

## Q3 2011 Earnings Call - Crompton Greaves

Dt- 1 Feb'11

### Operator

Ladies and gentlemen, good day and welcome to the Crompton Greaves Q3 FY11 Post Results Conference Call, hosted by Prabhudas Lilladher. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Joining us on the call today are Ms. Amisha Vora and Mr. Dilip Bhat, Joint Managing Directors along with Mr. Kunal Sheth, analyst from Prabhudas Lilladher. I would now like to hand the conference over to Mr. Kunal Sheth. Thank you and over to you sir.

### Kunal Sheth

Thank you, Melissa. Good afternoon everyone. On behalf of Prabhudas Lilladher, I would like to welcome Mr. Trehan, the Managing Director of Crompton Greaves on the call.

I will request Mr. Trehan to give us some opening remarks for the quarter and then we'll open the floor for a Q&A. Over to you sir.

### Sudhir M. Trehan, Managing Director

Thank you. The results are in front of you. Let me give you the highlights which I am sure, you have taken note of. For the nine months period ended on 31st December, 2010 the net sales of the standalone company has increased 14%, the PAT has increased 23% and the order backlog has increased 25%. As far as consolidated numbers are concerned, net sales has increased 7%, PAT has increased 15% and the Unexecuted Order Book has increased 15.4%.

I think, those are the highlight numbers, rather than me spending more time on highlight numbers, maybe I come to your issues and questions and try to answer them.

## Questions And Answers

### Operator

Thank you. Ladies and gentlemen, we'll now begin with the question-and-answer session. [Operator Instructions]. We have the first question from the line of Rajesh Panjwani from CLSA. Please go ahead.

### Rajesh Panjwani

Good afternoon sir. My first question is on the domestic power business where we have seen a slowdown and only a 2% Y-o-Y growth and there is also evident then the ordering by Power Grid which is down substantially in the first nine months.

So how do you see the outlook for this business? When do you see ordering pick up? And how do you see the revenue growth in the coming year for that business, as well as we have seen a pretty strong performance from the industry and consumer business. So how do you see the outlook for that as well? Thanks.

### Sudhir M. Trehan, Managing Director

You are perfectly right as far as power systems business is concerned, there is a very muted growth in nine months of only about 3.2%, as far as standalone company is concerned. I don't see it improving in the fourth quarter, I see it improving only to the level of 3 to 5% growth in the fourth quarter also.

So the whole year will be sort of muted for power systems. But the order inflow from Power Grid has considerably gone down, but we have been able to still get a good order inflow, as I said of growth of about 25% in the Unexecuted Order Book for nine months.

Hence I am some quite certain that it is only a question of pick-up which is not happening by the utilities of the earlier orders which

we are making and hence the sales is growing only by 3.2%, which cannot continue for long that's my hope, I do not know. But I have a visibility of order inflow which should give me at least in '11-'12 a double-digit growth in power system, of the order of 10 to 11%, which will be a substantial improvement from this year 3 to 4%.

Going by industrial, I see a strong growth continuing for the next year also of about 20%, and so do I see for consumer products which is today at about 27, 28% to continue to grow at anywhere greater than 25 to 26%. Hence, overall company next year, I still see a growth of, compared to this year's of about 14%, anywhere between 16 to 18%.

## **Rajesh Panjwani**

Okay and sir on the industrial side, as well as consumer side; the growth is phenomenal. What is driving that growth?

## **Sudhir M. Trehan, Managing Director**

See consumer growth is being driven by the consumer spending, obviously there is no impact on our type of brown goods of consumer durables, they are growing and hence the growth of the order of say in this quarter, it is of the order of 30%, nine months cumulative is about 27.7%.

As far as industrial also, it is coming from cement, steel, fertilizer, oil and gas, the electric motors in these as well as railways traction business. We are getting considerable traction from there and that's also growing at the rate of 20%. And I am confident looking at the order inflow and inquiries that that will continue the next quarter and the coming year.

## **Rajesh Panjwani**

Okay and can you give us some outlook on the overseas business as well?

## **Sudhir M. Trehan, Managing Director**

On the overseas business, as I said, overseas business did grow in local currency, that is in euro terms, about 13%. But overall impact of that because of the euro-to-rupee is a degrowth of about 0.5%. I am quite confident that that will also continue to grow in euro terms next quarter as well as next year, anywhere between 11, 12, 13% in euro terms.

## **Rajesh Panjwani**

Okay and that growth will be driven by any particular segments?

## **Sudhir M. Trehan, Managing Director**

Distribution transformer revival is happening now, particularly in the renewable, both solar and wind and that's what is driving this 13% growth in euro terms.

## **Rajesh Panjwani**

Okay and sir my last question is, if you can share some details on the order flow both for domestic as well as international businesses including some break up?

## **Sudhir M. Trehan, Managing Director**

As I said the order backlog, the growth in domestic standalone is about 25% and in consolidated is about 15%.

## **Rajesh Panjwani**

Sorry, sir can you repeat the consolidated one?

**Sudhir M. Trehan, Managing Director**

15%.

**Rajesh Panjwani**

And can you give us the numbers?

**Sudhir M. Trehan, Managing Director**

The order backlog in standalone is about 3,702 crores and consolidated is 7,017 crores.

**Rajesh Panjwani**

Okay. Thanks a lot sir.

**Operator**

Thank you. The next question is from the line of Madhuchanda Dey from Kotak Infinia. Please go ahead.

**Analyst**

Hello. I just had a question on the overall industrial as well as on the power segment. Isn't this inflationary concerns and interest rates moving up in this, we have been hearing from lot of industries that decision making has slowed down. So in light of this, do you think that stands to impact your business, if so sir could you elaborate on the same?

**Sudhir M. Trehan, Managing Director**

Yeah as far as the interest rates are concerned, it doesn't impact Crompton Greaves, because Crompton Greaves is a debt free company and hence it doesn't come into play for us. We have enough of our own cash generation.

As far as other commodity price increase, obviously it has an impact. Commodity pricing is touching the roof compared to last year. It has gone up. We have been able to maintain our margins so far with those pressures. That is because of our operational efficiency still growing healthy 14% and hence able to absorb on a bigger base the same overheads, cutting our overheads, developing products which are more efficient and hence use lesser material compared to the earlier generation of products.

**Analyst**

Sir my question was regarding the order inflow outlook.

**Sudhir M. Trehan, Managing Director**

Order inflow, I have given you, as far as I am concerned, yes. In the power segment, order inflow has slowed down by Power Grid Corporation and utilities, but we have still been able to maintain a order backlog of domestic company of a 25% growth over the corresponding period last year, and hence I do see a 16% to 18% growth for the company next year still. So I am not worried on that account.

**Analyst**

And so, if I just finish off my question, by asking you that does this rising rate environment stand to impact your inflow on the industrial side or slowdown consumer demand?

**Sudhir M. Trehan, Managing Director**

So far the trend is not there. If you look at the nine months, our consumer demand has been growing at about we have been growing at about 27%, 28%. And even in the last quarter we grew 30%. So I don't see its impact. Similarly, industrial last three months as well as the whole quarter we have been growing about 20%. So I haven't seen. If at all, I see a large number of inquiries for industrial still flowing in.

**Analyst**

Okay. So you haven't seen any slowdown in terms of...

**Sudhir M. Trehan, Managing Director**

I haven't seen a slowdown.

**Analyst**

And sir if you just could quantify the inflow number for this quarter, both domestic and international?

**Sudhir M. Trehan, Managing Director**

Inflow of what?

**Analyst**

Orders, please.

**Sudhir M. Trehan, Managing Director**

I don't have, I have a order backlog in front of me. But you can recalculate because...

**Analyst**

Yeah, I have that.

**Sudhir M. Trehan, Managing Director**

You know the last year's number. You know our growth. I have just sat with one sheet of paper in front of me and that's what we call UEQB, Unexecuted Order Book, which is backlog.

**Analyst**

Okay, sir.

**Sudhir M. Trehan, Managing Director**

And there is growth over last year.

**Analyst**

Thank you, sir.

## **Operator**

Thank you. The next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

## **Analyst**

Good afternoon sir.

## **Sudhir M. Trehan, Managing Director**

Good afternoon.

## **Analyst**

Sir you told us from execution point of view, if things improved, you might do one double-digit growth in the domestic power business. Assuming that power, this is primarily based on the order book that we have right now, right? In case if your order flow improves next year, won't you revise this up, upwards?

## **Sudhir M. Trehan, Managing Director**

Yes, definitely. That's the whole idea of giving number every quarter, based on what has happened. This to me is the scenario if it continues as we see it today, which is a slowdown in order pick up in the power segment as well as order inflow.

## **Analyst**

So this is primary...

## **Sudhir M. Trehan, Managing Director**

Obviously this should improve than compared to what I have said.

## **Analyst**

Okay. So this 11% or 12% is only on the basis of that execution would pick up in the future?

## **Sudhir M. Trehan, Managing Director**

That's right.

## **Analyst**

Okay sir, thank you.

## **Sudhir M. Trehan, Managing Director**

Thanks.

## **Operator**

Thank you. The next question is from the line of Srinivas Rao from HDFC Mutual Fund. Please go ahead.

**Srinivas Rao Ravuri**

Yeah, hello sir. You talked about the sales growth in FY12. Can you give us some idea on the outlook for margins, please?

**Sudhir M. Trehan, Managing Director**

That will be very unfair to say for '12. I will only comment for one quarter at the moment. Because it depends on what type wrap us to the commodity pricing, the way it is going up and up, we don't know what -- when will, we can pass it on to the consumer because normally in an industrial and consumer we can pass it on to the consumer with a time gap, not immediately.

Power also, what order you will take now, we'll be taking this commodity price into account. So we'll be building, when will they be executed? Maybe second half of '11-'12. So that will improve. So that will be easier knowing the volatility in commodities to talk of a quarter-to-quarter. I can't comment today what will be the commodity price in first quarter of financial year '11-'12.

But broadly speaking, it shouldn't make much impact, we should be able to hold on.

**Srinivas Rao Ravuri**

Okay. My next question is on the power transformer market. Sir, can you tell us what is the competitive scenario, and also what is the trend in ASP suggested for raw material sir. We keep hearing, there is a lot of competition even on the 765 kV segment.

**Sudhir M. Trehan, Managing Director**

Yes. There is a huge competition today in 765 segment. Lots of Chinese companies are dipping their pricing and participating in the tenders. Lots of Korean companies are doing it. Yes, the competition has heated up in power segment today in T&D. We are getting our reasonable share what we wanted even in this, when the Chinese have dipped prices.

**Srinivas Rao Ravuri**

Okay. But what will be, sir your ASP sir, in the power transformers?

**Sudhir M. Trehan, Managing Director**

What do you mean ASP, I didn't get your question?

**Srinivas Rao Ravuri**

I think, realizations in transformers, I am trying to understand both in terms of what is going to happen in future and what have you seen in the first nine months? Have you seen volume growth, but the value growth there was not commensurate?

**Sudhir M. Trehan, Managing Director**

That's right. The value growth was hardly 2% to 3%, while in the MVA terms the growth is 31%. So that itself tells you that the price realization is not there.

**Srinivas Rao Ravuri**

Okay and what will be the correct realization versus what there were sir, a year ago, approximately?

**Sudhir M. Trehan, Managing Director**

You can make out yourself that compared to last year, the MVA has gone up by 31%.

**Srinivas Rao Ravuri**

I am referring to orders you are taking now, sir?

**Sudhir M. Trehan, Managing Director**

Orders I am taking now?

**Srinivas Rao Ravuri**

Yes.

**Sudhir M. Trehan, Managing Director**

Are at the same level, what is the present I am executing.

**Srinivas Rao Ravuri**

Okay and last question from my side, sir. What is the likely tax rate for the consolidated entity and the standalone, sir?

**Sudhir M. Trehan, Managing Director**

I think you can calculate back, the total tax in nine months paid for standalone is, just a moment, 189 crores on a total profit of 666 crores, this is as far as standalone. So whatever 189 as a percentage of 666 and similarly on consolidated, the total tax is...

**Srinivas Rao Ravuri**

Yeah. Sir, what I am trying to understand is, what is the likely tax rate and what kind of tax advantage do we have?

**Sudhir M. Trehan, Managing Director**

Likely tax rate is same what is this year, there is nothing exceptional in this, nor I expect anything exceptional going forward.

**Srinivas Rao Ravuri**

So why is your tax rate lower than the normal tax rate sir?

**Sudhir M. Trehan, Managing Director**

It's not. There is a, if you see it is the deferred tax rate which our settlements of the past three, four years have come in, hence the correct assessment of the deferred tax asset has been done. And as far as overseas is concerned, it keeps changing in which country how much profit is because each country's profit fluctuates every quarter and depending on the tax rate in that country, the tax changing but it doesn't make it change more than 2 to 3%.

**Srinivas Rao Ravuri**

Okay. So for the standalone entity, what kind of tax rate should we assume sir? For the quarter it was only 22%.

**Sudhir M. Trehan, Managing Director**

You take the nine months average, that would be a fair one to assume and what will going forward. In a quarter-to-quarter, this time

we got some settlements of the past have come, but nine months picture remains a very clear picture with a variation of plus-minus 1% here and there.

**Srinivas Rao Ravuri**

So we can assume that for FY12 as well?

**Sudhir M. Trehan, Managing Director**

You can assume that for FY12 as well.

**Srinivas Rao Ravuri**

Okay. Thank you sir.

**Operator**

Thank you. The next question is from the line of Abhishek Puri from JM Financial. Please go ahead.

**Abhishek Puri**

Yeah good afternoon Mr. Trehan.

**Sudhir M. Trehan, Managing Director**

Good afternoon.

**Abhishek Puri**

Just couple of things from my end. One, sir regarding the margins in the overseas business, they have not been growing commensurate to the sales growth. I mean we have seen a strong 13% euro terms growth. But we have seen some pressure on the gross profit front, do you see competition hitting us there as well?

**Sudhir M. Trehan, Managing Director**

The competition is everywhere, in India as well as outside. The commodity pricing having shot up.

**Abhishek Puri**

Right.

**Sudhir M. Trehan, Managing Director**

Not just possible to claim every commodity price from the customer, when it is so exceptional and exorbitant and there is overcapacity in the world market in T&D compared to the demand, particularly in Europe and USA being down. So there is a pressure, but still the margins have improved compared to corresponding period last year.

**Abhishek Puri**

Okay and we expect the margin trend to be upwards only, because of we still have...

**Sudhir M. Trehan, Managing Director**



I won't say upward, but I wouldn't say downward either. I would say we'll be able to maintain the year around the same level as the last year.

### **Abhishek Puri**

Okay, right. Sir secondly, regarding the capacities that we have, we have seen very strong volume growth continuing over the existing assets that we have. Would that put pressure on the existing capacities and if yes, where are we investing to increase the capacities, and in which of the segments, would we be increasing in domestic?

### **Sudhir M. Trehan, Managing Director**

Right now we are not increasing the capacities in the domestic, because we have capacity at least for next year and any Brownfield expansion is possible in less than a year. So we want to watch what's the sort of a order inflows, which are already down from Power Grid which is the biggest central transmission utility and we will take that for sometime next year and we have adequate capacity to manage the next year.

### **Abhishek Puri**

Okay. But if I remember last quarter you said that, you will be spending some 300, 400 odd crores to expand capacities.

### **Sudhir M. Trehan, Managing Director**

That was this year, we have spent in this year already.

### **Abhishek Puri**

You've already spent.

### **Sudhir M. Trehan, Managing Director**

We have spent that and next year, we don't intend spending because we don't see increase happening and if we do find in the second half of the year happening, we will consider at that time.

### **Abhishek Puri**

Okay, fair enough. Just thirdly, just harping upon the same point, what the previous analyst was asking. The tax rate, if I remove the deferred tax also, effective tax rate is about 26%.

### **Sudhir M. Trehan, Managing Director**

Yeah.

### **Abhishek Puri**

So which is what we were wondering whether there is some one-off in the item or...

### **Sudhir M. Trehan, Managing Director**

No, there is none. There is nothing exceptional in the item.

### **Abhishek Puri**

The biggest in the previous financial year domestically, we were paying about 34% tax rate.

**Sudhir M. Trehan, Managing Director**

Yeah, because we were not investing much in the R&D, and this time there is a lot of investment has gone in R&D which gets entitled to about 200% because we are approved by DSIR.

**Abhishek Puri**

Fair enough. So R&D spend is likely to continue over...

**Sudhir M. Trehan, Managing Director**

And R&D spend is likely to continue in the fourth quarter as well as next year.

**Abhishek Puri**

Right sir. Sir, thank you so much and all the very best.

**Sudhir M. Trehan, Managing Director**

Thank you.

**Operator**

Thank you. The next question is from the line of Fatema Pacha from ICICI Prudential. Please go ahead.

**Fatema Pacha**

Sir, I have two questions. Firstly, if now just regarding the guidance that you gave that Q4 at best we'll do around 2% growth. If I just look at your last year's Q4 and I guess for every company in this country, Q4 is the best quarter.

But in the new macro environment that is there, if you have to just maintain a flat revenue itself, the sequential growth has to be around 40%. Are we seeing that on a momentum right now in pick-up because one month is over?

**Sudhir M. Trehan, Managing Director**

No, we don't see any pickup in the momentum.

**Fatema Pacha**

So sir, even for a flat guidance you need to do 40% over your Q3 numbers. So you think there could be a risk of a year-on-year decline in Q4?

**Sudhir M. Trehan, Managing Director**

Let's see what happens. What more can I say. I have taken note of what you said, but I am pretty certain that we'll be able to maintain about 14%.

**Fatema Pacha**

Okay. So may be your consumer durables and maybe power systems could not support the other segment.

### **Sudhir M. Trehan, Managing Director**

We have the advantage of being just not in power business but power, industrial and consumer. And one or the other, two are definitely on the upfront. If power is not, the industrial and consumer will see it as an upfront.

### **Fatema Pacha**

And sir on the other backlog that you have, is there particularly any one SEB or one particular state which is not picking up or is it like pretty much all over India?

### **Sudhir M. Trehan, Managing Director**

It is pretty much all over India today.

### **Fatema Pacha**

There is no isolation or there is no pockets where you've sensed an issue?

### **Sudhir M. Trehan, Managing Director**

Power Grid, the order inflow is exceptionally low but even otherwise it is spread all over other...

### **Fatema Pacha**

Even SEBs you are saying. Is it that the power plants are not coming on time or something of that sort?

### **Sudhir M. Trehan, Managing Director**

I don't know what's the issue. They will know better. But to me, the execution of their project seems to be slow. What is the cause, I don't know internals of them.

### **Fatema Pacha**

Sir and I understand that we are pretty much doing more of 400 and 765, but a lot of a competition which is in the 200 and may be significantly smaller than you, they are continuously saying that transformer per MVA realization has kept on dropping over last eight quarters.

So for them it's, and with the higher commodity prices, they are definitely witnessing the pain and also a lot of Korean guys maybe are working on marginal costing or whatever? Are you seeing that this PGCIL not ordering will actually increase the need for these guys to compete again whenever the orders come. So at the margin your the bigger guys do get sacrificed.

### **Sudhir M. Trehan, Managing Director**

Definitely, it's a worry today that the Power Grid order inflow has reduced and it's a worry today that while the transformer production in MVA is increasing, the realization in rupees is not increasing. It's a worrying point. But this sort of scenarios cannot go on forever. They are self balancing.

### **Fatema Pacha**

Okay. Sir while on the thing on the industrial systems, we have been saying that the demand outlook and everything is very strong.

But if I just see on your EBIT, despite you showing a very healthy growth in your segmental revenue, your EBIT is actually declining in this quarter. So, it's staying somewhere where the pricing is not pretty much in your hand and maybe it's the bargaining part of the buyers, is that or is it some product mix?

**Sudhir M. Trehan, Managing Director**

No, it's not a product mix, it is a question of because in industrial, you don't get a price variation clause and hence the gap between getting the order and supplying could be as much as three months. We can't pass on the commodity increase and if the commodities are all on the up simultaneously, it does make a difference and with the time gap of three to four months, you pass it onto the customer. And if by that time the commodity starts coming down...

**Fatema Pacha**

Then you benefit...

**Sudhir M. Trehan, Managing Director**

You have lost, you gain at that time. So overall, it comes to the same.

**Fatema Pacha**

Are we seeing good bargaining power there on pricing or the customers are...

**Sudhir M. Trehan, Managing Director**

Bargaining power it is the same as it was earlier, but obviously with commodity up, you can't pass it on. But now what we are quoting are obviously the present commodity pricing and we hope that this will not shoot up in another three months more. If it shoots up another three months more than present, then the margin pressure will continue. The chances are it will now remain flat, have come down and hence the margin pressure will disappear because they are...

**Fatema Pacha**

And orders and investment systems will be on project site that's already operational right, so you are not taking any...

**Sudhir M. Trehan, Managing Director**

Part of it will be for the OEMs like cement manufacturers, like compressor manufactures, expanding steel capacity in their plants, expanding aluminum capacity. These will be for expansion projects of the plants and OEMs like machines tools, compressors, pumps.

**Fatema Pacha**

Okay. Okay I guess sir, thanks a lot sir and best of luck.

**Sudhir M. Trehan, Managing Director**

Thank you.

**Operator**

Thank you. The next question is from the line of Ashish Shah from IDFC Securities. Please go ahead.

**Ashish Shah**

Good afternoon sir.

**Sudhir M. Trehan, Managing Director**

Good afternoon.

**Ashish Shah**

Sir, just wanted to understand, why is the consolidated other income lower than the standalone other income, sir?

**Sudhir M. Trehan, Managing Director**

There must be some loss somewhere which in foreign exchange or somewhere which must have contributed in this quarter. That's why it must be lower but cannot be substantial number. Not that big number.

**Ashish Shah**

Actually the difference is about 10 crores.

**Sudhir M. Trehan, Managing Director**

Yeah.

**Ashish Shah**

And standalone other income is 22 crores and consol is 12.

**Sudhir M. Trehan, Managing Director**

So there must be an exchange loss of that much.

**Ashish Shah**

Okay, sir. Fine. Thank you.

**Sudhir M. Trehan, Managing Director**

See 10 crore in a company of 2.2 billion, I really didn't bother but, if at all, 99% I am correct that it is a foreign exchange loss.

**Ashish Shah**

Okay.

**Sudhir M. Trehan, Managing Director**

It is between euro to dollar, U.S. dollar to Canadian dollar, Hungarian to U.S. There are so many currencies in overseas. So when you consolidate, there is a foreign exchange conversion to rupee.

**Ashish Shah**

Right. Okay, sir. Thank you.

## **Operator**

Thank you. The next question is from the line of Lokesh Garg from Kotak Securities. Please go ahead.

## **Lokesh Garg**

Hi, sir. Good afternoon.

## **Sudhir M. Trehan, Managing Director**

Good afternoon.

## **Lokesh Garg**

Sir, just wanted to get a sense from you on the exports business as well which Crompton does out of the domestic entity but clearly in the power segment?

## **Sudhir M. Trehan, Managing Director**

Export is slowing down. There are not many orders coming now compared to the earlier period. There is a degrowth in the exports out of the domestic segment.

## **Lokesh Garg**

Okay, both in terms of order inflow as well as in terms of revenue line.

## **Sudhir M. Trehan, Managing Director**

That's right. Yeah.

## **Lokesh Garg**

Sure, because it's a very large portion. This is about half of the power segment business, right?

## **Sudhir M. Trehan, Managing Director**

Yeah, which is slowing down now, both in order in flow and sales, of course.

## **Lokesh Garg**

Sure. Sir, my next question actually relates to some of the recent steps that Crompton had been taking in areas such as expanding the capability in drive and some JV substation equipment related area. Is there any early indications of an establishment of our feet over there?

## **Sudhir M. Trehan, Managing Director**

We are getting some orders, but it's too early as far as the new JV is concerned with ZIV for substation, automation and protection relays. It's getting established. We are in the market now, we have got one or two orders but nothing substantial to report at this point of time. And we are quite hopeful in next six months we should be established there.

**Lokesh Garg**

Sure. Sir, my last question relates to PGCIL ordering activity. Recently, it was reported that there are some tenders which have opened up where in, including Crompton some companies have been placed L1, they may not have been I don't know whether they have announced as of yet. Is there anything that you can share on the reactor and 765 kV transformer ordering from PGCIL?

**Sudhir M. Trehan, Managing Director**

They haven't yet given the order but we are quite certain of receiving the orders amongst the new tenders also, of about 17 transformers and 11 reactors in 765 kV which will be of the order of about 250 crores. We are L1 and hence we should get the order.

**Lokesh Garg**

My only follow-up is that, in reactors, last year Crompton had a much bigger victory, right? So this time actually the numbers have been little bit short?

**Sudhir M. Trehan, Managing Director**

It depends because if we have last year taken 100 numbers and not made a single one, I have to supply also. So I take orders depending on how much capacity I load my plants with 765 kV. I have enough load now to load the whole of our '11-'12 for 765 kV.

**Lokesh Garg**

Okay, sir. It's rather internal decision rather than something happening out.

**Sudhir M. Trehan, Managing Director**

And we as you know very well for the last 10 years, our eye is more on the bottom-line.

**Lokesh Garg**

Sure. Thanks a lot, sir.

**Operator**

Thank you. The next question is from the line of Bhavin Vithlani from Enam. Please go ahead.

**Bhavin Vithlani**

Sir, my question is more on the power business. Could you highlight or give more throw more light where Power Grid was talking about 50% domestic manufacturing content whereby domestic manufacturers would be at benefit. Has that been implemented and any view on the same?

**Sudhir M. Trehan, Managing Director**

Yes, it is implemented already in the new tenders.

**Bhavin Vithlani**

So in view of that, are you seeing the Chinese manufacturers or the Korean manufacturers being put on a back burner or has there...

**Sudhir M. Trehan, Managing Director**

They are on the front burner. They have reduced the pricing further after that.

## **Bhavin Vithlani**

Okay and if I actually compute the nine months where you guided that 31% is the in near terms volume, the pricing has declined by 22%. And if I see despite that we have shown an improvement in the operating profit margin. Could you throw more light on that, despite showing sharp production and the realization, how come margins have improved?

## **Sudhir M. Trehan, Managing Director**

Obviously, the material to sales ratio if you calculate has gone up, and that is the impact of the price having gone down and if you look at the other expenses and overheads, they have gone down. So whatever has been lost in the materials portion more than that has been saved by cutting other overheads and that's how the margins have been maintained where they are. But you can up to a point, go on squeezing the lemon.

So, we are virtually at a point where, if this commodity was to continue rising and price realization not improving, then margins could go under pressure, and that's why I said this scenario is not acceptable to any manufacturer. I am sure all of us are in the same boat. Hence it is a self balancing effect. It has happened now for nearly 18 months, if you see this has been happening. And now it will start correcting itself.

## **Bhavin Vithlani**

Sir, the dichotomy is actually, if we see the results of some of the small transformer companies, they have reported margins of some 7 to 8% at EBITDA level and the margins are more than two times of their so the puzzle is how come the margin difference is such large?

## **Sudhir M. Trehan, Managing Director**

I think that's your job to study, analyze and report back to us what do the small manufacturers are wasting their energies on?

## **Bhavin Vithlani**

Okay. Sir one last question is pertaining to the international business. When we are seeing an uptick in the revenue growth because last time you were guiding for 4 to 5% growth in the euro terms and now 12 to 13% growth as highlighted is achievable. In light of this, could we see a margin uptick in the international business or would the margins be sustained?

## **Sudhir M. Trehan, Managing Director**

Margins would be sustained because the growth is happening but the pricing is under pressure even in Europe and in North America.

## **Bhavin Vithlani**

Okay. Thank you so much.

## **Sudhir M. Trehan, Managing Director**

Thank you.

## **Operator**

Thank you. The next question is from the line of Pankaj Sharma from UBS. Please go ahead.



**Pankaj Sharma**

Good afternoon, sir.

**Sudhir M. Trehan, Managing Director**

Good afternoon.

**Pankaj Sharma**

Sir on the Power Grid, we have typically seen in the previous years that their orders award activity picks up in Q4 of financial year and after the specially disappointing performance which they have done in last nine months, do you expect a significant pick-up in this quarter or maybe the first quarter of next financial year?

**Sudhir M. Trehan, Managing Director**

I don't expect a significant pick-up by Power Grid in the fourth quarter. But I am quite hopeful that it will pick-up in the second half of next year definitely, maybe by second quarter of next year, but not in Jan, Feb, March.

**Pankaj Sharma**

Okay. So you expect the second half of FY12 should be better than earlier.

**Sudhir M. Trehan, Managing Director**

Yeah.

**Pankaj Sharma**

Thank you, sir.

**Sudhir M. Trehan, Managing Director**

Thanks.

**Operator**

Thank you. The next question is from the line of Rajesh Panjwani from CLSA. Please go ahead.

**Rajesh Panjwani**

Sir, just sorry to harp back on that same issue but when you mentioned about this pretty sharp decline in the value per MVA, I was wondering is it comparing apples-to-apples in the sense that its scope of the work et cetera remains same or no, or if some of the decline also contributed by scope of work?

**Sudhir M. Trehan, Managing Director**

Some of the decline is also by the scope of work; some of the decline is also because the unit's ratings keep changing; some of the decline is also because of the product mix between partners, commerce and CTS. So all factors put together, this is the impact.

**Rajesh Panjwani**

Okay and this decline which is almost like 25% plus, this is comparing revenues of, let's say first, this quarter versus last quarter or the current order book versus order book which was...

**Sudhir M. Trehan, Managing Director**

Comparing revenues of these nine months vis-à-vis last year nine months.

**Rajesh Panjwani**

Okay, so you have already absorbed whatever...

**Sudhir M. Trehan, Managing Director**

Yeah. We are saying that although in these nine months we have grown in MVA by 31%, our growth in power system is only 3% in value.

**Rajesh Panjwani**

Okay, okay. Fine sir and you had undertaken a fairly aggressive drive where you are taking the designs from Pauwels and to some extent from Ganz to reduce the material cost per unit of the transformers. I was wondering where that process is currently? And is there and that helped you avoid material cost squeeze which a lot of other companies witnessed in the last few years. So where is that process and is there room for further improvement there?

**Sudhir M. Trehan, Managing Director**

That process is almost complete now and frankly speaking that is the process which has saved us from we not losing margins while others have lost margins. We have saved a lot in that process, what we call one world design.

**Rajesh Panjwani**

Okay, so that is now fully implemented?

**Sudhir M. Trehan, Managing Director**

That 98% it's never fully still small things are going on. But, yes, you can say, for all practical purposes, it is fully implemented.

**Rajesh Panjwani**

Okay. Thanks a lot.

**Sudhir M. Trehan, Managing Director**

Thanks.

**Operator**

Thank you. The next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

**Analyst**

Good afternoon sir. Thanks for taking my follow-up question. Sir, when you said we are L1 in some 250 crore worth of orders, you

said it is for 17 transformers and 11 reactors. The total value is only 250 crores, all these are 400 kV.

**Sudhir M. Trehan, Managing Director**

No, this is down 765 kV.

**Analyst**

Okay. Thanks.

**Operator**

Thank you. The next question is from the line of Lakshminarayana Ganti from BNP Paribas. Please go ahead.

**Lakshminarayana Ganti**

Good afternoon, sir. My first question is our understanding is that Crompton Greaves is fully qualified for Power Grid requirements as far as 753 kV transformers are concerned, which basically means that you have acquired two-year track record.

Now is that understanding correct, which means going forward, you can actually source the raw material, manufacture it completely out of India to deliver for Power Grid, is that understanding correct, and...

**Sudhir M. Trehan, Managing Director**

Yes, it is correct.

**Lakshminarayana Ganti**

Okay, that answers and most of my questions are answered already.

**Sudhir M. Trehan, Managing Director**

All right.

**Lakshminarayana Ganti**

Thank you so much.

**Operator**

Thank you. The next question is from the line of Renu Baid from B&K Securities. Please go ahead.

**Renu Baid**

Good evening, sir. Sir, actually most of my questions are already taken through, I think that's it from my side. Thank you so much.

**Operator**

Thank you. The next question is from the line of Mayur Palkheria from Wealth Managers. Please go ahead.

**Analyst**

Good evening, sir, and thank you for taking my questions. Sir, I have basically two broad questions. Geographically, expansion you were looking at Latin America and China, and last quarter we said that China we may not be looking right now and how are the things shaping up for you in Latin America?

**Sudhir M. Trehan, Managing Director**

We haven't made much headway yet.

**Analyst**

So. Another at least half, six month to eight months, we don't see activity on that side?

**Sudhir M. Trehan, Managing Director**

I don't think that it will be lesser than two to three quarters.

**Analyst**

Okay and sir another thing was if the extreme was actually the starts becoming favorable from the first quarter, means starting from FY12 because the last entire year, it has already been below 60 from the first quarter itself. So do you see that with a favorable currency, I am assuming that this currency will be at current level, hence I am saying that if the base is favorable, do you see a margin pickup assuming the favorable this year, for the...

**Sudhir M. Trehan, Managing Director**

I don't see the margins picking up because as I said, the commodity price has been increasing and to maintain a growth of about 13% in local currency which is euros, we also have to match the market price. So we will be able to maintain the margins but not improve them.

**Analyst**

Okay and sir last question was, is there any update or is there any activity going on, on the PPP side and the T&D side which, is that kind of the business any, growing any meaningful sense or can you see any activity still happening or it is still not in a major way to...

**Sudhir M. Trehan, Managing Director**

Sorry, I didn't get your question.

**Analyst**

On the PPP side, Public Private Partnership side, on the T&D aspect of the business; has that anything, any growing or is there any activity, is there inclination from the state side or from -- for the new projects coming up or from the PGCL side to take the projects on a BOT basis or on a PPP basis and then growing it. Do you see that kind of a confirm change in the model or change in the business activity there?

**Sudhir M. Trehan, Managing Director**

So far we haven't seen any.

**Analyst**

Okay. Sir what will be our share -- is the project business gain any momentum in the overall sales or is it still at a lower or some other side?

**Sudhir M. Trehan, Managing Director**

Our project business is at a very low

**Analyst**

Yeah. It is still at sub-5% level?

**Sudhir M. Trehan, Managing Director**

Yeah, will be almost the same.

**Analyst**

Thank you very much sir. And thank you for taking my question.

**Operator**

Thank you. The next question is from the line of Sumit Kishore from JP Morgan. Please go ahead.

**Sumit Kishore**

Good evening sir, I have one question. Sir you have been at the affairs in Crompton Greaves over the last few years, when will you step down as MD and what is the succession plan?

**Sudhir M. Trehan, Managing Director**

My term ends in May 2011, succession committee is working on it and we'll make the announcement at the appropriate time.

**Sumit Kishore**

Okay sir, you will be continuing on the Board of Crompton Greaves?

**Sudhir M. Trehan, Managing Director**

I couldn't hear your question, can you repeat, there was a lot of disturbance.

**Sumit Kishore**

Yeah, sir you will continue on the Board of Directors of Crompton Greaves?

**Sudhir M. Trehan, Managing Director**

Yes.

**Sumit Kishore**

Okay, thank you.

**Operator**

Thank you. The next question is from the line of Akshay Thakkar from Enam Securities. Please go ahead.

## **Analyst**

Sir, most of my questions have been answered. Just wanted to get your perspective on the long-term margin outlook for your international subsidiaries, three to five years out. How do you see the profitability of that business shaping up because we've seen what you've done with the Indian business, whether such a story is possible to repeat in the international subsidiary, just wanted to get your views on the same. Thank you.

## **Sudhir M. Trehan, Managing Director**

In the near future, I don't see the margins improving.

## **Analyst**

Okay. Our the longer term, maybe over three to five years?

## **Sudhir M. Trehan, Managing Director**

On a very longer term of three to five years, definitely, I am sure that this market and this pressure will not continue beyond one year and the moment that happens and the normal market returns, there is a substantial scope for improvement in the overseas operations margins.

## **Analyst**

Alright. Thank you, sir.

## **Operator**

Thank you. The next question is a follow-up from the line of Lakshminarayana Ganti from BNP Paribas. Please go ahead.

## **Lakshminarayana Ganti**

Hi sir, one follow-up question. We've seen a, somewhat large increase in capital employed, especially in your industry segment. Is that where bulk of your CapEx went, I missed the number that you mentioned at the beginning of the call. But is there something that you've added in terms of CapEx in that segment which will show through, in numbers going forward?

## **Sudhir M. Trehan, Managing Director**

Yeah, there is a substantial increase in the CapEx. There is a substantial increase in the capital employed due to our acquisitions of a 100% shares of a joint venture company called Group Crompton Greaves, a substantial addition in capital due to our acquisition of PTS Solutions Manchester, a substantial increase due to the acquisition of three businesses of Nelco. So all those inorganic growths have added to the capital employed also.

## **Lakshminarayana Ganti**

Okay and any number that you would want to put for FY12, consolidated CapEx?

## **Sudhir M. Trehan, Managing Director**

Consolidated CapEx of FY12 of the order of 500 crores.

## **Lakshminarayana Ganti**

Almost like what we did this year?

## **Sudhir M. Trehan, Managing Director**

Yeah.

## **Lakshminarayana Ganti**

Okay, thank you so much and good luck.

## **Operator**

Thank you. The next question is from the line of Dhimant Shah from HSBC Asset Management. Please go ahead.

## **Dhimant Shah**

Sir can you enumerate as to, to what extent we were looking at acquiring an automation business. So, if you can just enumerate, do we have any success or do we...

## **Sudhir M. Trehan, Managing Director**

So far there is nothing to report on that front.

## **Dhimant Shah**

And just in case, if we are able to consummate a meaningful acquisition there, I mean what kind spending would it be? And to what extent would it be advantageous in sustaining margins, given the tough scenario that you are projecting for next couples of quarters?

## **Sudhir M. Trehan, Managing Director**

It will depend on the target. As I said, there is no substantial progress to report. So I don't know the size of the target, so I can't tell you what sort of a outflow it will have and what sort of a margins that business will have. We don't have a target in view to report anything to you at this point of time.

## **Dhimant Shah**

Perfect, many thanks sir.

## **Operator**

Thank you. The next question is from the line of Kirti Dalvi from Enam Asset Management. Please go ahead.

## **Analyst**

Good evening sir and congratulations for good set of numbers. One question sir, we did mention by 2015 we'll be an \$8 billion company, just we are completely on, on that target, is it sir?

## **Sudhir M. Trehan, Managing Director**

Yes, we are on our vision.

## **Analyst**

And sir, just repeating I mean, next question on the same thing. Would it be primarily driven by our organic or we need to have some inorganic growth as well?

## **Sudhir M. Trehan, Managing Director**

Our vision is based on both organic and inorganic.

## **Analyst**

Okay and sir the last question, I am sorry to repeat this again, but you did mention that you will be retiring in the month of May, but you will be eligible for this MD post again sir?

## **Sudhir M. Trehan, Managing Director**

There is no question of eligibility, I am not retiring because the Board is asking me to go away. I am hanging my shoes because I feel 11 years is too long to be a CEO, I'll be still active, but don't want to be CEO.

So I am not looking or hankering, the Board would be more than happy to, if I would have continued, but it's my own desire that at a point in time you should take certain decisions and step out. So I am doing it on my own. There is no question of eligibility here.

The Board has already offered me to continue and I have said, thank you, I will be available for any advice but I don't want an executive role. Having done it for, answered your calls for 44 quarters itself is a job, I want to hang my boots when I have done the job well and relax now. So it's my own, there is no question of eligibility in this.

## **Analyst**

Sure sir. Thank you very much and wish you good luck sir.

## **Operator**

Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to the management for closing comments. Please go ahead sir.

## **Sudhir M. Trehan, Managing Director**

I think thank you very much to all of you.

## **Operator**

Thank you gentlemen of the management. Ladies and gentlemen, on behalf of Prabhudas Lilladher that concludes this conference call. Thank you for joining us on the Chorus Call conferencing service and you may now disconnect your lines.

## **Sudhir M. Trehan, Managing Director**

Thank you.