CG Power and Industrial Solutions Limited
Q3 FY19 Earnings Conference Call
February 13, 2019

Moderator: Good day, ladies and gentlemen, and welcome to the Q3 FY19 Earnings Conference Call of CG Power and Industrial Solutions Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Neelkant – MD and CEO of CG Power and Industrial Solutions Limited. Thank you and over to you, sir.

K.N. Neelkant: Thank you, Margaret. Good morning, everyone. Welcome to the Q3 Earnings Call of CG Power.

Let me start off with a couple of the few business developments at our end before we move onto the financials and other matters. As you are aware, our erstwhile Consumer business, the non-compete clause has been extinguished now with the time period getting over and now we are open for accessing the market of those products segment. With this, in this quarter, we have recently launched our new product range which includes Pumps, Industrial Fans and Starters where the total market size is about Rs. 6,500 crores for the segment. The first wave of product launch what we are doing will address about Rs.1500 crores of this market. The point of sale of these products are similar and synergistic to the point-of-sale of our other product ranges like LT Motors and the margins are expected to be in a similar range.

Another main development was that to further add to the growth potential of our Motor segment, we recently inaugurated extension facility of our motors plant in Ahmednagar. This entailed CAPEX spend of about Rs.35 crores, and this is an automated factory essentially for intelligent motors and possibly later when the motors for the EV segment picks up, this facility will be supporting the growth of that. While the installed capacity is suitable for a revenue of circa 400 crores at about 80% capacity utilization, the initial phase of production is expected by end March, early April and the full potential utilization is expected in the next financial year.

Another update is on our joint venture facility in Indonesia. We are pleased to inform that the dispatches have commenced from this facility and the invoicing have commenced now. The first order dispatches have been done against the order backlog of US$ 32 million, this we had informed you earlier and this order backlog of US$ 32 million approximately Rs.220 crores should be executed in the coming quarters.

On some of the other developments which are not directly related with the operations, let me give you a couple of updates. You are all aware that there was a royalty component of about 1% which the company pays to the Avantha Group as per the existing royalty agreement. With intent to discontinue this royalty, the board has accepted an offer to reduce the royalty as a initial step of the existing 1% to 0.5% of CG's global revenue. This reduction of 0.5% is with retrospective effect, that is w.e.f. 1st October 2018 and the reduction is in perpetuity. The positive impact of this would be in CG EBITDA which would approximately be Rs.45 crores per annum at the CG consol level. This is against the cost of Rs.90 crores which CG is presently incurring at a consolidated level. So there is Rs.45 crores reduction in this cost and hence the Rs.45 crores improvement in the overall EBITDA of CG consol.

Please note that since the board decision was taken in yesterday's board meeting, the financials which we have released for the current quarter, that is the quarter ending December, that is considering the full 1% of the royalty as per the earlier agreement; however, with this approval of monetization of 0.5% of brand royalty, there will be equivalent reversal of the excess royalty paid in Q3. This reversal will get accrued in Q4 and hence this Rs.9 crores benefit should come in Q4 results. Within the Q4 results, the royalty would change to 0.5%. This also has the linkage with the other topic of the group receivables. You would recollect that during September results, we had informed you that approximately Rs.760 crores are the group receivables, of which we have received about Rs.80 crores cash against these receivables in the quarter of December. And once we adjust the monetized value of this 0.5% royalty, the overall group receivables to CG would now stand reduced to approximately Rs.270 crores Of course, there would be some small accrued interest for the period in between which the receivables are squared off but broadly the principal amount would be about Rs.270 crores. This monetization what we had done is a non-cash monetization since it is the adjustment against the receivables, hence there is no cash outflow; however, the EBITDA benefit which CG would see in the forthcoming quarters, is a cash benefit. Proportionately, another thing would happen is the overall capital employed of the group would go down to this extent and hence we believe that going forward since the denominator will shrink to that extent, the other metrics should look much better.

Another update which we would like to provide is a step towards unwinding the continuing discontinuing business report under the separate reporting. So, the CG board had appointed a committee to look into all the businesses which are presently classified as discontinuing and to take a view whether they should be brought as continuing. As a first step in this, the CG board have considered and in-principally approved the proposal of initiating process for merger of CG Power Solutions Limited CG PSOL 100% Indian subsidiary, with CG. This is of course subject to finalization of necessary terms and conditions of such merger and also subject to statutory procedures and approvals as may be required by both the companies.

The key impact from this merger, there would be a few of them – One, there are accumulated losses within CGPSOL which we are examining for future tax set-off. Those numbers are still being calculated, so I cannot be precise at this point of time, but you could take the tax benefit out of this accumulated losses anywhere in the range of Rs.60 crores to Rs.80 crores which we will adjust in the forthcoming quarters. That is the direct benefit which CG would see at the PAT level.

Second, the debt which was inside CGPSOL now reinstated as the debt within CG standalone India and hence the interest cost of that debt now restated in the CG standalone results including the interest on this Rs.180 crores of debt. However, this does not change the overall consolidated debt at all. The only difference which happens is this Rs.180 crores which was part of the consol debt, now moved to CG standalone India debt but the overall gross debt at CG consol level remains unchanged. To the extent of the debt, as I said, the interest amounts have been restated.

With this, let me proceed to the Financial Highlights of Q3. Starting with the standalone results, the standalone revenue for this quarter was about Rs.1,370 crores which is a robust 14% growth over Q3 of last year. Now since we are over the hump of the GST, excise duty, these are all like-to-like numbers, so they are directly comparable. The growth momentum of Industrial Systems continues and that has driven the overall growth of CG. Industrial Systems alone has reported 36% growth over corresponding quarter last year. Now this momentum of industrial systems which has been built over many quarters is clearly seen that being sustainable and that is where I would like to connect this with my earlier statement where I mentioned about the new facility. That will help cater to this growth and also the new product range which I mentioned would also be part of the Industrial Systems business. You would notice now that already the revenue proportion is 60% Industrial Systems and 40% Power Systems.

On the margin level, EBITDA on a standalone basis for Q3 is about Rs.159 crores Vs previous year's Rs.132 crores. This translates into 11.5% EBITDA for CG standalone. With the momentum in the Industrial Systems top line continuing, the continuity of these margins within this range is a clear given going forward. For Power Systems while we are seeing certain investment interest and development at the grass-root level in some specific sectors, and the overall growth of Power Systems which is also put up as about 6-7% at a macro level, we are still cautious considering the health of certain distribution companies; however, we believe that with the significant allocation in rural development in the union budget, this would help us in the medium voltage switch gear and distribution transformer business going ahead.

To just bring another point on the health of the operations, if for a moment, I keep aside the capital which is employed in the unallocable assets and capital which is employed in the discontinuing business and just purely look at the capital employed in Power Systems and

Industrial Systems, on an annualized basis, Industrial Systems is now returning greater than 100% return on capital employed and overall CG India standalone on annualized basis would be returning 40% returns on the capital employed for its operations. This I am mentioning just as a health check of the operations.

There has been an exceptional item of Rs.138 crores which has been reported in CG India standalone P&L. To give a breakup of this Rs.138 crores, Rs.44 crores of this is the notional FOREX losses, essentially the FOREX losses on the loans given to CG operations outside of India. The balance exceptional item is a result of the conservative accounting practice what we have been doing now for the last couple of quarters, essentially these are trade receivables which are ageing, which includes multiple things like our Jalgaon receivables, EPD receivables and certain other receivables. So we have provided this Rs.108 crores of receivables. Going forward, as and when these receivables are collected from the market, we would see a positive effect on that.

On the non-India business, Indonesia and Sweden have been continuing to perform well and have reported Rs.344 crores equivalent top line. While Industrial Systems has shown again a good performance with the top line growth of 19%, Indonesia, there is a timing mismatch in Power System revenue recognition and hence some of the revenue which has been dispatched in Q3 the revenue would be recognized in Q4. However, for the nine months period YTD December '18, Power Systems outside of India has reported 12.5% growth over the nine months corresponding period last year and Industrial Systems outside India has recorded 19% growth. Overall the YTD top line for outside India operations has recorded 14% growth over last year. These businesses have continued delivery of EBITDA presently at 10.4% for Q3.

On the PAT losses from the discontinuing business, you would notice that these PAT losses have reduced by almost half or slightly more than half. For the nine months period last year, the PAT losses from discontinued business was in excess of Rs.500 crores while for the corresponding nine months period ending December 2018, this value is Rs.256 crores. This Rs.256 crores, please note that also has the exceptional item of Middle East we were referring to in last quarter and last quarter also I had told you that there is a possibility of another hit coming in Q3 which has also been accounted. So out of this Rs.255 crores, Rs.130 crores is on account of these losses from our winding up of Middle East operations. So from the business outside of these things, the PAT losses has significantly shrunk to Rs.125 crores in the nine months period.

With this to talk on consolidated numbers, revenue side, Q3 revenue at CG consol continuing operations stood at about Rs.1,720 crores which is a 12% growth over Q3 last year and the consol EBITDA during the quarter stood at about Rs.160 crores which is the margin of 9.3% versus the corresponding period last year was Rs.131 crores which was 8.5%. So both on absolute value of EBITDA as well as a percentage EBITDA, it has shown a significant improvement over the corresponding period last year.

Since you would also be interested in the data of the future outlook of the order book, the unexecuted order book of CG India standalone today stands at about Rs.4,540 crores, corresponding period last year it was about Rs.3,800 crores, of which the unexecuted order book for Power Systems India is at about Rs.2,650 crores and for Industrial Systems it is at Rs.1,900 crores. This is almost 60% growth compared to the corresponding previous year Q3 terminal on unexecuted order book. This also means that the Power Systems has a clear visibility of 12-months of order book and Industrial Systems as you are aware that this order book is primarily Railways and for the other businesses with Industrial Systems order book might not be the right metrics to look at.

In terms of order inflow, despite not any significant investment coming up, the Power Systems standalone still reported an order intake of Rs.575 crores and the Industrial Systems reported orders of about Rs.1,000 crores. This totals to Rs.1,615 crores which is a 6.5% growth over corresponding period last year.

With continuous order flow into the Indonesia business, the unexecuted order book of non-India December end is in excess of Rs.900 crores, the precise number being Rs.905 crores and the Industrial business is at about Rs.75 crores; however, considering the relatively short book-to-bill cycle that metric might not be so relevant.

Last piece on the Debt Update. In this quarter though we are not publishing the balance sheet, but to give you a sense of debt numbers, terminal December end, the gross debt of CG which includes India, outside India, continuing/discontinuing all businesses put together, stands at about Rs.2,657 crores. Against which if I compare the gross debt terminal last quarter September 30th, this number was Rs.2,850 crores, so there is Rs.200 crores reduction in the gross debt in this quarter between October to December on a CG consol level. On a net debt level, correspondingly the debt is reduced from Rs.2,311 crores in September to Rs.2,135 crores in December, again approximately Rs.180 crores corresponding debt reduction. So Rs.200 crores reduction in the gross debt with some small cash movement, Rs.180 crores reduction in the net debt.

With this I end my commentary on the performance of Q3 and the update on the developments in the company. I will leave the floor open to any questions you may have. Thank you so much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: If I can just understand a bit more on the receivables side. So you said Rs.760 crores was the receivable earlier and now because of reduction in royalty this now stands at Rs.270 crores. Is my understanding correct?

K.N. Neelkant: There are reductions on two accounts – One is the physical cash received against the receivables and the second part is the monetization value which is non-cash adjustment against the receivables. So both put together, Rs.760 crores number shrinks to Rs.270 crores. Let me just also clarify; since these agreements were approved by the board yesterday, the accounting entries of these agreements are not reflected in the financials of Q3 and would be reflected in the financials of Q4.

Puneet Gulati: So basically Rs. 680 Crs was the genuine receivables end of '18 and Rs.270 crores stands, so it is like Rs.410 crores is what has been reduced and if I were to say Rs.45 crores as benefit of royalty, essentially it means for nine years of royalty reduction has already been accounted by reduction of this receivable, is that how one should read it?

K.N. Neelkant: I would think of it slightly differently; let us not calculate the number of years of royalty reduction as per the agreement, this 0.5% royalty reduction is now in perpetuity. So when we calculated and negotiated that what is the right monetizable value to unwind the royalty payable in future, then you have to also take it to account that the royalty payable is a function of the top line, it is 1% of the consolidated revenue. So, if the business grows, then the royalty also expands along with it. So it might not be a straight line arithmetic, an exercise has been done wherein CG carried out independent valuation of how to reach the royalty and similarly, the other party also carried out an independent valuation and then there was a discussion on this in the CG board and finally this amount has been received. So it is not a straight line arithmetic, it is slightly more complex that in perpetuity disappearing. Then it is anybody's estimate of what growth to factor in, etc., So, all those things have been factored and discounted to reach the net present value.

Puneet Gulati: So Rs.410 crores is the net present value of future royalty?

K.N. Neelkant: That is right.

Puneet Gulati: So why not make it to zero only instead of 0.5% why keep it anyways?

K.N. Neelkant: Your point is fair. So this point was also deliberated by the CG board and the CG board thought it prudent that at this point of time to accept 0.5% royalty reduction, I am not saying that the balance 0.5% will continue or not continue, that discussion is work-in progress right now.

Puneet Gulati: Lastly, on the receivables side, which you have been writing off, you are saying Rs.108 crores, so is that a final number or is there still more room for receivables to be written off?

K.N. Neelkant: As far as India is concerned, I would say that it is the final number and as I also mentioned in case some of these receivables are collected, there is a possibility of write-back. As far as outside India is concerned, in the last call I had mentioned that there was 10 million write-off in Middle East in Q2 and I had mentioned that there would be a corresponding write-off in Q3. However, in Q3, we have the clear write-off what we could see was approximately 5 million which we have written off in Q3. So outside India there is a possibility that there will be an additional 5-7 million write-off going forward. But within India, to our estimate, now we are out of the woods on that front. So standalone India, I do not foresee any further write-off on this account. Outside India, there is a possibility of additional write-off on account of the tale of the Middle East which we are still hoping we would recover against approximately 10 million what we were expecting in Q3 we have written off 5 million, so the balance 5 million if we are successful, then we will not have to write-off, if we are unsuccessful, 5-7 million of additional write-off outside of India, is a possibility in the future.

Puneet Gulati: So how much was the Jalgaon write off this time?

K.N. Neelkant: I do not have the exact breakup right now but we can give it to you offline.

Puneet Gulati: Any risk on the Hungary side which you have written off anymore on this?

K.N. Neelkant: The losses in Hungary have significantly reduced. That is where I mentioned that the PAT from discontinued operations in which in last financial year Hungary was the major contributor. The losses from Hungary have so significantly reduced that in nine months end period in last year the PAT from discontinued operations was greater than Rs.500 crores. I can switch this year we are reporting Rs.255 crores, of which the Middle East is the biggest bucket of Rs.130 crores. So Hungary losses, if you want an exact figure, for this quarter is about Rs.11 crores.

Puneet Gulati: What is the progress?

K.N. Neelkant: In the last call if you recollect I had mentioned that while the discussion are on, we would also make attempts to revive Hungary so that in the interim period when the sale is not completed, the bleed is stopped and I think we have covered a significant progress on that path, so we will continue on that journey but right now considering the sensitivity of the conversation with the buyer, I would not like to comment on the development in Hungary at this point of time.

Moderator: Thank you. The next question is from the line of Kiran Sebastian from Franklin Templeton. Please go ahead.

Kiran Sebastian: Just wanted to understand this foray into the Pumps and Fans business better. If you could give us some color on what is your go-to-market strategy there and also remind us how the product is branded, what brand name are you using and how would you differentiate your products from what the other crompton is selling in the market?

K.N. Neelkant: First question, these products would be branded and sold as CG, that is the brand we will be using. The sub-brands for each of these product ranges would be different, some might be called as CG Mini Pumps or some might be called as CG exhaust fans. Just to clarify, when I say, fans, we are not getting into the segment of the ceiling fans, it is more to do with industrial fans, exhaust fans. This is in line with the go-to-market strategy what you ask because for us the driving force of entering the segment was that the point-of-sale of these products is the similar point-of-sale through which our LT Motors. So for me, the go-to-market strategy is already defined and this is the trigger for launching this has been more of a pull factor from my point of sale, dealers and distributors and it has been a longstanding ask from them for them to complete the entire range of CG with the range of products from CG within their portfolio. So whatever moves through their counter, can they have a product from CG range. So there is no significant enhancement in brand building or network building because the brand continues to be CG, the network continues to be the existing thing. So I would say that the go-to-market strategy and the business development and the brand strategy is already pre-defined here, it is more of the execution of the sale. The trigger point was we had to wait for the completion of the non-compete period and immediately on completion within the four months timeframe we have developed these products and come to the market.

Kiran Sebastian: Is it fair to assume that again on the Pumps side also, you will not be very active on the residential side?

K.N. Neelkant: No, we will be active on the residential side. On the Pumps we will be active on the agricultural side also to some extent. In fact, large, small residential building monoblock would be one of the core segments which we would be looking at for the pumps. So basically the impact is on all domestic pumps for domestic customers who are in need of water, as simple as that. The Fans story, fans we are looking more at industrial fans. If I get slightly technical, essentially we are looking at equipment which are motor-driven. So unlike a ceiling fan, the exhaust fan or industrial fan, it is a motor coupled driven thing. Similarly, cooler is a motor-driven coupled thing. So wherever the driven equipment needs a motor, that is where we are seeing synergy and going into it. All large, small residential buildings, all motor customers for the starters of the motors, all industrial customers, commercial complexes, etc., for exhaust fans, all desert cooler manufacturers for the cooler kits, independent flat owners, etc., for a domestic exhaust fan and small farmers, high rise buildings for open well and borewell, this would be the target markets.

Moderator: Thank you. The next question is from the line of Venkatesh Balasubramaniam from Citi Research. Please go ahead.

V Balasubramaniam: This Rs.108 crores write-off which you have taken in the quarter, can you please tell which are the counterparties for which you have taken this write-off?

K.N. Neelkant: These are all third-party customers. I would not have an immediate list in front of me, but what I can confirm is all these are third-party customers, largely industrial customers industrial when I say, industry customers, do not mistake it with the industrial segment customers and spread over aging period of anywhere between two years to four years in that range.

V Balasubramaniam: The second thing is you have also classified something like 44 or 45 crores of FOREX loss as exceptional. Now why would you classify your FOREX loss as exceptional?

K.N. Neelkant: This FOREX loss is essentially the loans given to CG operations advances given to CG operations outside of India. Any variation in the rupee translates into a notional gain or notional loss which is outside the normal operations of CG standalone India. This is not something new which we are doing in Q3. Historically, across the period of time, even if you go through last five years, six years, it has always been consistently maintained as exceptional item and again I repeat it is more of a notional change for the monies given as loans and advances to operations outside India. So there is no change in the treatment of this.

V Balasubramaniam: The third quarter the Power segmental PBIT margins at 3.1% are very weak. So if you could give a little more color why it is weak and what do you think sustainable margins are going forward next year?

K.N. Neelkant: Power revenue is also weak this quarter and the Power margins in this quarter a direct function of the reduced top line. Hence the contribution has impacted the EBIT directly in Power Systems.

V Balasubramaniam: Any outlook on the same sir in terms of what are sustainable margins?

K.N. Neelkant: Power Systems if you go historically it has always been between the 6 to 8% kind of EBIT margin. If I look at the last year it was about 6.5%. If I look at Q3 previous year it was about 7%. If I look at last Q2 it was about 7.1%. So from a normal operations point of view, 7% EBIT margins would be the right number looking forward; however, there is a positive twist to this that since you are asking me for a guidance for FY20 for Power Systems, there is this JV in Indonesia for which the initial three years of operations it will be SKD and CKD sent from Power Systems India to the JV operations. So the top line will get knocked off in the intercompany transaction; however, the margins would continue to be retained at the entity level. So optically, this margins would have a bump up of close to 150 basis points purely on account of this. So on a sustained level if I take everything like-to-like it should continue about 7, 7.5% margin but considering this special effect, these margins percentages would look more like 8.5, 9, 9.5% in FY20.

Moderator: Thank you. The next question is from the line of Pawan Ahluwalia from Laburnum Capital. Please go ahead.

Pawan Ahluwalia: I had a couple of questions: First, when we look at the discontinued businesses, it looks like the quarterly loss at the PAT level is about Rs.80 crores. Is it fair to say that on an EBITDA basis the discontinued businesses taken as a whole are pretty close to breakeven now such that in the present order flow, run rate, etc., is sustained, EBITDA level they should not attract from the standalone number. Secondly, if we have to do a worst-case scenario analysis of your discontinued businesses, let us say we failed to sell in Hungary, we failed to find buyers for any of the other businesses, right, what would the cost be of just shutting them down? We do not have to worry about the profit/loss whatever we incur, whatever cost that is there are amount to standalone debt, whatever it is, but have you guys done an analysis of what the worst case scenario is we just have to kill the international businesses collectively, what is the damage? Finally, who are the buyers of your Hungarian business because I tried looking around Alester and Ganz Villamossagi, I cannot find any names, references, anything to these companies anywhere. So if you could give us a sense of who these people are, who the CEO is, promoters of this company, it would be helpful in helping us to get a sense of what is going on?

K.N. Neelkant: Thank you for your kind of a long-ish question. I fear that if I start replying everything in granular detail it will eat most of the day, more than happy to meet you separately and discuss. So let me summarize whatever you have asked and try to answer it. First part of your question was how is the operational performance of this business. So let me just give you a sense of granularity that when we are using discontinued business on the broad brush term considering the discussions we have internally been having about reclassifying, it is worthwhile to look at these businesses individually. So there is a business in Ireland, there is a business in Belgium, there is a business in Hungary. So operating businesses which are classified as discontinued are these three businesses outside of India. Now, within these three businesses, Ireland is a positive EBITDA business, Belgium is a breakeven EBITDA business, Hungary as I mentioned in my earlier commentary has significantly reduced its losses. You asked a question that would it be fair to assume that the operational level they are EBITDA breakeven? Answer is yes, but on the negative side if you want to take a risk factor, when we report the PAT from discontinued operations, the depreciation of the discontinued is not accounted by us. So, when we move it into continuing, that element of depreciation will move into the picture. That is the risk factor in which I am saying. On EBITDA level while it might be breakeven if I remove the one-off thing, you will have to factor the depreciation once it moves into continuing, that is answer #1. Question #2 from you was have we explored what is it? Of course, we have. No one takes a decision to sell, wind down without doing that analysis. Like make or buy decision, a shut or sell decision is also to be taken, and that is not a static process, it is a continuing process at different points of time. So each of these businesses, not only have the shutdown / sell kind of a scenario been drawn, but also like let me take the example of Ireland, Ireland is a massive turnaround from (-2) million EBITDA to (+3) million EBITDA. It is a 5 million swing in a short period of nine months. Essentially when we say shut off or sell, we said neither shut nor sell, we turned it around. So that analyses the continuous process which goes are inherent. To discuss prospective buyers in an open call, I do not think that is prudent. So I will desist from answering that question. But one comment I cannot resist from making, you said that when you look for Ganz you cannot find it. Ganz is like a huge conglomerate in Hungary. This particular entity is one of the largest capital equipment players in that geography which includes multiple things for power plant. Essentially, he is a backend power plant manufacturer. So you ask for a flavor of Alester and Ganz. Essentially, they are EPC contractors and back end manufacturers for power plant equipment and their interest is I have covered multiple times in earlier calls, I do not mind repeating it, their interest in this is a backward integration for the EPC business. So, I hope I have answered.

Pawan Ahluwalia: I appreciate your answer. I will be in touch to schedule an offline follow-up.

Moderator: Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: My question is on the same line. Every quarter you are losing Rs.100 crores plus on this offshore operations. So can you not just take them to bankruptcy, restructure the businesses and your funding also shows losses out of your India balance sheet. It does not make sense from investors point of view?

K.N. Neelkant: I understand that from investor profile where you are coming from. So let me give a slightly different flavor to the thing. It is not that we have not been biting the bullet and closing operations. If you look at the number of operations which we have closed on in the last three years, to name a few, whether it is Canada, whether it is Brazil, whether it is Middle East, whether it is UK, all these businesses we have bit the bullet and closed it down. What businesses we have retained is essentially those businesses which has the realistic chance to be sold in the market. Second part, driving them into bankruptcy. Again from investor point of view, given the set of numbers and set of picture which you are looking at, it might seem a good prudent decision but when you look at the overall picture considering that there are various customers liabilities of these entities, various kinds of bonding lines, guarantee performance, guarantees of projects done in the past and also future potential to sell them in the market. That is how these decisions have been taken. So from a long laundry list of over 21 entities, today we are talking about three entities, the balance 18 entities either having been shutdown or sold off. Please do not mistake these are decisions which we are mentioning of quarter. For an equal number of commitments to sell the business have been met, the point in case being whether it is of a US business or whether it is of Spain business which have been sold, and some cases like Hungary have been extended because you will appreciate that selling a business is not completely in our span of control, I am a 50% party in selling the business, 50% party is the buyer. Maybe both of them are less than 50 because many times the third party the statutory regulator, the banks, also who play influencing role in that. So please continuously monitor and my endeavor to you is to keep you updated of the situation as it is. So looking at it from a different light, I would say that today we are talking about the crystal line three businesses, Belgium, Hungary, Ireland which are operational and are put as discontinued, of which Ireland has churned around, Belgium is neutral and work to be done on Hungary to ensure that the sale process is completed and in the meantime put it on a sound footing as far as the leakage is concerned and you said yes, we are conscious about the fact that these have been funded by the India balance sheet and hence it gives us pride to say that the losses… again I repeat, nine months losses have been reduced by half.

Tushar Sarda: If I take your argument, let us discuss this Hungary business, how much losses have we incurred last year and this year and by selling how much money are you going to recover? You are losing over Rs.100 crores a year. The fresh money that you are sinking in, are you going to recover even that money by setting this is the question? And this has been going on for three, four years now. I understand you have cleaned 18 out of 22 businesses, but not cleaning up the other four is still costing you lot of money whatever EBITDA you are making in India in funding the losses of this business. So while you may say that your ROCE is 100% on Industrial Systems and 40% on Power Systems, it does not come to the investors because this is all going to fund the losses. So, if you just explain to me the Hungary logic, why are you sinking so much money and what will you recover, that would answer my question better.

K.N. Neelkant: The Hungary logic, one, I would not like to comment on the prospective sale value, etc., on open call, that is something which has to be discussed separately but going by the information in the public domain based on our earlier disclosures the Hungary deal was essentially to get rid of the debt in Hungary which was amounting to about €28 million and the sale process was just a shift of the debt. It was not with the intent of making money out of it, because you are looking at it uni-dimensionally from a pure selling of a commodity kind of a scenario, please understand that there are overhangs of past liabilities which will have to be continued to be maintained by the business in case the business is shutdown and that maintenance cost will come to us. This is not a bilateral conversation between you and me. There are other people there. So if you want more clarity on that, we can always fix up a time and meet, but let me just summarize it since you asked for the value, that is where I said, this quarter progressively every quarter the Hungary trade has been brought down and that is where I gave that number, this quarter the contribution of losses in the PAT from discontinued operations, the contribution of Hungary in that bucket is Rs.11 crores.

Moderator: Thank you. The next question is from the line of Chetan Kulera from Pragya Equity. Please go ahead.

Chetan Kulera: Just I wanted further clarification on Note #4 of our auditor? What is the promoters pledge shares percentage now?

K.N. Neelkant: On the second part, I can immediately comment that it is not the company management's prerogative, to comment on the promoters of the other shareholders shareholding pattern or their pledged status. So I will refrain from answer that question. Your point #4, I had explained in detail when I started off, this is the group receivable which we have been speaking about and that is where I gave the breakdown, taking a hit as a waterfall from what we disclosed in September '18 where it was to where it is today. That is the number which I gave that waterfall about the group. So I do not understand what is the clarification you are seeking here.

Moderator: Thank you. The next question is from the line of Rajiv Gupta from RBV Financial. Please go ahead.

Rajiv Gupta: Just wanted a better picture on Hungary and if you could some indication whether it is going to be are you looking at three months, six months, nine months, some broad indication on the Hungary resolution and as of now, in this quarter how much did the Hungary operations hit out of the entire thing operations cost us in terms of losses?

K.N. Neelkant: Out of the total bucket of PAT from discontinued operation, in this quarter, Hungary's contribution was Rs.11 crores. So if you look at the nine months ended period, the total PAT from discontinued operation negative is about Rs.255 crores, of which the Hungary contribution over the three quarters is Rs.45 crores. So 3 quarters Rs.45 crores, and that is I was mentioning that these losses our endeavor has been that these losses be progressively brought down so that in the period between then and the completion of the sale at least the trade is reduced. So, if you look at the Rs.45 crores number in three quarters, the average is 15, but the number for this quarter is 11, that means essentially every quarter-on-quarter the losses on Hungary is being brought down. That is one. Second, not just broad time frame, it was very specific timeframe given that the Hungary has gone through two extensions of the SPA which has been signed with the prospective buyer. So the present SPA, the long stop date for the SPA is April 30th 2019. So it is not an indicative or a broad timeframe work, it is a very specific timeframe work of April 30th 2019, and as some others were asking question that why cannot you take a call on it, and why cannot you do this and why cannot you do that, all those options are being explored along with activity of reducing the losses. So as of now, the timeline for Hungary is April 30th 2019 as per the last extension which we have agreed with the prospective buyer.

Rajiv Gupta: But in case this falls through, I think some other person asked a question, what would be the closing down costs, would they be substantial, would the company take a big hit if negotiation like this broke down?

K.N. Neelkant: Again, the closing down cost if I can break it up into three parts, the winding up of Hungary cost itself is not very significant, winding up cost of Hungary, as all the investors are right in saying that why is the strain. Possibly the winding up cost of Hungary would be equal to or less than a year's loss of Hungary. The second element is the cash flow that there is a €28 million Euro debt sitting inside Hungary. So the cost of winding down would also mean an immediate cash outflow of €28 million. The third point being that, in case we decide to wind down Hungary, the customer obligations, which are of the past contracts executed, would still have to be honored by us going forward, and that cost then would come up as a separate loss item in future. Now while we are talking with so many negative sentiments about Hungary, let me also give you another side of the story, which I have been telling in the previous calls, ever since the SPA with the buyer has been signed, Hungary has not been getting any capital except for the statutory dues and statutory obligations. Today, Hungary breakeven point at the EBITDA level, is a revenue of slightly more than €50 million. Against which, the order book of Hungary today stands at more than €100 million. The challenge in Hungary today is not lack of orders, the challenge in Hungary today is not the lack of profitable orders, but the challenge in Hungary today is the uncertainty between the buyer and seller, that who will put the working capital to churn out these volumes. So, there are no significant revenues incurring in Hungary despite a significant order book sitting in Hungary. So for me the challenge today in Hungary is not the losses per se, but the unavailability of the working capital due to this confusion between the buyer and seller of who will put the working capital, and hence profitable order book which is sitting inside Hungary we are unable to convert into revenue. That is the challenge viewed from the management side. Just keep that dimension also in mind when you are looking at Hungary in totality. So there are three different things; One is winding down, one is cash flow for retirement of debt which would be immediate contingent on the winding down decision and the third part is, there is a profitable order book sitting, waiting for working capital.

Rajiv Gupta: So this order book is being executed as we speak or is it just pending?

K.N. Neelkant: No, ever since we renewed our focus to make along with prospective buyer to revive Hungary back into operations, this order book has built up over the last 3 to 4 quarters.

Rajiv Gupta: Now on the working capital issue, are you saying the working capital of the buyers, buyer you use, you are talking about is when reference to the buyers of the equipment?

K.N. Neelkant: No, I am referring to the buyer of the company because there is SPA signed between us and the prospective buyer.

Rajiv Gupta: So once you sell the company, then that working capital is a valuation issue, right?

K.N. Neelkant: No, it is not a valuation issue, let me clarify. Since there is a valuation reached and an SPA signed, any money I put as working capital there, there is no certainty that the receivables thereof belongs to whom. We are not under that clarity. We are very clear, we were not willing to put in money. Similarly, from the prospective buyer side, the risk would always be that this asset is still not transferred into his name, so he would have to put money as unsecured loan into something, then he would have risk perception. So, both of us resisted from putting any money as working capital till the deal was completed. That is the proper statement.

Moderator: Thank you. The next question is from the line of Mr. Venkat Subramanian from Organic Capital. Please go ahead.

Venkat Subramanian: Couple of issues. One, as of last conference call, we had said that Rs.200 crores will come in from the promoters last quarter, and another Rs.200crores this quarter. It has not come through and there is continuing trust issue here in terms of when it will come and we already adjusted. So, we need some clarity there. Second issue in response to the question regarding pledge, you said it is actually outside the purview of the current call, but the fact is I think there is phenomenal collateral damage when knowing the pressures on the promoters group, we do not quite know at what level they borrowed because at peak level, the level of pledge could have been almost Rs.2,000 crores, now the value of that has dropped to one-third. So how are they topping it up, how are they servicing it and what is the potential risk of those stocks coming into the market if something that concerns us.

K.N. Neelkant: While I hear your concern, my answer remains the same that any shareholder, promoters activities is beyond the purview of this call. I hear your question, but I do not think this is the right forum to ask that question, so my answer remains the same.

Venkat Subramanian: At least on the first question sir because we had promised to shareholders Rs200 crores will return as of last quarter?

K.N. Neelkant: I am coming to that point, so in the last call we had mentioned that Rs.200 crores will come in Q3, we had also mentioned that there would be discussions regarding reduction of the brand royalty. So the actual status of that as I mentioned earlier against the cash in which I had mentioned in my last call as Rs.200 crores will be received, the physical cash received by December 31st was Rs.80 crores. There was a gap but however, Rs.80 crores of physical cash has come in against those receivables. The other things were also being worked out on the brand royalty monetization. Now since the board has taken a decision yesterday, it gives us a new set of data points to further look at it and do it that is why I made the waterfall math from where it has come to where so starting from a 760 crores receivable end September today, we are at a 270 crores number.

Venkat Subramanian:: Can you at least confirm out of the pledge shares nothing has been sold so far that’s the data point that you have?

K.N. Neelkant: That I think I can confirm. Nothing has been sold. I think you could do an offline call with me, I can be more detailed and specific. Here I am pretty clear that nothing has been sold but it is beyond the purview of this call and the limits of my authority in this call to answer that question.

Venkat Subramanian: You can reassure the shareholders that risk is limited now in terms of anything getting triggered.

K.N. Neelkant: Again, I know the answer and the answer is actually a positive answer, but I would not want to overstep my limits of authority beyond the purview of this call. You are actually embarrassing me by asking the management a question related to the shareholder.

Moderator: Thank you. The next question is from the line of Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain: Can you just break down the debt numbers between how much is in standalone and how much is outside India?

Management: At the gross debt level I mentioned that the total debt is 2657 crores. At the India books it is 2100 crores broadly and 560 crores outside of India at the gross level. At the net level, India will have 1730 and outside India will be 400 crores.

Ashish Jain: This does not include the debt of the discontinued operations?

K.N. Neelkant: It includes everything. It includes debt of India, outside India, continuing, discontinuing. This number of 2657 crores debt is the total CG consolidated debt all put together.

Ashish Jain: Last quarter the number you gave was slightly different.

K.N. Neelkant: Last quarter the number was given 2850 crores so there is a reduction of debt of 200 crores in this quarter.

Ashish Jain: So how much is then pertains to discontinued operations?

K.N. Neelkant: It is slightly fungible but then one clear element of discontinued business is the 28 million of debt sitting in Hungary. Overall, don’t hold me to it but the ballpark number of debt in the discontinued operation would be approximately 350 crores.

Ashish Jain: Including Hungary?

K.N. Neelkant: Including Hungary.

Ashish Jain: This 560 numbers is just the outside debt in the international operations obviously?

K.N. Neelkant: That is right. So this 560 crores that 28 million which is give or take about 250 crores of Hungary is also a subset of this 560 crores.

Moderator: Thank you. The next question is from the line of Ankit Babel of Shubhkam Ventures. Please go ahead.

Ankit Babel: Just to get a feel, we have closed down Middle East and your other discontinued operations losses are also coming down so considering this fact that is it possible to quantify that in FY20 what could be the losses at EBITDA level from all these discontinued operations assuming that Hungary does not go through?

K.N. Neelkant: Now you are asking specific guidance number so let me break it up into two parts. One is the operating businesses outside India and one is the other old businesses which are already wound up with the tail end cost. For the operating businesses which includes Belgium, Ireland and you are saying that you would have to like a number including Hungary all put together it will be breakeven at the EBITDA level. If I include the other wound down businesses which are already wound down we are suffering the tail end cost. The bulk of the hit was in Middle East and as I mentioned in my earlier statement there is a tail of 5 to 7 million euro remaining. If we take it up in Q4 and finish it off and hopefully there are nothing else which is sitting else which will come as a surprise to you in FY20.

Ankit Babel: The depreciating cost which you are expecting when you merge discontinue to continue how much that it could be?

K.N. Neelkant: Accumulated will not be a fair thing to mention because the treatment of the accumulated depreciation is still we are in conversion for how to treat it, but I can give you a run rate number of the depreciation per annum which is give or take about 9 million euro which is what about 70 crore per annum is the depreciation of all these businesses put together. So if you are building a model of P&L model for all the businesses including discontinuing business to be brought in then at the EBITDA level your question was what will be and my answer was to breakeven you have to consider a 9 million kind of number for depreciation and you will also have to factor in that there is minimal interest there which numbers are already available on the interest breakdown between consol and India you would be able to derive that out and there are enough losses sitting in each of these entities so there will be no significant impact of tax on these entities.

Moderator: The next question is from the line of Ranjit Shivram from ICICI Securities. Please go ahead.

Ranjit Shivram: Most of my questions have been answered just this 35 crore CAPEX we have done on this motor facility so if you can just elaborate what is it and how is it different and you also mention some 400 crore revenue potential so when do you expect this to come in any timelines to that?

K.N. Neelkant: This is essentially a more automated facility which will play three roles immediate role of that factory is to support this growth which we are witnessing over the last few quarters. The next role of this factory would be being the most the newest factory obviously is the most modern and automated factory. You are actually preempting my possibly next quarter commentary because that will be the launch of our intelligent motor series so we want the intelligent factory to manufacture intelligent motor so that will be the next step and it is also in preparation of the motors which would be the target market would be the electric vehicle that is sometimes into a future. The capacity calculation has been reversed calculated to give you a sense of the revenue which can be generated by the manufacturing capacity install in this new facility. As I mentioned the production will go on stream and march early April and the full potential of this would be realized by the end of the next financial year.

Ranjit Shivram: Okay so what kind of revenues we can expect from FY20 or 21 from this new facility?

K.N. Neelkant: My suggestion would be do not look at this separately but as an enabler to the 35% growth which industrial system is seeing.

Ranjit Shivram: Any CAPEX for that we are introducing pumps, industrial fans so those kind of will it be an outsource model or we will be putting CAPEX for that?

K.N. Neelkant: That business by virtue of the business model itself is an extremely asset light business and the business team which will be doing that is already at negative capital employed not just negative working capital. So there will be no significant impact in the denominator on account of this new business.

Ranjit Shivram: This power system growth has been a bit weakened elections are also approaching so will you bit worried about power system growth and margins?

K.N. Neelkant: Let me split that into power system into two parts. There is a primary distribution which includes the large transformers, the larger range of switch gear and there is a secondary distribution which is a medium voltage switch gear and the distribution transformer. Broadly put our product portfolio caters to both these segments 50-50. So while you mentioned elections we believe that elections in fact would be a trigger for growth in the secondary distribution the last mile connectivity especially with every state wanting to live up to the power for all theme. So we are already seeing that trend both in our order book as well as in our revenue over the last couple of quarters and looking forward I only expect that momentum to further build up. In the primary distribution which is the larger power transformer and EHV switch gear the market has been flat and degrowing over the last few not just quarters, but I would say over the last two years. I would not see any significant change in that pattern going forward. So accordingly, our target segment for this business has also changed. Hence, I mentioned about this facility the EHV switch gear especially being a backend supplier for our Indonesian JV. so notwithstanding the indictors and the growth of the market in India. We are seeking for new market outside India to tied over this period where the overall growth in this segment is weak in India. So your direct question of whether I would be worried my answer would be on the secondary distribution forget about being worried I am very buoyant about it and I am very bullish about it. In the primary segment I believe we are adequately hedged with our markets in Indonesia and the market in Africa through the Indian EPC contractors we are sufficiently hedged to take care of the present lull in the primary distribution market in India.

Moderator: The next question is from the line of Arvind Joshi Batilior Advisors. Please go ahead.

Arvind Joshi: This is a question which will stress you a little less I just wanted some more flavor and granularity on the approach for EVs. There are three buckets one is the Jugad kind of EVs that are being thought of and produced in India. Next is the hybrid and the last one are hard core EVs like the Tesla type so which segment are we targeting and what could be the timeline of our involvement?

K.N. Neelkant: Thank you for telling that, but I do not think any of the earlier question stressed me out but thank you for being considerate outside the bucket which you bucketed it we are looking at it as a different bucket. We are looking at the bucket of the two wheelers, three wheelers rickshaw kind of one bucket. The passenger vehicle segment are the second buckets and the trucks and buses way as the third bucket. Our concentration would be on the third bucket of buses and trucks while we have a product range to suit to the bucket one and bucket two which I believe bucket one is you would term as jugad. While we have our products, but our focus segment will be bucket three because we believe that the immediate impact of any regulatory change in the scenario would impact the state owned buses and state regulated vehicle fleet first and for us from our range of products and the nature of technology collaboration which we are having we are more comfortable in that segment.

Arvind Joshi: Producers in India and also abroad?

K.N. Neelkant: Right now, we are looking at India, we are not looking at outside India for this market.

Arvind Joshi: And you feel that could also be a reasonable opportunity considering the number of buses that are likely to be replaced?

K.N. Neelkant: I in fact would believe that would the first opportunity and that would be the largest opportunity just to give an analogical example, when buses had to be changed to CNG they just took a regulatory one regulatory change for all the buses in Delhi to be changed to CNG.

Moderator: The next question is from the line of Vishvesh Mehta from Birla Sunlife. Please go ahead.

Vishvesh Mehta: Sir just wanted to understand on the sale side what are the conditions still left to be done from our side which is not happening or going through which is the reason why for last 6, 8 months this deal has not happened is there any obligation that we are still to be fulfilled which has not happened or is it something out of our purview?

K.N. Neelkant: The condition precedent for the Hungary sale required to be done from our side has all been completed a long time back. The condition precedent to be fulfilled from the buyer's side was to get a reasonable kind of comfort to the banks for effective transfer of debt from our books to their books that is the only thing which is pending and this is the only thing which has been pending for the last three quarters.

Vishvesh Mehta: I mean that is why it is hard for I think most of the investors to appreciate it, but has the buyer communicated anything I mean why there has been a delay because you will also appreciate the size of the debt compared to the operation of ganz is not big.

K.N. Neelkant: It is not just that the buyer has communicated in fact most of the meeting are have been together along with the buyer with the banker, so it is not just communication from the buyer, but it is real time information from all around. This was supposed to be a transfer of debt from our books to their books. I will not bore you with the detail, but whatever series of process related series initially and right now we are at a stage where there has to be a stronger comfort from the buyer side as required by the banks for them to enable the final process of transferring the loan that is where we are. So the communication is online and real time, but the challenges are more want of a better words bureaucratic challenges rather than anything else.

Moderator: Ladies and gentlemen due to time constraints that was the last question. I would now hand the conference over to Mr. Neelkant for closing comments.

K.N. Neelkant: Thank you everyone for your questions and just one point which I wanted to comment but slipped out when there are questions about the reconciliation of debt India, outside India continued discontinued. I think the headline story in the debt is in this quarter Q3 the debt across level have actually reduced by 200 crores and correspondingly at the net level reduce by Rs 176 crore. On the Hungary while I understand your apprehensions, we are also equally working on both fronts how to plug the Hungary losses at the same time how to see this deal thing is thru. I understand your point, but at this point of time we are also 50% partners towards solving the problem and 50% spectators. On the last couple of you had asked questions about from the shareholders I really regret that my inability to answer that question on behalf of the shareholders, but more than happy to connect any of you with the relevant people who can give you point blank answers for that. Thank you so much for your time look forward to meeting you. Bye.

Moderator: Thank you. On behalf of CG and Industrial Solutions Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.