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"3QFY13 Earnings Conference Call of Crompton Greaves"

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SPEAKERS: **Laurent Demortier, Managing Director & CEO**
Madhav Acharya, CFO

Souradip Sarkar: Ladies and gentlemen, good day and welcome to the conference call of Crompton Greaves to discuss the company's Q3 FY-13 results and the way forward. As a reminder, all participants' lines will be in listen-only mode. There will be an opportunity for you to ask questions at the end of the presentation. I would like to now hand over the conference over to Mr. Laurent Demortier, Managing Director and CEO, Crompton Greaves. Thank you and over to you, sir.

Laurent Demortier: Good morning, everybody. So I am in the CG House right now with Madhav Acharya, CFO of CG Group. Thank you for joining us this morning at the teleconference. As you might have noticed I think we have changed little bit of the format. I think this is me being a little bit more new to Mumbai and realising that any transportation in Mumbai is always difficult and unpredictable journey. And I think the phone call will enable everybody to be on time. The second thing is that we pledged that in the morning to ensure that we could spend time on answering those questions that you might have. So I think I will look forward to this space.

Before commencing on our Q3 result and presenting the key of our business, I would like to brief you on some of the key changes that we went during Q3. First, we have introduced on October 15th, 2012 the new CG organisation. The CG business is now operating at full P&L and we have four regions: Europe, Middle East, North Africa, India, and South-East Asia which are now the hub for sales and service activities which will distribute the entire the scope of CG offerings. And this organisation is to profit by seven functions worldwide that will ensure lean and cost-effective support in all the necessary area.

These two organisations will foster the collective development and ensure the deployment of a very cost-effective global operation. Second thing, that is very important, we have two new presidents, which have been nominated. I have nominated Mr. J. G. Kulkarni as head of the Power Product business and J. G. K which has been a long-timer with the company for more than 30 years and was heading very efficiently the Indian power business, now located in Belgium since September 15th, 2012 with a clear mission to stabilise operations in power transformer in mainly Mechelen site and Hungarian site.

We have also a new head of the Consumer business, Ash Gupta, Ash will be the President of the Consumer business in replacement of Mr. Manoj Verma. Ash is based in Mumbai. Ash has been with the Group previously since more than three years and has an extensive experience in the consumer business in India and abroad. Ash was with General Electric and Honeywell Before.

Mission of Ash is to accelerate the work of our Consumer business for the rejuvenation program that I have been discussing with you on mainly our shelf standard, supply chain.

Now Q3, I am sure you will have questions, but has been, let's put it this way, in line with our internal expectations here. We knew it was, as I mentioned to you [Unclear] quarter, but towards the quarter of change. So there is nothing that happened that basically we have not anticipated. Now, on the macro perspectives the major deviation comes mainly from two units, both has been at the bottom line, PT product line which are Mechelen and Hungary.

The impact of operational losses on those two units since the beginning of the year are at 161 crores alone. Now, the difficult macroeconomic context for both the power and industrial business we are pursued with success the restructuring of our core business. As you know, we have been completed the Merlin project, which is the internal growth for restructuring of Mechelen operation And again I repeat, the Merlin project is over. It's finished and it has been fully completed on December 14 as we discussed with you at the time when we opened the process in June 2012.

I will come back on the numbers of this project of this restructuring, which I think have heavily impacted our overall Q3 return. At the same time I have seen on the major perspective of the results you will see that we are very sure of healthy growth in Consumer and Industrial business.

Now, before going for the results, I think again let's just put things in perspective. The key challenge we have faced is the reengineering process of the two-transformer plant in Mechelen which has been a historical site that we inherited from the previous acquisition. And I remind you that it was the headquarter of the Pauwells company.

And Hungary that we are transforming to become a new power transformer European platform. I know that many of you are in the call had the opportunity to be with me to visit that plant and to access the projects we are making. I think if you back now this could be; this month you will see that things have been also moving very fast. So we have been able to ramp up the capacity and we have right now more than 17 transformers under construction at different stages on the plant.

The long-term success of CG is in the transformation of those sites. We are now well bent in the succeeding, and the I think with the arrival of JGK and brand new team on this operation I think that now we are well equipped with to the results as we expect. I just want to make to note on the macro perspective on the integration ZIV within CG power activity. I think this is as an activity that we have launched of the same time of the acquisition. In the last three months we have tendered more than 260 million Euro projects around the globe including in India in the smart grid area. And I think that I am confident that next quarter we will start to see some of these translating.

Now, if we go to orders, orders for Q3 I don't think you have those results. I mean at 2,267 crores. Compared to last quarter we see the reduction of 33%. Now, let me, the only reason for this degrowth is mainly the system activity in power, power systems and the PT activity from the power BU. Respectively those two product lines degrew compared to last year by 600 crores the system and 400 crores the PT.

Now, this degrowth is a managed degrowth. First was the managed degrowth because I think after restructuring we have our capacity which well-utilised specially in the PT and in systems. And you know that the system activity is highly depended on the PT activity because we do turnkey substation mainly in high voltage. And the second thing is that last year we had exceptional big system order, the analyst that was with me in the conference remember that, we booked the very large offshore project, wind offshore project in Europe.

Now, we are still very active in this business, which is a transforming business, and I am sure I am going to come back to you with some good news next quarter in this segment. On the year-to-date basis our orders are up 3% and the growth has been evenly spread among all regions. America has been growing by 15%, Europe has been growing by 8%, despite the Merlin project and almost the freeze transformer activity for the last quarter. And India, now we go back to India, has been growing at 3%.

More important I think is the UEOB our backlog of orders as of December 2012 is at 13% compared to last year and at an all-time record of 9,232 crores. So basically it means that we end up 2013 with not only a high-ended backlog but also with much, much better cost structure.

Now, if I look now before I go to Merlin, because as probably European, but I also want to some comment on the revenues for Q3 for India. Q3 revenues on India -- I think Q3 revenue globally is first, are down 2% I think. And for the quarter we are up 7% on the year-to-date basis. And again what has been driving that is the power system business.

India operation has been impacted last quarter and I think that's something we have communicated to you. But I just want to repeat, we have been many impacted by two non-recurrent and exceptionally that. We got on December 11 an accident on Switchgear (S3) plant in Nashik, unfortunately it was a fatal accident for one of our employees, and we have closed the factory for 20 days. This closing has resulting in loss of lack of revenue because it's just a timing issue of 27 crores. The second element we got in India exceptional is clearance on customer some large systems. Well again here is the timing issue. But for a large GIS turn key projects and this has impacted us by some crores.

So these two really exceptional events for this quarter. And if you go back on the quarter-to-quarter, year-on-year business performance by business unit, I think on power business I think I mentioned the impact in India of the Nashik and the GIS projects, although have been down again mainly because of systems and PT. And again PT right now, our factory are almost all full and the system business, because it's also driven by PT has been following the same trend. As you know our system business is a channel to market for our products, PT primarily but also switch gear and automation.

Now, profitability will come back on the -- I will just comment on the Merlin, so, just for number for Merlin. So, Merlin what was the internal good name for the restructuring of the Mechelen unit. This is what we have been pronouncing in June 2012. This is completed, we means that all people have left the company, they have been notified legally and officially with all the appropriate negotiations. The departure of these people have been notified on December 14, 2012. 199 people left. The total cost of the operations and our two parts in discuss is 228 crores. The first part is the personnel cost. I think and you all we haven't made the provision for the personnel cost, and I think it's going to be paid on the next few months according to local legislations is 120 crores. And the other costs related to the restructuring are 108 crores. I am sure you will ask questions on that and Madhav will give you all the details, but just to give you the global impacts on this.

Now, most important is that the saving expectation; as you know program's objective was the reduction of our all overhead structure and our cost. We have not reduced our capacity, we have specialised the plants in Mechelen in what we call the P1, the largest transformers, the one that we sell with the highest margins mainly to European utilities. Now the cost saving net we expect for Q4 as part of this December action is 3.75 million Euro. I am saying it in Euro because the saving will be Euro, I don't want to make any misleading translation on the currency.

And for the year we are now expecting with the people that have left 15 million Euro saving on an annual basis. So that I think for power the major point that I wanted to mention.

Now the Industrial sector, the industry is showing some rejuvenation. I think we got a good order of all the globe, got 21% order growth on a quarter-over-quarter basis which basically is related to our LT motors. As you know you have been produce a new range of LT motors, which is the IE2 motors that not only now get success in the Europe but also surprisingly gets lots of traction and success in India as there are more efficient motors, and I think customers are ready to pay the premium for this high energy efficient product.

In terms of sales, the impact of sales of India this quarter in Q3 has been very quite for the industrial activity, mainly in the cement and power activity. So I think we have seen a slowdown. We are seeing orders. But I think the HT motors has been below what we were planning. I do believe that it's just a timing issue; we start to see some good sign in January has already starting there. But I think this is what has impacted our revenue.

We also are seeing some good sign in the railway industry. And I think that's also another year where we should be able to sustain good work. In terms of profitability, I think here is a mixed issue. Basically with start to sell, as I said more energy-efficient motors with more market premium. So I think that -- and also we are making some saving at the shop floor level with the introduction of -- we have now two lines in India which I think have significantly improved both our profitability but also our working capital.

In terms of consumer, I think consumer has been going faster than the market this quarter and it was good season, Q3, as everybody knows. But we got a very strong growth in the fans and the appliances business. And as you know we have been embarked now since six months with some -- with the BCG into restructuring of this business across India mainly on the channels. And I think we start to see some positive results on these channels. We have a deployment program right now for the next six months to even accelerate our reach. Our objective right now is to increase our reach in India from where we are, which is 40% exactly to 50-60%. So I think this will support additional growth of this business.

Now, that's matter of things that I wanted to mention to you. Now, in terms of perspective, you know, as mentioned, we are in the phase of stabilising our power business, which is ready to core of the problem of CG, and mainly the PT and mainly the Mechelen and the Hungary operation. We enter 2013 very confident, first because we completed success the restructuring of Mechelen which has been for the last six months quite heavy and painful operation. And you can appreciate that initial structuring in Europe by that time in current context is something that requires a lot of attention to be successful.

We are -- still initiative focus improvement, innovation, new channels that will certainly support the ongoing improvement of CG results. With the European restructuring behind us, we can now focus the stabilisation of operation. And I can ensure you that all the management team, not only CG but also in power is 100% or even 150% dedicated to that. We have healthy and all time high UEOB which make us confident in delivering our commitment.

Now, I am personally highly committed to the success of CG. I and all the CG executive team are putting lot of effort to deliver that necessary structural change. The actions we are doing are fully supported by our goals. I know that there has been rumour on departure of certain executive. So as you know two have left, which is the one I mentioned before. For the others, I can tell you they are all here to complete for the years to come this implementation. And personally in terms – if it's not clear for everybody I have five years contract and I will implement that five years contract there has never been any doubt in my mind or any discussion at any point about potential departure.

Okay. So I just wanted to clarify that. I thank you all over. I think now I open the floor for questions. And I think Mr. Kulkarni has joined us. So I think he will also be able to answer some of the questions you might have. Thank you.

Moderator: Thank you so much, sir. With this, we are going to start with the Q&A interactive session. So I would request all the attendees and the participants, if you wish to ask any questions, please press "0" and "1" on your telephone keypad and wait for name to be announced.

I repeat, participants, if you wish to ask any question, please press "0" and "1" on your telephone keypad and wait for your name to be announced.
And here comes the first question from Mr. Venugopal Garre from Barclays. Sir, your line has been un-muted you can go ahead and ask your question.

Venugopal Garre: Good morning sir. Firstly, I just wanted to understand this 108 crore of additional restructuring cost, is it Q3 cost item or is it across the 9 months? And if you could explain the breakup of that cost as to where it essentially resides in the financials.

Laurent Demortier: Okay, good question. I think I am going to let Madhav Acharya answer that question in detail. Madhav.

Madhav Acharya: Yeah. Hi Venugopal. See, the total incidental cost related to the Merlin restructuring is 108 crores, out of which 83 crores pertains to Quarter 3 and 25 crores pertains to Quarter 1 and Quarter 2.

Venugopal Garre: Okay. And so, this will be across -- this is all EBITDA level items, right?

Madhav Acharya: This cost has been charged off in the P&L above the EBITDA in line with the accounting standards.

Venugopal Garre: Okay. And sir, secondly if you could give us a break up of order inflows domestic, international as well as if you could give the break up in terms of segments, Power, Industrial and Consumer.

Madhav Acharya: Sure. I will give you the number. For the quarter, December '12 -- First, I will give the India numbers. India power system 752 crores is order intake. For Industrial system India is 461 crore. So the total order intake for India is 1213 crore. For non-India, power systems is 975 crores. For Industrial systems non-India for this quarter is 78 crores. So the total order intake for the quarter for non-India is 1054 crores. In terms of power systems, total order intake for the quarter is 1728 crores for the company. For industrial systems, it is 539 crores. So the total order intake for the quarter for CG as a whole is 2267 crores.

Venugopal Garre: Thanks, Madhav. I just have last question, ZIV profits post acquisition for the last six months.

Madhav Acharya: I think Laurent will explain little bit more on ZIV and the ruling situation and the markets, so maybe we will take that question a little later. Is that okay with you, Venugopal.

Venugopal Garre: No, I am fine. I can take that offline too.

Madhav Acharya: No no we will do it online. We will do it online.

Laurent Demortier: We will do it online. I think on ZIV -- now, first of all ZIV is an acquisition that brings tremendous portfolio of technology. And I think we said both in grid automation but also in metering infrastructure. As I said in my comment, we have more than 260 million Euros of tender that we actually have back up in September. Now, ZIV when bought it was a Spanish company and we knew that it was in bad company. The good news of the

Spanish company is that tremendous technology and knowhow, there is tremendous support R&D spending by the government. The bad news is that the Spanish market is in trouble. And I think that's something we cannot do. Of the numbers that you are going get, you are going to get a year-to-date number of this in January, both in terms of volume and profit and then we will tell the numbers in since we have acquired the company.

I did those preliminary to make sure that you all understand the situation. The impact we got for the time being in Spain, where we got the defer of -- I think it's 8 million Euros of orders for metering it is an order we have but basically we are still to receive consignment on the monthly basic. This has been deferred by Inberdrolla because I think for those look at the Spanish market in detail, there is on-going negotiation between power generators and the officials on tariff, and this has been in the battle, I think the power generators have threatened the government to slow down the investment in the smart grid. I think it's just negotiation tactics. So I think we will see -- I think we believe the order will resume this quarter on that time. But that's the only impact we have. And that's -- So, we got 260 million Euro of orders worldwide which is mainly outside Spain. For the success of the CG, we need to take the technology, as we said, which is exceptional to the market and if we do this there is high profit. Now, I am going to let Madhav to give you the number. Now, I am going to do the January to December, there is a specific reason why I do that. Those number will be publicised because that's the legal entity in Spain will have publicise that for tax purposes. And then we will give you the numbers. As you remember, we acquired this company in the end of July, 1st of August. Madhav?

Madhav Acharya: Yeah, sure. So, Venugopal you can take the numbers.

Venugopal Garre: Yeah.

Madhav Acharya: ZIV for the whole year, calendar year ended December '12, which will be published in Spain according to the regulations. The sales is at 76.9 million Euros. With EBITDA without other incomes is at 8.87 million Euros and Profit After Tax is 9.19 million Euros. Now for the quarter ended December, which gets consolidated with CG, the sales is at 15.5 million Euros and the EBIDTA is 0.2 million Euros. And for the YTD actual, that is from 27th of July till 31st December, the numbers of which have got consolidated with CG here, the sales is 25.1 million Euros and EBITA is 0.1 million Euros.

Venugopal Garre: Okay. Thanks a lot.

Madhav Acharya: Thank you, Venugopal.

Moderator: Thank you Mr. Venugopal. Before we move on to further question, I would like give an instruction all the participants. I would request you all to please ask two questions so that we can give chance to all the parties. Thank you so much.

And here comes the next question from Jonas Bhutta from Bank of America. Mr. Bhutta, you can go ahead and ask your question your line has been un-muted.

Jonas Bhutta: Good morning sir. Just two questions from my side. Firstly, can you update us on the status of Emotron, because we see that there is a small loss in the international subsidiaries in the industrial segment so. Does that pertain to Emotron and what's happening there? And my second question is on the risk, how do you now perceive the risk of say penalties or liquidated damages from your Hungarian plant given the delivery schedule in the fourth quarter is quite high?

Laurent: Okay. I am just checking the number. So I think on Emotron there is a... we got quite high volume in November-December. The volume in this business is doing pretty well in Europe and we have been doing a lot of transformation. We introduce our new SAP system for the Emotron operaiton in September 1st. We got, let's say, two months of two months of trouble on the IT systems which have some impact on some of our production, but I think it has been resumed. Madhav is going to come from the numbers.

Madhav Acharya: Yeah, Jonas, on the Emotron, the operating performance is positive. *We* are very much in the black. There has been some exchange loss in Emotron due to the change of Euro versus Swedish Krona, and that's appearing in the other income side of it. So operationally we are in the black.

Laurent Demortier: And on Emotron as I just finish. We just established now which has been completed our new lines for manufacturing Mandidip, India. The drive business in the industrial as you know in India, we use to distribute third party products in drives mainly from China, from [Unclear] and also little bit from [Unclear] As you can imagine in the acquisition of Emotron, [Unclear] has been bought by Schneider. So basically the possibility for CG to distribute this product in India has just dried out And [Unclear] is same thing because now with Emotron we are competing with [Unclear] especially on the north India market. So now we are planning to have this production before the end of Q4, you have this full line of production of the drives in India Mandidip and we will resume ourselves in this drive business. Despite that, our overall sales orders are up as compared to last year. And as mentioned, basically Madhav has mentioned, we are in the black and I think we are very optimistic by not only the growth of this plant but also the profitability and value we are going create with this product-line. I remind for everybody that the drive is the key element to ensure an energy efficient motor, LT motor or HT motor.

Second question risk on LDs. Yeah, second question, the risk on LDs We will give some number. We have... I think there is a risk - I have been saying that for last two quarter. I been now with scheme we have on stabilising the operation, I think one of the key targets is to avoid all those LDs. We have taken into account some of them already in the account that Madhav will confirm I think it is -- and I think we are... we think we are at risk but it's limited risk. I think now we have a better vision and ask Madhav to give some data if you -- to precise that, but the operational risk is much less. Our vision is much less than what it was I think three months ago. But it is still existing.

Madhav Acharya: Yeah, sure. I mean, I think there has been some risk on LDs on some of the projects which got effected because of the project Marilyn, because LDs have been already provided in the books between 3.5-4 million Euros. And as Laurent said, we did see too much risk of LD going forward.

Jonas Bhutta: Just to clarify, is it part of the 108 crores?

Madhav Acharya: It is the part of 108 crores.

Jonas Bhutta: And lastly if I can just push in one more, what is the deliverable volume out of Hungary in 4th Quarter and what would be your actual install base by then?

Laurent: Hungary, I think 4th quarter, we are expecting revenue of 17 million Euro.

Jonas Bhutta: In MVA terms, sir, what would be your volumes broadly not an exact number also, but a broad number in deliverable volumes?

Laurent: Annualised on Quarter 4 will be on the 9,000 MVA. So it is 9,000 divided 4.

Jonas Bhutta: Alright, great. Thanks a lot.

Madhav Acharya: Thank you.

Moderator: Thank you, Mr. Bhutta. And the next question is from Lakshminarayana from Standard Chartered Securities. Your line has been un-muted you can go ahead and ask your question.

Lakshminarayana: Hi, my first question is, if you look at the overseas entities, if you back out the 108 crores restructuring-related expenses also the core profitability around minus 1.2% levels at EBITDA. So can you explain why that was the case and what affected the core margin?

Laurent Demortier: Okay. Madhav, can you answer the question.

Madhav Acharya: So, the calculation, basically as you would appreciate that we were in the phase of restructuring and moving barely sizable chunk of orders from Belgium to Hungry and, with the ongoing Merlin action that's what really impacted our performance in the overseas entity.

Lakshminarayana: So can we assume it's over and things stabilising there or how should we see things improving?

Laurent Demortier: I think as we said the major problem has been coming from Mechelen and Hungary. The Mechelen as again you imagine that is from June almost and in fact was from March to December as restructuring negotiation was going on with union, with the politicians, with everybody. The line was not at the efficient work on the shop-floor. We also had Mr. JGK to put in place the appropriate team to run these things properly. So I think you cannot imagine more pressure being assigned to that. At the same time we have lot of backlog. And what we did, we transfer the production on Mechelen which is in Western Europe, in Belgium, to Hungary, and Hungary is 3,000 km from Mechelen in East Europe. It is logistically not an easy thing to do. There is also people don't speak the same language and we have lot operation to ensure that people were understanding. So again at the same time I think the Hungarians were willing do well, were a little bit confused. So I think we got almost perfect storm between these two, which we were expecting, there is nothing surprise on that. But, that’s the situation. So I think, it’s -- So this is the thing. The Mechelen, as I said, is over. Now, everybody is on work. If you go there you will see now people are gone and the guys that stayed they are very motivated to make it work. We have a new head of the factory and we also have a new head of Mechelen. Maybe I can just ask J G Kulkarni here. He's the big guy holding that. He's spending most of his time on Hungary and Mechelen site So, you might just go back on the stabilisation on Q4 Vs the situation on Q3.

J G Kulkarani: Hi. I am J G Kulkarani. I think, with my induction and acquaintance with getting into the operational aspects and the management aspects of Hungary plant. One of the things is manufacturing point of view capacity ramp up we have jumped up from 7500 to 9000 on an annualised basis and the further programme is going which should be taking us to 12,500 by

October next year. So for that I think things are on. In terms of streamlining the processes because the job which got transferred from Belgium to Hungary had its own aspects related to the customers, related approvals and all that which are now in place and the things are moving. So Quarter 4 as it looks, and what we are planning in Hungary, is substantial compared to last year Quarter 4. And, I think, we are reasonably confident to make it happen. Okay? Next question.

Lakshminarayana: Thank you for that explanation. Second question I had was on the India power margins, which came in usually low for your domestic business. So can you indicate what happened and where should we see them sustainably moving to, given your backlog and what you are seeing in the market?

Laurent Demortier: Yes. I think, on India first I think the margin is only for power business. So, I think both industry and I will cover Consumer but I am going to comment on Power unless you want me to make some comment on Consumer. But on the power side as I said we are unfortunate event on Nashik plant S3 which is part of Power. It is one off, it's a highly profitable plant where we do breakers. And during the test with PGCIL, we had an explosion in the breaker and that's unfortunately resulted in to fatal accidents. As a result, we closed the plant. We basically reassessed all the safety of the testing lab. We had to make some changes to ensure at least the first running from the programme and these have resulted into a loss of production, of revenue and then of the profitability, because we have 20 days of closings from December 11 to the end of December. And this costed us, I think, 27 crores in top line. The second impact we had because of the systems. As you know, in India we have a lot of systems activities that we started two-three years ago. Now we got some system on the dimension about the deferment of the GIS project where customers has not booked and we have spent quite a lot of time on that. And this has impacted our profitability for the quarter. We also – The first thing is that we had also a mixed effect mainly in the PT range. As you know we are very profitable activities especially in India and our most profitable – our flagship factory right now is Bhopal. And in Bhopal we are not only making improvement of the shop floor but also we have been specialising Bhopal on 765 kV products, which is a part of our backlog. And we are selling two types of products in 765, one in transformer, one is reactors. And I think profitability is little bit different for the two. The reactors are bearing more profitability than transformers. So depending on the mix of the quarter-to-quarter then you have slight variation on the profitability.

In moving forward, I think, as I said all our plants are full. If I take Bhopal we almost have no slots before the end of next year. So we are one-year-and-a-half of backlog for these orders. T1 I think, this is also performing quite well. A little bit disappointing of the volume, some logistics issue which I think we are addressing. So I think T1 should be a good performer also in the months to come. We have much more in T1 and we also have much more flexibility. And T1 as you all remember is, I think, half of this business is India, half of the business is outside India for exports market which is also a market which is bearing much more profit for us. Any comment on that. Does it answer your question?

Lakshminarayana: Yes, yes. It did. One supporting sub-question I would call it. In the beginning of your opening remarks you said that your business has been reorganised according to geographies and organisational changes, etc. Now, do you also foresee any need to restructure any other businesses other than Belgium, Hungary, etc, or is it now stabilizing what you have?

Madhav Acharya: No, there is no such restructuring ongoing. I think the reorganization, in fact, we have been working along those lines. It has been officially announced and then we had put some new managers at that time. Basically, we had systems, but they were working only for Power business. So now they look for Power and Industrial and, I think, they are pulling – the idea is to pull more products, sell more products from India. There are mainly in HT and LT motors for European market and north American market and also South East Asia markets. But there is no restructuring plan, major restructuring plan, as a result of that anywhere in the world.

Lakshminarayana: Great. Thanks and all the best.

Madhav Acharya: Thank you.

Moderator: Thank you Mr. Narayana. The next question is from Renu Baid from B&K Securities. Your line has been unmuted. You can go ahead and ask your question.

Renu Baid: Good morning, sir.

Laurent Demortier: Good morning.

Renu Baid: Sir, my first question would again pertain to project Merlin. We had initially targeted to retrench approximately 260 people, but the actual number comes to about 199-200. So in that case, the 120 crore that you have assigned to this, first, can you see any further incremental people moving on their own though you're not retrenching them in the coming quarters? Do you expect any activity on that side? And second, assigned to the same perspective, will there be any further pension liabilities or aligned security cost for these employees which could come in subsequent quarters as well or there would be absolutely no incremental hit on the P&L?

Laurent Demortier: Okay. Now, first I am going to answer your last question. It's of pension liability. There is no pension liability. I think we are in Belgium which is a specific placement. So I think, there is no pension liabilities. There will be no additional cost related to the restructuring post Q3. I think, for the 199, again, everything has been provisioned in provision. And in terms of number of people, I will just go back and explain what is the process. The 260 was the proposal from the management that we made in January at the beginning of the process as per the law with the union. And we need to have agreement for both the union and the government on the restructuring. So 260 was the CG proposal. Then we had negotiations that basically, of course, remember we got negotiations and we closed the negotiation in September 03, which is the three months legal period. Now the scope of this negotiation usually is to decide who is going to leave weather its people at certain age or certain functionality in the scope of 260. Now in the scope of 260 we negotiated the – we had some open jobs. So I think in the negotiation we decided not to fix some open jobs and this was an offering to more than 40 people. So I think it's 260 minus 40 is 220. And then we had to give up on some – so at the end, what has been signed by the union, voted by the union, voted by the government is 199. Okay?

Now, the saving as in giving, what you have noticed is that with the 260 I always gave saving expectation around 15 million at that time, Euro. The reality is 40 million – it's a reality. So, the 14 million Euro saving is a saving out of the 199 people. So it means that we have lots of white collars that left in the overheads. That was highly paid which has been contributing to this 14 million. So what is important is not the number of people. It's the reduction in overhead.

Renu Baid: Right. Sir the 108 crores which has been identified as restructuring cost, if we recollect in the first half of the same financial year, there was approximately 130 crores at the EBITDA level which had impacted. We were terming it as production loss and aligned restructuring cost, of which only 25 crores has been identified as the restructuring expense. So essentially those 105 crores in the first half were cost related to poor quality of transformers or the other losses that we had had and not aligned to restructuring?

Laurent Demortier: Let Madhav answer that but I think you are correct.

Madhav Acharya: No, Renu, I mean, fundamentally your numbers are right. The issue is that under the accounting standards there are certain costs which you can identify as restructuring costs related to Merlin, which has what has been done. And there were issues around poor quality and some of the rework which could not be ascertained along with Merlin, so which are partly operational losses

Renu Baid: Sure. Sir, now…

Madhav Acharya: But your numbers are right.

Renu Vaid: Right. So, you know, after seeing almost a quarterly hit of 50, 80 and now 90 crores, in the subsequent quarters, in the March quarter and June quarter do we foresee any similar production loss or quality-related losses coming on the P&L level or all those issues have now been sorted and completed out?

Laurent Demortier: That's a good question. But, let's say, there is quality issue related to Merlin. I know. And there is quality issue, which are inherent to power transformer business. So are we going to have quality issue related to Merlin and Mechelen? The answer is no. We might have quality issue like any power transformer factory. We have a programme to improve our quality in all our sites. This is a long-term journey. But I think it will be -- it would be the same range of premier league. What we have been putting in all our power transformer plant now is very strict quality indicators to ensure that we are progressing, but that's an on going thing. Maybe, JGK, you want to confirm on programme..

J G Kulkarni: Yeah. Additionally to support improvement in the – particularly the test bed rejection which happens although this product do not go to the site in case if there are problems. They are all reworked here. And that's where all the costs are booked. Primarily also driven by initiatives which are in the design aspect of design review and strengthening the design primarily ensures that the design do not have any kind of deficiency which can be put on product. So, that's something, which is in place. I think, as Mr. Laurent said, the journey takes its own time because quality improvements cannot happen overnight and will not happen overnight. But as you have set the target, and the KPI is what we are monitoring and the process is what we are correcting in terms of design and all that, we will be able to see dramatic improvements in Quarter 4. But the size will be the test in terms of going further Quarter 1, Quarter 2 and Quarter 3 .

Laurent Demortier: Just To mention, just on the power transformer, you know, we have seven plants. We have various quality performers, but we have outstanding plants, with zero quality defect if you take Bhopal, for instance, we have zero de-tanking rate for the last six months which the average of the industries on de-tanking is I think, I mentioned to you is 5%. The best in class about 3% de-tank. So what we are targeting is have all our plants below 5%. That's the target we have. There is this a specific plan for each of the plant. And, I think, Hungary and Mechelen will be there and both Hungary and Mechelen have been out of state and that's why we are working out to make sure that all the best parties we have been in CG especially coming from India are applied as soon as we can.

Renu Baid:: Yes. As in large my quality concerns were pertaining to our Hungary, Belgium as well as Winnipeg facility in Canada. So, now hopefully as you mentioned we should not see a similar large quantum of these losses coming in the – coming quarter.

Laurent Demortier: Yes. De-tanking rate of Belgium has been 22.5% of the last quarter. I have never seen in my life such a rate. So I think that's the type of things we are looking. But as I said, the three plants, Canada, Hungary and Belgium we have improvement projects in all our plants but again we have seen good things happening. So we expect some progress Q4 but as Kulkarni said, is a long term journey, in fact we could – on getting to the benchmark. I would like everybody to get the benchmark of Bhopal. This is the best work, we are working around that. I think, we have the know how in any case.

Renu Baid: Sure. And just sir my second question on ZIV side. As you have discussed the 3Q and the YTD numbers, the EBITDA excluding other income seems much lower than even 10% levels. And, at the time of acquisition this company had over 18, 2%. So,has there been any ,change in terms of the R&D expenses in terms of capitalization policy and the 260 million Euro you mentioned is the order book or the tenders that you have submitted for ZIV?

Madhav Acharya: Firstly Renu, in terms of the change in policies let me clarify there has been no change in the policies whatsoever. As Laurent explained, the markets in Spain has become extremely difficult, and there has been a very sharp downturn in the Spanish economy. And there has been a lot of deferment of orders by Iberdrolla in particular, which is what has really impacted the margin and the topline. Regarding --

Renu Baid: So we continue to capitalise the R&D expense in the P&L at the EBITDA level?

Madhav Acharya: There's no change in the treatment as was being done earlier.

Renu Vaid: Okay. And the 260 million Euro, just wanted to clarify, is that the order book of ZIV or it is the tenders that you've submitted in the last quarter.

Laurent Demortier: It is the tender we have submitted. We expect to cross up to 260 in the next six months after which we have a majority of almost 10 million in next six months. And next quarter we expect to book 48 million Euro on this, which would be the all time high record for ZIV if this happens.

Renu Baid: Sure, sir. That's it from my side and all the best for the coming quarters. Hopefully you see the guidance coming through.

Laurent Demortier: Thank you.
Renu Vaid: Thank you, sir.

Moderator: Thank you Ms. Baid. The next question is from Mr. Sumit Kishore from JP Morgan. Mr. Kishore, your line has been un-muted. You can go ahead and ask your question.

Sumit Kishore: A couple of questions. The first question is on the topline growth performance in the nine-month period for the non-India power systems business. If we were to exclude Belgium and Hungary, how would this performance look for the nine-month period? So in other words could you give me the nine-month approximate revenue for Belgium and Hungary for this year and last year? For the nine-month period.

Laurent Demortier: I think we don't comment on these specific results on a nine-month on our unit specifically.

Sumit Kishore: Could you give us a qualitative sense so that we can judge how the topline performance has been for the remaining overseas? business? Hello?

Madhav Acharya: Yeah, just one second.

Laurent Demortier: Okay. Sorry I was just trying to make sure I understood your question. I think again we cannot comment on the number and the line because first of all, our business is a little bit global. To take Belgium is serving Europe, is also serving Middle East, and Hungary serving Middle East, South Africa and Latin America. I think on the overall side of the business, as we said, the system business is low at least in order intake but again the systems is highly dependent on PT I think the two are related. It's also an area there is lots of activity so we are very careful of the order we want to keep, and we take only orders that will help us to develop superior margin.

I think it's South East Asia, I think is going -- we got order in South East Asia is doing pretty well in almost all geographies part of the world. That's little bit immune from the crisis mode. Europe is doing well but is driven by renewable, we have huge, huge backlog of projects while negotiating on the wind offshore connection. Market is 1.4 billion euro right now, just for the wind offshore connection. It is the largest market in the world and that's where we have some key differentiators. So we are working hard on that. Middle East is also picking up very well. I will announce, I will give you as a scoop but there will be the inauguration of our new power transformer factory in Saudi Arabia in next two weeks from now.

So, it will be a large factory that we'll start to sell in the Saudi Arabian market, which I think will give us a high capacity to serve this market. We'll be the only manufacturer of power transformers in part of the world. Having said that, Brazil is where we have been slowing down, specially investments in Brazil I think is slowing down. So, I think our business is there but I think there is slowing in some business. US is -- for me it's quite nice and we don't feel boom It's slowly progressing mainly due to the activity we have in the Solar industry in both power transformer and services. I also mark here about our system business out there but we have a good healthy small project in engineering in all electrical space. So, I don't know if that answers your question but --

Sumit Kishore: My second question is on the breakup of order backlog into India and non-India and power systems and industry?

Laurent Demortier: Yeah, okay. Now on the order backlog as you know Power has a more lonely time than Industrial. So you need to be careful

Madhav Acharya: Yeah. Sumit, you can take the numbers.

Sumit Kishore: Yeah.

Madhav Acharya: Order backlog, as on 31st of December, first I'll give you the India numbers. Power systems is 3,703 crores, industrial systems for India is 482 crores. So the total backlog for India is 4,184 crores. For non-India business, the power systems backlog as on date is 4,884 crores and industrial systems backlog is 164 crores. So the total backlog for non-India as of date is 5,048 crores. So, for CG the total power systems backlog is 8,587 crores, industrial systems is 645 crores and the total backlog for CG Global as on date is 9,232 crores.

Sumit Kishore: That is very useful. If I may squeeze just one small question, Mr. Demortier you usually give your customary feedback on the four strategic levers. You know, your three-year strategic agenda. So maybe you could give the status as of now.

Laurent Demortier: I would keep that for the year-end results. We have seen a lot been happening on strategic levers but you understand that the manufacturing footprint with Mechelen project has been the big ticket item this time. So if you don't mind, I will give you that. I think just sourcing 3.25% saving, but I think I will go in more detail at the year end to show you the progress we have made on all the project that are taken at the four strategic levers.

Sumit Kishore: Thank you so much, sir.

Moderator: Thank you Mr. Kishore. The next question is from Nainish from TATA Mutual Funds. So your line has been unmuted, you can go ahead and ask your question please.

Nainesh: Good morning gentlemen. A couple of questions. First will be from the domestic part of it, even if you take [unclear] items that you had mentioned about the Nasik plant, the profitability of the domestic business is slightly under pressure. If you can gives us a broad sense, especially taking into consideration that PGCIL accounts for a significant portion of our revenues and order book. How are margins on a structural long-term basis looking in the domestic power systems business?

Laurent Demortier: Okay, I said two things. We have the accident we have different systems and third thing we have a mix effect. So that's the three things I said for India. I think the mix effect will continue. So it will be depending quarter on quarter while we manufacture. I don't -- the backlog as you said, we have a fact over here that we know the backlog and the margins. So I think we have confident on the this, the systems I think will remain -- will remain at the same level. On the breakers I think what we do right now; we are pushing exports to which I think would be good news for margin. But the thing for the current margin we are going to do -- resume now from January with all our capacity. I think we'll be good so I don't foresee any bad news on the profitability of the Indian power business. I can put Mr. Kulkarni you can confirm from them.

Nainesh: Sir, if I could just I add one more thing to it? Actually, when you speak to PGCL what they indicate is that you know, their order are -- the orders that they would be placing over the next few years will probably come down to some extent. And in the competitive intensity actually increasing in that segment and hence the fear comes in, that the incremental orders can be at lower margins? Are you getting a sense of that and if you can just elaborate a bit on that?

Laurent Demortier: Okay. Lets J G K answer that question.

J G Kulkarni: Let me respond to you starting the response on the front of power grid, cumulative Q3 that means year to date if you look at it, Power grid has awarded a contract of 123 billion Indian rupees compared to last year it was 119. So obviously, it shows a growth in terms of numbers power that's release by power grid. However, this growth is primarily driven because of HVDC and the tower and transmission lines. If you come to the product, which is power transformer, power grid has awarded contract worth 8.2 billion Indian rupees for 765 kV transformers and reactors. This year compared to 11.8 billion last year, which means that in power transformers and reactor obviously it's a negative. PGCL substation package is also have dried down except for bay extension packages and that's the thing. Overall impact of all that put together, if you look at Indian power industry as a whole is showing a degrowth of 6%. And if you segment it product wise at a country level, power transformer is showing a decline of 12%. Distributions transformers are showing a decline of 14% and EHV switchgears showing a decline of 9%.

Nainesh: Hence the fear that you know, incremental orders can be at lower margins?

J G Kulkarni: So this is one side of the story on the power grid, which is one of the major player in the transmission segment. However what we are saying is that tender pipeline at the same level because from the state electricity board, fresh tenders what are visible and in the pipeline are up compared to previous years. Although I don't have a contract data exactly like what I have for power grid. So overall if we see pipeline strength, Power grid in product is showing a decline particularly power transformer to some extent. However for state electricity board and transmission and distribution, we are able to see -- up and so over all, the pipeline is there.

Laurent Demortier: Just one comment also from. I think again, I remind you that the Power Transformer we have -- through that we have full backlog, we have mainly two factories right now. Bhopal is full for the next 18 months so we don't -- we see good news in margins because as we continue our improvement on the shop-floor and I think I always try to ask all of you to visit Bhopal. But you will see that this is cost reduction and the improvement of the shop flow is driving them up in expansion. It is how we are going to get our money out. And the Kanjur plant, which is the second biggest one here is working at 50% for export market. Well we don't have the same pressure as what is happening in PGCIL. It's true that PGCL have the right that use is true that competition is increasing but it's also true that we are increasing the efficiency here and remain a good contender, as a good profitability on the sovereign powers. So this is not a real concept for the time being.

Nainesh: Alright sir. Thanks a lot for that clarification. My second question would be based on the international peace. If someone did raise a question that if you remove the one of items in the international business, our margins are still you know, in negative as far as the international case is concerned. Also we've seen over the past few quarters that you know, one of items keep on cropping up for previous quarters, which has been the case in this quarter as well. So, on a normalize basis let's just take a couple of quarters going forward and assuming that all of the one of items and all of the extraordinariness are off. On a sustainable basis what margins are you bidding at for the new orders international peace and on account of restructuring what is the profitability that you can get on the international business. This is again taking into consideration that all of the one of items are over. Also if you can add this to the fact that you know, the orders in the international business also are not that great. And hence you know, overall impact and the profitability and margins with international peace.

Laurent Demortier: Okay. I am still iterating in your question, I'll try to get it. First on the order of impact, we have stringent rules about the margin as which we take or don't take. I think today -- I think we -- any margin, we have the notion of gross margin. So gross margins and the contributed margins, which is all the cost minus the self. And the margin in the threshold, which we have committed to is 20%. So, I think that's what we have today. Now in terms of the number I was trying to reconciliate what you were saying on the number, that if you remove the performance for nine months. The total on PnL of both Mechelen and Hungary you will -- I think we've talked about more than the -- it's more than 230 crore on profit. Altogether, just on the operational I don't talk merely everything I am just talking operational here. I think if your remove that your vision on the business is a little bit different.

Madhav Acharya: And just to add to what Laurent said. All the one of cost are over, there are going to be no more one of cost with respect to project. Merlin as you already -- satisfied? Alright? And also the last point on the question that you asked on saving on Merlin. He had explained earlier in the call that the savings would be approximately between 14 and 15 million Euros for a full cap, for a full period of 12 months.

Nainesh: Alright sir that was really helpful. Thanks a lot and all the very best, sir.

Laurent Demortier: Thank you.

Moderator: Thank you Mr. Nainesh. The next question is from Mr. Madan Gopal from Sundaram Mutual Funds. Mr.Gopal you can go ahead and ask your question, your line has been unmuted.

Madan Gopal: Good morning sir. My question is again related to the previous call. Your gross margins of say, contribution margins are actually improved in this nine-month period compared to last nine-month period. And you have lost out because of the increase in the fix cost level so employee and operational expenses. So, is that there is a lot of scope to improve the capacity utilization but you're order book as of now is similar to what it was last year result. So, where do you see the growth coming from? And do you see more scope for reducing the gross margins? Is it the capacity utilization that will bring in back growth in profit and international operations?

Laurent Demortier: I think maybe two things to clarify. First is order backlog is up 13%. So it's not the same in point number one. And 13%, from 8183 last to 9232 crores this year. The second --

Madan Gopal: That's the backlog, yeah.

Laurent Demortier: That's the backlog; I'm talking about the backlog.

Madan Gopal: Sir, I'm talking about international operations power in --

Laurent Demortier: Yeah, I know. I know, this is for international.

Madhav Acharya: Sir, this is the order backlog. Our order backlog first of all is higher as on date, higher than last year as on date. The figure I quoted earlier was 9232 crores, was order backlog as on date. And lastly the same day was 8183 cores. So we are up by 13% on all the backlog.

Madan Gopal: Sir, with respect to international power. Sorry if I -- with respect to international power or the book time referring to. Was there a growth?

Madhav Acharya: In terms of order book if you see, international power at this point of time is 4884 crores. Last year the same day was 4045 crores. So we are up by 21% in the backlog in international power systems.

Madan Gopal: Okay.

Laurent Demortier: And in now in terms of crores you need to look at the chance of cost compared to last year as we get ZIV that increase the personnel cost for the quarter. So, I think if you look at the net increase, of cost net of change it's somewhat nothing. I mean we are -- some saving and all the saving after that we come from these quarters so often we've stop with the competition of the Mechelen and we'll save 3.75 million on this quarter alone in personnel cost. Or the rights of variation you need to make net of the trading scope, which are often outside India.

Madan Gopal: So, you mentioned about this 108 crores of operational cost, which you incurred. This if I understand correctly, this not in one of for this quarter. This is probably will come down as we move on, as we improve the quality issues. But it's not something, which is just in quarterly extraordinary number.

Madhav Acharya: Let me explain Madan Gopal. The 108 crores of course has been incurred, which is incidental to the Merlin restructuring. This cost has been incurred over a period of 9 months, that is the last three quarters or from which -- for this quarter the figure is 83 crores and 25 crores pertains to the first two quarters. So, it is not something, which is going to keep recurring in future.

Madan Gopal: This is number of 83 crores for the quarter?

Madhav Acharya: 83 crores is out of 108, and it is for this quarter, yeah.

Madan Gopal: But is that a kind of an expense, which will keep on reducing as we address the quality issues or something, which is only for this quarter, and moving to the next quarter, we may not see such an expense?

Madhav Acharya: Firstly, see in any plan you'll have quality issues. Those are ongoing improvements that are happening in plants. Because of Merlin, there were certain costs that were incurred, which I have identified along with the auditors. And this is the figure that has been identified. There are no more cost associated with Merlin, which should come in the future.

Madan Gopal: Thanks for that. Thanks for taking my question.

Madhav Acharya: Thank you.

Moderator: Thank you Mr. Gopal. The next question is from Mr. Pulkit Patni from Goldman Sachs. Mr. Patni, you can go ahead and ask your question. Your line has been unmuted.

Pulkit Patni: Sure, thanks a lot for taking my question. Sir, for just one bookkeeping question, can you touch upon your capital expenditure plans? What you've incurred so far and what is your plan for the next year or so?

Laurent Demortier: Okay. I think first of all as I have been mentioning compared to what I announced six months ago. We have been slowing down capital per expenditure. Total as of today --

Madhav Acharya: Total as of today is $40 million.

Laurent Demortier: Yeah. $40 million, you remember that you see our plan we have a number of about 300 million of per year to 100 million this year. Now, where we have been slowing down, we have been stopping the investments in our large power transformer plant that was scheduled in Brazil for 50 million Euros. And I think for the year -- I think it's possible now we are completing the investments now in Saudi but I have signed an agreement to build a new plant in Gujarat. That will not be an investment for this year. we might start at the end of next year, buy the land but it will be mainly in two years from now for the big investment. But that will be the major things we might do, all the other things are put on freeze for time being.

Pulkit Patni: Thank you sir. Sir, just you know, sorry to dwell upon on the Merlin project once again. But we talk about 108 crores rupees of other expense related to restructuring. We've talked about 120 crores, which has been paid out to employees. Can you also put it a cap -- an approximate cap and what has been the loss of productivity? The reason I'm asking this, even if I add back this 108 crores to your EBITDA, it does not look very good, which my assumption is probably because of loss of operating leverage. Sir, if you could just give a sense of what is the kind of loss of revenue for the nine months? Maybe any sort of ballpark number would be okay.

Laurent Demortier: Okay, good question. Let me give you the number. I think on the operational loss -- okay, in addition of the loss that we made, the loss of sales is between 9 and 10 million euro.

Pulkit Patni: Sure, thanks a lot a sir.

Moderator: Thank you Mr. Patni. And the last question that we will take is from Mr. Shubhadeep Mitra from JM financials. Mr. Mitra you can go ahead and ask your question. Your line has been unmuted.

Shubhadeep Mitra: Thank you for taking my question. Sir, to just summarize what we understand is you know, about six months back we had been looking at guidance of say around 10% to 12% kind of revenue growth with the margins of closer to 8%. I understand that in between we had to go through the entire restructuring process but now that the restructuring process is over. What is your view in terms of you know, by when we can look at the resurgence in terms of margins and the revenue growth number? I understand that maybe the next one or two quarters maybe difficult given possibilities of [Unclear] etcetera. But a general timeline as to when you're looking at recovery coming in?

Laurent Demortier: As you rightly said I think the next two-quarter needs to be watched. I think we are getting at the bottom of the exercise now. I think we'll start now; we are focusing on operation on growth. We have the orders -- I think I'm still confident on the self, even the fourth quarter providing. We got the things that -- I think that the progress is going to be continuous. Started from a low start and again at the core I think I'm still quite positive on industrial and consumer that think whether it's ready for them. I have to change that the field guys but they -- let's say in fact on the overall and I think the PT is the delivering what they are supposed to deliver. People who deliver we should see now non-going performers, basically all the elements to progress almost in our hands. So, I think that's why I feel a little bit more confident but as for that goal, 8% growth we might do it for this year. And I think in terms of profitability will be on 4% for EBITDA.

Shuvadeep Mitra: For FY-13?

Laurent Demortier: Yes.

Shuvadeep Mitra: And any guidance towards FY-14?

Management: Not yet. Let me -- we'll do that on the annual meet. Later after the – Q4 is over.

Shuvadeep Mitra: Okay, understood sir. Thank you so much.

Laurent Demortier: Thank you, thank you.

Moderator: Thank you Mr. Mitra. With this we are going to end the "Q" & "A" sessions, so I would request the management to please take it over from here for any final comments.

Laurent Demortier: Okay. Again I would like to thank all of you to have been so patient. I already thank also all of you for the good questions. I got some question also; I see a lot of in later. I believe it has been certainly one of the most stressful quarters for CG and for the management team. Now we have been working almost 24 hours round the clock here on the work. Our boss has been also very busy. But I believe we are doing the right things to adapt to the changing environment. I feel also to work to make the transformation that CG should have made one time a little bit better before me. To basically create this global company in the Indian electrical sector. So we are almost united to make it work. We are all determined to succeed and look forward to the press reviews of it has been in the coming quarter. Thank you.

Moderator: Thank you so much once again all the panelists. Thank you participants for joining in. with this we conclude the conference for today. Wish you all a great day ahead. You all can disconnect your line. Thank you so much.