit before tax before exceptional items was 172 crores as against 71 crores in Q1 of FY22.

Some of the key events in Q1:

During this quarter, Tube Investments of India exercised its option to subscribe to the 8.5 crores equity shares by paying the warrant subscription money of 55 crores. There are no further warrants outstanding as on 30th June 2022. Tube Investments now holds about 58.05% of the equity share capital of the Company. The Company prepaid the remaining term loan of Rs. 100 crores outstanding out of accruals and as of now, the entire term loans have been paid in full. India Ratings have upgraded the Company's long-term rating from AA- to AA Stable and affirms the short-term rating to A1+. The Board of Directors of the Company while approving the business plan have also approved a capital expenditure program of 210 crores to be implemented in the current financial year. The capital expenditure will be spent in expansion, debottlenecking, and modernizing the existing facilities. Apart from that, the money will also be spent on research & development, information technology, and EHS (Environment, Health, and Safety). Out of the 211 crores, motors and drives will get about 80 crores; about 32 crores will be spent on

railways; 88 crores will be spent on power; and remaining will be on other initiatives I just mentioned.

Unaudited financial statements with detailed notes are available as part of the stock exchange filing and also in the Company's website.

Between myself and my colleagues, we will be happy to answer your questions.

Moderator: Ladies and gentlemen, we will now begin the question & answer session. The first question is from the line of Renu Baid from IIFL Securities. Kindly proceed.

Renu Baid: My first question is basically broadly to understand how has been the demand outlook. Last quarter, we had a bit of mixed comments on certain pockets of slowdown in the industry segment on motors and pump segment of the markets. If you can share some inputs in terms of how have been the end market demand outlook so far and are we seeing any signs of slowdown or the broad CAPEX momentum remains fairly strong from end market perspective?

N. Srinivasan: We have given you the unexecuted order book and continue to get inflows in the order book. Therefore, we don't see any immediate slowdown in any of the business segments.

Renu Baid: Any qualitative comments on the end market, say on the industrial segment, short-cycle businesses, rail market, that would be helpful.

Ramesh Kumar: There is a little bit of a sentiment issue in the market. That is because of the rise in commodity and again crash of the commodity. Otherwise, there is no much problem as far as demand is concerned. So, I don't foresee any demand or recession going forward.

Renu Baid: Secondly, what has been the kind of price hike that we have taken on the industrial segment for motors portfolio? And do we think now that commodity prices have started to ease out, there could be further transmission of these cost savings to the customers or how do we look at the pricing side?

N. Srinivasan: I think we have to wait and see. Last year, as you know, there were 4 rounds of price revisions. Substantially, once it is confirmed that prices are going to cool down and relatively they are stable, then there will be a difficulty in passing on some of the cost increase. Whatever we increased only we are going to reduce but provided we have.... it cannot be momentary. It has to be stable and it has to be realized. Then, at that point of time, the entire industry will take a call.

Renu Baid: One last question if I can add on. Broadly, if we see from the margin side, we have done reasonably well. You have highlighted certain cost savings from productivity and cost reduction initiatives. Can you throw some more input in terms of specific initiatives and the kind of results if they have started yielding both in terms of working capital, lean management, and the operational initiatives that we have taken in the year?

N. Srinivasan: I will not be able to give specific details but I can tell you – 1) We have been saying that we are implementing a lean program with assistance of a consultant that is giving us some benefits. 2) We have also been working on procurement efficiency and various modes of procurement. That is also giving us some benefits. 3) As our financial position improves, we have been able to negotiate and then pay wherever possible in a quick span of time. Earlier, we were taking 60 days, we can pay sometimes in some cases 30 days, and some cases are down cash. These things are now possible. Based on all these, we are seeing impact. That's all I can say.

Moderator: The next question is from the line of Rahul Gajare from Haitong Securities. Kindly proceed.

Rahul Gajare: I have got 2 questions. The first question is on the motors business. Could you give us a sense about how much of the market is with imported motors and which category of motors are normally imported? Connected with that, how is the competitive intensity in the motors business?

Ramesh Kumar: There is a very little in direct import. Direct import if I consider, maybe about 1,000-1,200 crores is the import, but there is indirect import. What I mean is that the motors will come with the equipment. If I add all that, it will be about 3,000 crores of the import in India as of today.

Rahul Gajare: And the competitive intensity?

Ramesh Kumar: Competitive intensity is there already because we have always been the leaders in motors. We are far ahead with our competition. That will always be there and then we'll have to fight it out.

Rahul Gajare: Sir, the second question is on the railways business. Could you give us an indication of the total revenue from railways in both industrial and power in the current quarter and how does it compare to Q4? Because Q4 you indicated you had the highest quarterly revenue coming from railways. And also connected with that, how is your market share moving in the overall railway business?

N. Srinivasan: 1) We just report only as one segment as Industrial both for motor and railways. So, we don't share the details relating to railways separately. 2) It will be very difficult to compute and then say the market share because railways have got several segments. We are manufacturing only traction motors, electronic relays, point machines, etc. The railways actually has several segments and there is no official version of what is the market share for each of the product which the Company supplies to the railways. We don't have these details.

Rahul Gajare: But you did indicate that last year was your highest ever revenue coming from railways. So, some qualitative sense on how the 1st quarter has been vis-a-vis the 4th quarter last year.

N. Srinivasan: Qualitatively if you ask me, we have done well in railways.

Moderator: The next question is from the line of Ravi Swaminathan from Spark Capital. Kindly proceed.

Ravi Swaminathan: My first question is with respect to the motor market. Your rough sense on how the motor market would have grown in this quarter? Have we gained market share? What are the top 4-5 sectors which are driving the growth for both LT and HT motors? If you can give your thought process on this, it would be great.

Ramesh Kumar: The exact figures I won't be able to share right now because it is not yet published, but we are anticipating a growth of almost about 7% to 8% in the quarter which is gone now. And the infrastructure and especially the oil & gas and ethanol and pharma, these are the industries which are doing very well. That is adding up to the growth. Even HT, water and wastewater is doing well.

Ravi Swaminathan: The 7% to 8% is a sequential growth? Because YoY, Industrial system has grown at 55%.

Ramesh Kumar: We cannot compare YoY because last year if you see, 1-1/2 months, it is almost like a closed condition. So, it is not the right comparison. You compared with the quarter 4, I think we are somewhere around 11% to 15%. That's how it's a better comparison.

Ravi Swaminathan: So, Industrial would have grown at 7% to 8% and we would have grown at 11% to 15%. And that 7% to 8% would be revenue growth and not volume growth?

Ramesh Kumar: Volume growth. Generally, the industry is measured in volume growth, not in the value because value growth it will be more.... In April, the commodity prices have gone up and then realization also has gone up.

Ravi Swaminathan: My second question. Basically, any status update with respect to the Vande Bharat orders? How is it likely panning out? What kind of orders can come in over the next 12 to 24 months? Also, the power systems' export initiatives, how is it likely panning out? If you can give your thought process.

N. Srinivasan: Vande Bharat, as you know, we have got 1 trial order which will be executed over a 2-year period. Current tender of whatever the government has announced for 200 trains, it is for construction of the entire full train, not merely the engine part. Electrification is not there. The earlier one was electric. What we got was only the electrics part. Over and above this, how much they will come? Anyway, in this tender, we are not eligible. Eligibility criteria is that only those who have already experience of having built and run such trains can participate. So, we are not qualifying for that. Any further tenders in what form it will come, etc., at this point, there is no clarity.

Ravi Swaminathan: And with respect to the export initiatives with power basically?

N. Srinivasan: Initiatives are always there, but as I have pointed out earlier, we have to gear ourselves up to go full hog. Earlier, our Kanjurmarg factory itself had exported transformers worth 1,000 crores. Right now, we are still whatever orders are there, we are making slow and steady progress, but still we have to just gear ourselves up before we go full hog in exports.

- Moderator:** The next question is from the line of Janak Vora from Janak Limited. Kindly proceed.
- Janak Vora:** Sir, my question is what is the status of CG House property at Worli?
- N. Srinivasan:** CG House property, earlier this property was mortgaged to the bankers. Then, we have cleared off the loan and then we have taken possession and this property is with us now. That is the current status.
- Janak Vora:** The lien is lifted, but there was some dispute for the lease renewal with the authority. Whether that has been resolved?
- N. Srinivasan:** Lease renewal we have given an application. That is being processed. Because of its own procedural thing, it is taking time, but otherwise, we are not seeing any dispute. It is a procedural delay that is taking place.
- Janak Vora:** Are we planning to sell CG House at Worli and its registered office in Chennai?
- N. Srinivasan:** There is no such idea to my knowledge as of now.
- Janak Vora:** Second question is, since CG Power has posted now quite stellar returns, 130 crore consolidated profit, why there is no mention of any dividend? Because dividend stopped since last 7 years. Last CG Power has paid dividend in 2015. And now since CG Power has restored part of its past glory, is it not the time to offer something to the loyal shareholders who stood behind CG Power in its toughest times?
- N. Srinivasan:** For the year ended March 31, 2022, still there are some debit balances in profit & loss account. Unless and until that loss is swiped out, we will not be eligible to pay any dividend. Under Companies Act, it is not possible to declare any dividend at this point of time. FY22-23, depending upon the profits and depending upon the position, the board will consider it at the appropriate time.
- Janak Vora:** I am one of the 249 shareholders who are holding nominal capital more than 2 lakhs in CG Power. So, on behalf of them, I would like to request to consider the management at least some special dividend, some accrued dividend of last 7 years to celebrate the restructuring and recapitalization and revival of CG Power.
- N. Srinivasan:** We will convey this request to our Board of Directors. The board only can take a decision.
- Moderator:** The next question is from the line of Ankur Sharma from HDFC Life. Kindly proceed.
- Ankur Sharma:** A few questions. Before that, just a small request. You normally gave out a press release over the last few quarters with your order book and other segmental numbers. It would be great to have that as well. I think this quarter we did not see that. That was one. My question really was on your order backlog. When I see your number for Q1, about 3,600 odd crores which is actually flattish on a Q-on-Q basis. Even in Q4, your order backlog was around the same number which

also, if I get it right, implies that your order flows or your orders book during the quarter may not have grown, maybe in the high single digits at best. Is that the right number? Am I missing something here or is that correct that your order book during the quarter would have been maybe mid to high single digits?

N. Srinivasan: First, in the press release that we have released and which we have filed it with the stock exchange, we have given details of unexecuted order book as on 30th June 2022 for each of the businesses. To your second question, I think order flow is healthy because it is unexecuted order book. This actually whatever we execute and then that gets eliminated. Only the balance that can be there. Right now, from the order book, you can see for the next 3 quarters – at least Q2 and Q3 – we are fully covered generally. Some may be executed in Q4 also. So, order inflow has been quite healthy.

Ankur Sharma: Any number you can share, sir, if you have it handy?

N. Srinivasan: Number is there in the press release. You can see it. It has been filed with the stock exchange; it is there. Segment-wise, we have given the numbers.

Ankur Sharma: Coming back to the earlier question, in terms of exports, out of your power systems' business, how much of that has been during this quarter and how do you see this scaling up? Because, if I remember right, you have before or maybe a couple of years back, exports used to be a fairly sizable number on the power side. How are you looking at it going forward?

N. Srinivasan: I don't have the current quarter export number. Whatever orders are profitable, that we are executing. We are also applying for several overseas tenders and then there is also a lot of demand on the indigenous side, both for the power transformer as well as for the distribution transformer. Orders have to be basically profitable and then the customer has to be worthy of being serviced because you don't want to get or money to get stuck. That is how we are approaching the market.

Ankur Sharma: Last one on this would be, would you be able to split out your revenues on the power systems side between the power transmission distribution utility versus industrial consumers?

N. Srinivasan: We don't share that data, sir.

Moderator: The next question is from the line of Mayank Chaturvedi from Equirus. Kindly proceed.

Mayank Chaturvedi: Sir, I have a couple of questions on the power systems segment. First one would be, in FY22, we commissioned a 400 kV grid substation on a turnkey basis under the EPD division. Is this one of the legacy projects that is putting pressure on the power systems' margins? And what would be the EPD order book that is yet to be executed currently, a ballpark will do?

N. Srinivasan: EPC?

Mayank Chaturvedi: Engineering project division (EPD).

- N. Srinivasan:** I think that is a very insignificant part of our business. We don't have big orders to execute. So, there is nothing for us to report on that side. Very negligible and insignificant orders only we have.
- Mayank Chaturvedi:** On the CAPEX side, you guided for a 90-crore CAPEX for the power systems segment. Would this largely be towards the relocation of the Kanjurmarg facility?
- N. Srinivasan:** No, various existing facilities, upgradation of facilities, modernization, there is some automation, balancing facilities of only the facilities currently at Bhopal and as well as at Malanpur. Only these are the areas where we are investing.
- Mayank Chaturvedi:** Are we yet to relocate that Kanjurmarg facility or what is the status of that?
- N. Srinivasan:** I will not be able to answer because the earlier facility which they wanted to relocate, in that process, many of the capacities got cannibalized. So, exactly it will be difficult for us at this point of time to visualize how it has to be reconstructed, etc. Because of that, I will not be able to comment on that just now.
- Moderator:** The next question is from the line of Rajiv Gupta from RBC Financial Services. Kindly proceed.
- Rajiv Gupta:** I had 2 questions. One was, if you could give us some flavor on the consumer products because 2 quarters back if I remember right, there was a comment from the management that we will get back to the original demerged consumer product very fast. That was one question. The second question was on stock options. What has been the Company's policy on stock options if at all and what has been the strike price at what general level are people entitled to stock options and what is the policy there?
- N. Srinivasan:** The employees at the senior level, key managerial personnel – Vice Presidents and Presidents – are eligible for stock option under the scheme. Last time, the senior management team were given stock option which will vest over a period of 4 years. The strike price was around Rs. 157. That is your question number 2.
- Ramesh Kumar:** We had 4 different consumer products when we demerged and now we have already launched 2 products. Once we establish ourselves, maybe then we will think it over about the balance when we will be able to launch the other products. Is your question answered?
- Rajiv Gupta:** Partly. If you could give us some flavor in terms of how you look at the market in terms, I know you will not give me the specific numbers or specific projections, but in terms of how important it will be in the next 3 years in the overall CG portfolio today in terms of percentage of turnover, etc. Just a little bit of more flavor if you can give us?
- N. Srinivasan:** No, we don't give any guidance. It will not be possible.
- Rajiv Gupta:** I know. I am not asking for numbers. But in terms of how significant or is it a very high priority stuff? I am not asking you for a specific number.

N. Srinivasan: Every business we are operating is a priority, sir. Every business is a priority. Consumer business is definitely a priority. But we are just totally new. Therefore, we have to take measured steps. It will take some time for us to grow this business.

Rajiv Gupta: Are you expecting any problem with the brand names, any confusion in the market between CG and your erstwhile demerged Company. How are you facing that?

N. Srinivasan: We are not experiencing any problems.

Moderator: The next question is from the line of Manish Dhariwal from Fiducia Capital Advisors. Kindly proceed.

Manish Dhariwal: My heartiest compliments to the management team for transforming a very sad state of affairs and I am confident that CG Power will be emerging as a case study in many business schools for the way the Company has transformed itself. So, my sincere compliments to the team. I would basically pick a thread from the previous question about the consumer side of the business. As a shareholder, I would request a little more understanding about how the customer is receiving the CG brand about the consumer products? Because there is a completely new distribution network, there is a completely new setup that has to be created because the erstwhile has gone with the demerged Company. And you mentioned that out of the 4 product lines, two have been introduced in the market which I understand that fans is one of them. So, some color is very much required and I hope you will oblige us. And the second question is on the broader EV bet or the EV initiative that the whole group as TII – and you are an important component of TII I can very proudly say now – is being taken. What is it that CG Power is doing on the EV side? You mentioned about some motors, etc., that you are working on, on the EV side. That understanding is what I request for.

Ramesh Kumar: Actually, the CG brand is a well-known brand in the market. We are introduced as a CG brand only and we already have motors and we have commercial motors which goes to the consumers. So, entering into CG brand is not an issue for us and that is the reason we have reentered all these products and then we are going with that brand only. We don't have any other problem as far as consumer products are concerned.

N. Srinivasan: For some of the products we have introduced, customer response and dealer response has been quite good. As regards with your question on EV, if I have understood your question correctly, we know the manufacturing of motors quite well. So, we would like to position ourselves to manufacture motors for the electric vehicles for which we are currently working in a development stage. Until such time this development is completed and product is approved and product is shown to some OEMs, etc., we will not be able to share any information. But certainly, we are interested in this area. Therefore, we are working on this particular business.

Manish Dhariwal: In fact, when you mentioned about the CAPEX side, the 211 crores, and split up into various segments, I was actually hoping to hear something basically being focused towards the EV which I did not hear. That's why I was trying to get a clarity on the focus towards EV. And your words

about the consumer side of the business is I think very reassuring because Crompton itself is continuing to be a very strong brand. So, rather we are competing with them and getting good dealer interest and all is like very reassuring. That's the good sign. On the EV side, no CAPEX, nothing. So, maybe that is why I was inquiring about.

N. Srinivasan: The existing facilities are adequate to manufacture, design, and develop prototypes for EV motors also. While I have not specified, whatever additional incremental facilities, that will take care of the requirements for these purposes also.

Moderator: The next question is from the line of Harshit Kapadia from Elara Capital. Kindly proceed.

Harshit Kapadia: Just one question, sir. I just missed your data on CAPEX. You had mentioned the breakup in terms of which segment you are doing CAPEX. Can you please repeat?

N. Srinivasan: 80 crores for motors and drives, 32 crores for railways, about 85 crores for power, and the rest of it all for IT, R&D, etc.

Moderator: The next question is from the line of Shanti Patel from Shanti Patel Investment Advisors. Kindly proceed.

Shanti Patel: How much capacity we are utilizing at our plant today?

Susheel Todi: It is running between 70% to 80% all across our different plants.

Shanti Patel: How much savings would be there in respect of loan that we have repaid? Because, as I understand, now there is no loan. All term loans have been repaid. So, what will be the savings on that account?

Susheel Todi: We are almost saving around 45 to 50 crores on account of repayment of the term loans for the full year.

Moderator: The next question is from the line of Rahul Gajare from Haitong Securities. Kindly proceed.

Rahul Gajare: Sir, I understand that CG Power has been well received in the South markets as far as the consumer products are concerned. I wanted you to discuss your experience in the South and further markets with respect to the consumer products.

Ramesh Kumar: South market experience is good because generally South market contributes almost 40% for consumer and we are very strong brand in South also. Our experience so far has been good and I think we are also doing in the same lines of the market demand of South in our overall percentage.

Rahul Gajare: Which is the other region which you have done well?

Ramesh Kumar: East and north.

- Rahul Gajare:** And how much would that contribute to, approximately?
- Ramesh Kumar:** Percentagewise, South will be about 40% to 45% and the rest is between North and the East. West, we are yet to start in a big way. West, we are a slow starter actually.
- Rahul Gajare:** Sir, your parent Company has set up a separate EV mobility business to reenter three-wheeler and EV tractor. Who indicates how CG Power and TII electric plan to work together in the larger scheme of EV business over the next couple of years? Some thoughts on this business please.
- N. Srinivasan:** There is no agreement between TII and CG. TII has got its own plans on mobility. For any of their businesses, maybe for example, let us say tractors or three-wheelers, etc., if they invite some tenders for supply of motors, we will also participate. If it is any specific product development we can develop, everything will be at arm's length. It has to make commercial sense for TII. It has to make commercial sense for CG. As of now, there is no fixed understanding between both the companies. But business inquiries do come. When they send business inquiries to various people, we also get and we respond. We compete as any other Company.
- Moderator:** The next question is from the line of Pradeep Raghunathan from Arohi. Kindly proceed.
- Pradeep Raghunathan:** You mentioned the breakup of CAPEX that you have in mind, but could you also tell us what kind of capacity will we have? Right now, we are running at around 70% to 80% capacity. What is the incremental capacity that would be generated by this additional CAPEX?
- N. Srinivasan:** What will happen is this amount will be spent on what is called as debottlenecking. There will be sectional imbalances or there will be some modernization. On account of that, maybe additionally 15% to 20% capacity will get released.
- Pradeep Raghunathan:** Secondly, on the growth initiatives. On consumer and EV both, you mentioned that there is a meaningful update. Could you tell us how are you looking at this in terms of when this would be something which you could share, let us say 1, 2, 3 quarters down the line?
- N. Srinivasan:** Regarding?
- Pradeep Raghunathan:** The consumer business as well as the EV business.
- N. Srinivasan:** They are all at a development stage. Unless and until some plans are fructified and then finalized, we will not be able to share any data.
- Pradeep Raghunathan:** I appreciate that. My question was actually, is there some sort of a milestone where you would then be able to share the data around what's happening?
- N. Srinivasan:** As I said, we are just working on the EV side. We are working on the development of motors and other products actually. As and when it comes to a certain shape only, it can take three months, it can take six months, it can take nine months. Similarly, on the consumer side,

whatever products we have launched, that we will continue. Newer products are on the drawing board. Therefore, as of now, only as and when the plans are finalized, we will be able to share.

Moderator: The next question is from the line of Niket Shah from Motilal Oswal. Kindly proceed.

Niket Shah: I have 2-3 questions. First, on the margin side, you have done a decent job this quarter. Given most of your contracts are fixed-price contracts, and this quarter you would have seen the worst raw material costs and we have seen raw material costs coming down across the board, should one assume margin expansion going forward?

N. Srinivasan: I think this was discussed earlier in one of the questions. If the prices continue to fall, and then if there is a substantial drop, customers and consumers will expect us to reduce the price and pass on the benefit because the prices at which we are selling, in the last financial year, we increased the price 4 times because of the increase in prices. So, margin expansion cannot be taken for granted that way.

Niket Shah: And if you can also highlight what are the white spaces within the motor category that you would be targeting now? If you can qualitatively give some comments on that? There would be a certain category where you would have a very high market share, and in certain category in motors where you wouldn't be present. For example, EV motors which you highlighted earlier. But would there be more categories like EV motors where you would be targeting?

N. Srinivasan: In LT motors, generally we hold a large share. But every product whether it is LT motors or FHP motors or LIM (large industrial motors), every product as and when we get good inquiries and we want to increase our market share, we are working on it. As far as the EV is concerned, as I said, it is still at a very developmental stage. All the segments of the motors which we are manufacturing, everything actually is a growth area for us.

Niket Shah: One naive question. Running an older plant which we currently have in CG versus if you had to go for a greenfield plant today, would the margin be far more different than what it is today in your existing older plant?

N. Srinivasan: It has got different implications. When you put a new plant, there will be a lot of initial expansion costs. There will be high depreciation. There will be a high level of investment due to automation, etc. There will be pluses and minuses. We have to see because in our business 70% to 75% is material cost. So, the play is actually, if you remove depreciation, only maybe about 20% within which how much you can play. So, old and depreciated plants have their own advantage and newly setup plants will have different advantages. Both will coexist and both will have different markets to serve.

Niket Shah: If I may squeeze in one final question on Vande Bharat opportunity. Would it be possible for you to quantify the size of opportunity that you can address? For example, if one train would cost Rs. 100, what is the size of opportunity for you within that Rs. 100?

- N. Srinivasan:** We can clearly say. As I said earlier, one is the entire train. The current tender for 200 trains is all for the entire train for which we are not eligible. Earlier, only the electrics part alone was given a tender on which we have got awarded for one development order of about 37-38 crores. That entirely we will supply and procure, and since it is a development order, it will be executed over a period of two years.
- Moderator:** The next question is from the line Shrey Jain from Quest Investments. Kindly proceed.
- Shrey Jain:** I am slightly new to the Company. So, pardon me for my ignorance if any. Sir, my understanding is we are not present in the low-voltage switchgear segment, but that segment seems to be quite big. From what I understand it is a 25,000-crore market. Just wanted to understand why are we not present there. We have not been present in the past, but do you see any entry in the future?
- Mukul Srivastava:** At CG, we used to have the low-voltage switchgear business till the year 2000, which we sold off. And then, over a period of time, our energies got focused on developing the high-voltage switchgears right from 3.3 kV up to 1,200 kV. The low-voltage segment per unit cost of the dual item is very low and it has its own intricacies in terms of handling the business, more so on the market expansion centric rather than the technology. So, over the last 20 years, we have focused more on technology-oriented high end of the product. So, as of now, we do not have any plans to be entering into the low-voltage switchgears.
- Shrey Jain:** Anything on the HVDC transformer? Because I think there also we are not present, but in the other categories, we are there.
- Mukul Srivastava:** Yes, HVDC is one area, but in India, still the HVDC contributes to around less than 15% of the total market. Since we are coming from a low base, we have ample opportunities to grow in the areas where we are already present for so many years, and that is where we are trying to strengthen and consolidate our position. Maybe in the coming future, we might think of HVDC, but as of now, our hands are full with the existing portfolio of the products we have.
- Shrey Jain:** The other question is, now since most of our subsidiaries, we are done with selling them, just wanted to understand did we get the technology from those companies or that also goes away and if we have to do anything, we have to start from scratch?
- Mukul Srivastava:** On the overseas companies mostly, which were on the transformer and the switchgear side, we already have absorbed the technology whatever they could offer and we have been upgrading the technology, especially in the segments of EHV GIS which now we are up to 245 kV and we are working on 400 kV. As far as the other AIS switchgears are concerned, we were already self-sufficient in India. Our Indian plants are doing well. On the transformer side, we have been there in the business for so long. Actually, we are self-sufficient in those areas.
- Shrey Jain:** Just the last question. Now that we have completed the turnaround and all of that is over, in terms of management guidance, not specifically numbers, but in terms of categories, any other

category that you see you could start looking into which offers a great run rate for the Company in terms of growth for the next 3 to 5 years?

N. Srinivasan: It is too early to think of the existing businesses. Still there is a lot of work to be done and they can be still grown. Therefore, it is too early to think of anything else. We have not been thinking in those directions.

Shrey Jain: Just a last bit on the green and renewable energy from the hydrogen side. Do you think our Company has any strength to cater to those kinds of segments?

N. Srinivasan: Anything in those areas if it is anything to do with power systems or motors, certainly we are well positioned to serve those industries.

Moderator: The next question is from the line of Rajiv Gupta from RBC Financial Services. Kindly proceed.

Rajiv Gupta: Just wanted a flavor of what kind of CAPEX on the consumer products business you envisage in the next 2 financial years in terms of ramping up? Also, what are the products we have launched? That must be in the public domain. So, I am assuming there is no confidentiality there. And what are the products which are about to be launched on the consumer products business?

Ramesh Kumar: We have launched fresh water pumps for both the domestic and agriculture and a little bit in the industry. And we have launched complete range of ceiling fans, table, pedestal, and exhaust and everything – the complete range of fans. As of now, these are the 2 products. We have right now started off with contract manufacturing. Maybe going forward, we will see what is the CAPEX we are going to invest on that. Right now, we will not be able to tell you on that.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Ms. Bhoomika Nair for closing comments.

Bhoomika Nair: I would just like to thank the entire management for answering all the queries and particularly all the participants as well. Thank you very much, sir, for giving us the opportunity and wishing you all the very best.

N. Srinivasan: Thanks for your support.

Moderator: On behalf of DAM Capital Advisors, that concludes this conference. Thank you for joining us. You may now disconnect your lines.