



“CG Power and Industrial Solutions Limited
Q3 FY2022 Earnings Conference Call”

January 27, 2022



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MR. MUKUL SRIVASTAVA - PRESIDENT - POWER SYSTEMS - CG POWER AND INDUSTRIAL SOLUTIONS LIMITED

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CG Power and Industrial Solutions Limited
January 27, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2022 Earnings Conference Call of CG Power and Industrial Solutions Limited, hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors Limited. Thank you and over to you, Madam!

Bhoomika Nair: Thanks, Rutuja. I would like to welcome you to the CG Power and Industrial Solutions Q3 FY2022 Earnings call. The Management today is being represented by Mr. S. Vellayan – Chairman, Mr. N. Srinivasan – Managing Director, Mr. Susheel Todi - Chief Financial Officer, Mr. Ramesh Kumar - President - Industrials Division, Mr. Mukul Srivastava - President - Power Systems and Mr. Ranjan Singh - Executive Vice President – Railways. I will now hand over the call to Mr. Vellayan for his initial remarks post which we will open up the floor for Q&A. Over to you, Sir!

S. Vellayan: Actually, Bhoomika, you just hand it over to Mr. Srinivasan, Mr. Srinivasan will be driving the call, I will be here to answer any questions for me, but Mr. N. Srinivasan will be driving the call.

Bhoomika Nair: Sure, Sir.

N. Srinivasan: Thank you, Vellayan. Good evening, Ladies and gentlemen. Let me first extend a warm welcome to all for this Q3 earnings call. I am Natarajan Srinivasan, Managing Director of the company. I would like to introduce my colleagues who are with me on this call, Mr. Vellayan Subbiah, Chairman of the company is on this call, Mr. Ramesh Kumar - President - Industrials Division. He is a CG veteran and he has been with the company for 31 years and has held various senior positions in the company. He takes care of the Motors and Drives business. Mr. Mukul Srivastava - President - Power Systems, he is also a CG veteran having spent about 31 years with the company. He is taking care of the Transformer and Switchgears businesses. Mr. Ranjan Singh - Executive Vice President, he is in-charge of Railway business. Ranjan is also a CG veteran with 28 years of service with the company, and Mr. Susheel Todi, CFO of the company. Susheel has been with the company for about 17 years.

So Company performance, we have issued a press release of the Q3 performance. While we have given corresponding quarter of last year’s data, these are not comparable since the company at the time was under severe financial stress. We need to build our own performance data from this year onwards. Also, it would take a few more quarters to catch up with the peers, as we fully normalize our operations, resolving several legacy issues.



CG Power and Industrial Solutions Limited
January 27, 2022

So, now I come to the Q3 performance, standalone Q3 financial results. The company has shown all-round improvement in performance in Q3 and all the businesses have performed satisfactorily improving sales and margins, sales for the quarter was at 1446 Crores and the profit before tax was at 161 Crores, the highest recorded in the last 20 quarters. The company completed the long-pending sale of land at Kanjurmarg during this quarter and the entire sale proceeds of 402 Crores including refund of security deposit of 20 Crores have been received. The proceeds were utilized to prepay a long-term debt of 363 Crores.

Standalone performance, the aggregate sales for the quarter were higher at 1446 Crores recording a growth of 106% year-on-year and 7% quarter-on-quarter. Profit before tax (before exceptional items) was at 161 Crores constituting 11.1% of sales as against 58 Crores constituting 8.3% of sales during previous year same period.

On quarter-on-quarter, sales increased by 7% and PBT by 18%. Free cash flow generated during the quarter was about 158 Crores. Better sales realization coupled with moderation in input cost helped better margins. Exceptional income mainly consists of the profit on sale of land of 124 Crores and also a provision made relating to the same delay in the conclusion of the transaction, which has been reversed amounting to about 157 Crores and we also made some provision for 39 Crores net actually 242 Crores is the exceptional income.

Now, I move on to Segment wise performance. Industrial systems, aggregate sales for the quarter were higher at 1017 Crores recording a growth of 102% year-on-year and 4% quarter-on-quarter, profit before tax for the quarter was higher at 144 Crores with a growth of 91% year-on-year and 18% quarter-on-quarter. Unexecuted order book at the end of December 2021 stood at 1667 Crores.

Now, I move on to Power systems, aggregate sales for the quarter were higher at 430 Crores recording a growth of 113% year-on-year and 16% quarter-on-quarter, PBT for the quarter was higher at 49 Crores with the marginal growth year-on-year and 31% quarter-on-quarter. Unexecuted order book at the end of December 2021 was 1543 Crores.

Consolidated Q3 performance, the consolidated results include the performance of the operating subsidiaries at USA, which is called QEI Incorporate, and in Sweden, Germany and Netherlands Drives and Automations business in Europe and other non-operating and holding subsidiaries. Sales for the quarter were at 1551 Crores as against 820 Crores in Q3 FY2021 and profit before tax before exceptional items was at 174 Crores against PBT of 64 Crores in the corresponding quarter of last year.

As we have mentioned about the prepayment of long-term debt, post this repayment of the long-term debt, the debt of the company stands at 527 Crores. Recasting of accounts, the company has since completed the recasting of accounts for the 5-year period from 2014-2015 to 2018-2019



CG Power and Industrial Solutions Limited
January 27, 2022

and then to give effect to the said recast of accounts, the accounts for the financial year 2019-2020 and 2020-2021. The recast accounts were also audited by an independent firm of Chartered Accountants and the audited accounts were taken on record by Honorable NCLT.

The recast accounts are certified as true and fair and the auditors have expressed an unmodified opinion on the said accounts for all the years. The shareholders and investors might be aware that the auditors had earlier expressed a disclaimer on the accounts of the company. The recast of accounts for the financial year 2020 have been circulated. The recast accounts for the financial year 2021 have been circulated to the shareholders to be considered at the AGM of the company convened to be held on January 31, 2022.

With this I think the entire exercise relating to recast have been completed, financial statements with detailed notes are available as part of the stock exchange filing and also on the company's website www.cgglobal.com. Between myself and my colleagues, we will be happy to answer the questions. Thank you.

Moderator: Thank you. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Sir, my first question related to the order inflows especially in the power system segment and last time also you gave an outlook on the industrial segment, also how the end industries are doing, so power system, the order inflow is about 700 Crores now. Can you throw some light, where are the end segments where the order inflow is coming from and the outlook of your order inflows or end market outflow, which is given in the last quarterly calls, if you can throw some light on that, that is my first question, I will take up the second after that?

N. Srinivasan: Mukul, can you answer this question?

Mukul Srivastava: Yes, Sir. See, we have been very active in transmission and distribution sector as you are aware and all the segments have recorded a very healthy order flow, if I have to pickup in the order of their growth, I think the power transformer unit has been on the forefront, so many of these orders are going for supply to PGCL utilities especially for the transmission sector, these are all higher kV, 400 kV, 765 kV and also a lot of focus and thrust is on the railway supplies, so railways tracks have substation for those. This again followed by the medium voltage segment where the distribution networks in every state is undergoing a lot of revamp, a lot of new substations are being established and the power to all that what continues to have focus and therefore we are doing very well with the motor segment. Our distribution transformers also a part of the medium voltage business, is also having a lot of good traction and received many of the orders, so practically all segments, if you look at the segments in terms of real estate or the infrastructure or solar, all segments are working well.



CG Power and Industrial Solutions Limited
January 27, 2022

Nitin Arora: How would you conclude the industrial part? I mean last time you talked about a sector like irrigation was doing good, pharma was doing good, how is that changing the end segment in the industry and what is the outlook there?

Mukul Srivastava: I am not able to hear your question?

Nitin Arora: Yes, I will try once more. I am asking the same outlook on the industrial part, we have been consistently doing order inflows of 1100 Crores, so can you talk about the end market, how is it, last time you talked about pharma, irrigation is doing very well in terms of getting order inflow, can you throw some light, what is the outlook now and which are the segments, any new segment do you see coming back on that outlook?

N. Srinivasan: Ramesh, could you answer this question, please?

Ramesh Kumar: Actually like last time, is that in the quarter two, most of the segments were doing well and they continue to do well and especially the ethanol plants, which are coming up now for the 20% blend in petrol by the government target, that is also helping us in the industry growth. Last quarter, overall if I see that, when compared to the quarter two, the industry side, the growth has continued to be the same as quarter two, but only in the agriculture sector as well as domestic sector, it has been low after the Deepavali festival.

Nitin Arora: Got it, and Sir, my second question is related to the margins on the power system as well as on the industrial, every quarter we are making a new high in the margin on the power system doing almost like 12%, 13%. Is that coming up from write back or the provisions which are getting write back or do you think it looks like a more sustainable margins now for us? That is all from my side.

N. Srinivasan: There is no write back in all these actually, but regarding the question on sustainable, we will not be able to commit because you know in all these businesses our material cost is close to 70% to 75%, you know how the prices of copper, steel, aluminium, they are all moving, we have no control over that, so actually the margin depends on the material cost, then also selling price, product mix, all the three. Given these variables it will be very difficult to commit on whether these are sustainable or not.

Nitin Arora: Why I am asking this is because despite reporting 29% gross margin given this number and I am assuming the mix is marginally would be higher towards power system in this quarter, so despite that you are doing such numbers so that is why I am asking that do you think it looks sustainable or not, so alright, I will come back in the queue for more questions, thank you.

Moderator: Does that answers your question, Mr. Nitin.



CG Power and Industrial Solutions Limited
January 27, 2022

- Nitin Arora:** Thank you so much. I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Keerthi Jain from Canara HSBC Life. Please go ahead.
- Keerthi Jain:** Thanks a lot for the opportunity. Congratulations for disruptive and very strong growth, which you have delivered. First of all my congratulations for that and to the team, they have done an exceedingly wonderful job on the growth. Sir, my question is with regard to our order inflow, we are seeing that our order book has increased from 2100 Crores to 3100 Crores both divisions put together, which implies an order inflow of more than 2500 Crores, what is driving such an accelerated order inflow, like last quarter it was 1500 Crores, this quarter is 2500 Crores plus, what are you doing to do such an accelerated growth, you can give some guidance, that will be great, Sir?
- N. Srinivasan:** Actually it is only the demand, you know for example, we have given the total order intake is actually higher in power, higher in industrial and also in industrial, we also got some orders from railways and railways is on a very big expansion, so motor business also continue to get good orders so it is purely demand environment.
- Keerthi Jain:** Sir, do you see this momentum broadly sustaining in near term?
- N. Srinivasan:** As of now I think the orders that we have got will keep us in good shape at least for next 6 months and orders continue to flow and it depends on other aspects like for example, what will be the budget impact, what will be the infrastructure spending, overall economic scenario, which generally I believe will be positive so that is what I think, this can be sustained.
- Keerthi Jain:** Sir, in terms of the new product development and application development, what are the initiatives taken by the company and also a few lines on our FMEG developments, what are you doing, if you can guide that would be great, Sir?
- N. Srinivasan:** It is a very big question. I do not know how it will be, new product development is there in every business, so for example, railways – it depends on the customer requirements, similarly the motors, there will be a number of products, number of requirements depending upon the customer requirements, may be difficult to answer in a short couple of lines.
- Keerthi Jain:** Ok, All the best, Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Niket Shah from Motilal Oswal Mutual Fund. Please go ahead.



CG Power and Industrial Solutions Limited
January 27, 2022

Niket Shah: Thanks for the opportunity and congrats on an exceptional quarter. I have few questions, so first I just wanted to understand if you can help us understand within your motors business, how much of your revenues come from IE3, IE4 and IE5 and do you think that over the next 2 or 3 years most of the mix will move toward the IE4 and IE5, which is realization accretive and margin accretive?

N. Srinivasan: So, we do not have that breakup nor we can share that kind of a breakup actually.

Niket Shah: But, directionally is it the right way to think that is more of IE 3 moves to IE4 and IE5 that is realization and margin accretive?

N. Srinivasan: That is why I am saying know, segment wise individually for how much margin we are getting for IE3, IE4, we will not be able to share.

Niket Shah: Sure, the second question was, if you can highlight how large is your exports business currently given the raw materials advantage India has on steel versus other country, does it help you to penetrate into export market in a significant way?

N. Srinivasan: Our exports right now are not significant because the local demand, as you know we are also ramping up the production only sequentially, this is the fourth quarter that we are in this company, the new Management in the company. Right from Q4 of last year we have been stepping up our volumes and as of now we are just trying to meet the domestic demand, so there are opportunities for exports, that probably it will happen in the years ahead, but as of now our export volumes are very insignificant.

Niket Shah: The third question was on your B2C strategy, we have seen you have launched fans and pumps, should we assume that you will essentially move towards appliances in that format so would it be possible for you to share some strategy on B2C as well, how do you plan to ramp it up?

N. Srinivasan: This is a futuristic question. Right now we have launched fans, so any further appliances unless we finalize our plans we may not be able to commit anything.

Niket Shah: The fourth question was on EV motors, if you can highlight us what is status on EV motors and a similar question was also on the BLDC motors, do we have BLDC motors under our portfolio, umbrella today, or do we plan to launch it in future?

N. Srinivasan: Ramesh, can you answer this question?

Ramesh Kumar: On EV we are working, definitely we are there that is for BLDC is only for EV only, as of now for other applications there is no BLDC motors which we are manufacturing, so permanent magnet motors we have started off in a smaller way, for two-wheeler and three wheeler we are



CG Power and Industrial Solutions Limited
January 27, 2022

working right now and we have also worked for buses earlier, we are definitely there in EV in a big way, we are going to do it as we have the future business opportunity for us, that is our additional business opportunity, so there we will be using the permanent magnet motors, but as of now for other applications there is no BLDC, other than the fans, BLDC will come into the picture after the BEE labelling come into the effect from July 1.

Niket Shah: Sure and final question is, if you can highlight at the current existing capacity that you have across businesses, what can be the peak revenues that you can achieve and also if you can highlight that has the raw material inflation hurt your margins in the last quarter which is reported this time?

N. Srinivasan: You are asking for industrial division?

Niket Shah: No, for the RM part I am asking for the overall business. Because of raw material inflation have you seen any impact on margins although margins have been very healthy, but would margin will be much healthier if raw material inflation would not have been lower?

N. Srinivasan: I think I answered this question earlier, margins depend on three factors, one is what is your material sales ratio, material cost in all our products generally ranges from 65% to 75% depending upon the particular order number one. Second is what is the selling price, at what point of time you book the order, what is the selling price, and in other businesses other than industrial and some of the businesses in power and also in railways, some businesses also may have a price variation clause where you will get compensated, third is actually the product mix, what kind of a product mix that you have sold during that quarter, so cumulatively all these will have impact on the margins, our margins have been better compared to the last quarter, so that is all we can say, we will not be able to say exactly because variables are so much be difficult to pinpoint how this will play out.

Niket Shah: Yes and on the revenues part, on the existing capacity what kind of peak revenue can we generate?

N. Srinivasan: I think whatever we are currently doing maybe depending upon the demand and then also the price factor, etc., certainly each business can grow by 15% to 20% minimum, so beyond that it will be difficult for me to make any statement.

Niket Shah: Sure, Sir. I will come back in the queue. Thank you for the opportunity.

Moderator: Thank you. The next question is from the line of Hardik Doshi from White Whale Partners. Please go ahead.



CG Power and Industrial Solutions Limited
January 27, 2022

- Hardik Doshi:** Thank you for taking the question. Firstly, in terms of going back a bit when you reported the fourth quarter FY2021 results there was an exceptional item of 1076 Crores for FY2021 and in the annual report it is actually a gain of about 914 Crores, so can you just talk a bit about the changes that were there in this reversal, which were mainly from advances and receivables and what is the status of this in terms of collections and how it is going to impact the balance sheet and cash flow?
- N. Srinivasan:** I do not think we can answer this across because last FY2021 numbers, etc., we have to go into, so maybe you can have a separate call, if you can give us more details we can get into this and clarify the question.
- Susheel Todi:** Only one thing we can tell you that there is no balance sheet impact at all, all recasting impact have been given, so there is no balance sheet impact at all, even on the cash flow side as well.
- Hardik Doshi:** There is no cash flow impact on this?
- Susheel Todi:** Not at all.
- Hardik Doshi:** Right, I will get back in terms of getting the details. Just one additional question was about the recent acquisition that you have done in the tractor electric vehicle, can you just talk about the rationale behind it and what is the potential over there?
- N. Srinivasan:** So, we have not done any acquisition.
- Hardik Doshi:** Sorry.
- Moderator:** Thank you. The next question is from the line of Vimal Gohil from Union Asset Management. Please go ahead.
- Vimal Gohil:** Thank you for the opportunity, Sir. Sir, just one data point I wanted I guess I missed that, if you can just highlight what is the order intake for Power systems and Industrial systems in this quarter, order intake, I am not talking of executed order book, I am talking of order intake, Sir?
- N. Srinivasan:** Order intake for Power is 746 Crores.
- Vimal Gohil:** And Industrials?
- N. Srinivasan:** Industrial 1222 Crores.
- Vimal Gohil:** The second one would be on fans and motors, as you have highlighted that these are some of the next end businesses that you want to get into. Any timeline as to when can we see the first launch for fans, are we there in the market yet or any sort of timeline that you can offer over here?



CG Power and Industrial Solutions Limited
January 27, 2022

N. Srinivasan: Fans have already been launched. We have already done 5 Crores worth of sales when it was launched. Fans have already been launched in two places I mean also being sold in other territory also.

Vimal Gohil: Sorry, how much did you say the revenue was?

N. Srinivasan: I think 5 Crores at the time of launch we made the sale of 5 Crores.

Vimal Gohil: Any recent number that you would like to offer, I mean this quarter how much have you done?

N. Srinivasan: I am not able to get you, what is the question?

Vimal Gohil: How much revenue has come from fans in this particular quarter?

Susheel Todi: As of now nothing material because we just launched the fan in the month of November, so we are just starting that phase, so hardly anything is there as of now in this quarter, so it is not a very material amount in the current sales.

Vimal Gohil: Last question from my side, in terms of your margins, I do understand that there is a lot of variability in terms of material costs, but just in terms of overall because I mean in terms of your overall investment and your expectations of your overall capital, return on capital employed, what is the base minimum margin that the company looks at in order to sort of expect a fair amount of return on capital employed because the reason why I am asking this is, over the last 4 quarters the company has been giving out fairly, fairly decent numbers and that they have been growing over the past 4 quarters despite material cost pressure, so how should we understand this trend?

N. Srinivasan: I think we cannot commit on any particular number as you know the last 3 quarters we have been ramping up production and sales, our intent will be to at least maintain this margin, but it depends on various other parameters which I mentioned to you, so it will be difficult for me to put through any number either on margin or ROCE because these are all dependent on several other parameters.

Vimal Gohil: Fair enough. I think I will come back in the queue. Thank you so much and all the very best.

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

Renu Baid: Good evening, Sir. My first question is regarding the Power systems profitability, pardon me Sir, question is slightly longer, if you see YTD and for the quarter Power systems, you have sustained 14% kind of EBITDA margins. This is despite the fact that the last 9 months has seen commodity volatility as well as the company ramping up in terms of capacity utilization level and broadly if I see these are best in the class of margins in the current state amongst peers. So going forward,



CG Power and Industrial Solutions Limited
January 27, 2022

first I want to understand what are the drivers of this outperformance in the Power system margins despite the headwinds? Secondly in the same backdrop if we see the last 3 to 4 months or last quarter in specific, CG has been extremely aggressive in the utility market and has quoted for multiple projects below 15% or 20% range versus the L2 players, so in this kind of environment that the company is quoting very aggressively new projects and tenders, can you help us understand what is the strategy, is it a tactical drop in the prices to garner more inflows and fill up the backlog in the near term or strategically since we have a phased program which is programmed early in to cut down the cost structures, are we trying to piggyback on that and cut down the prices so that margins are retained even if you are able to garner higher volumes from the market at lower prices, so just want to understand about this aspect on the Power systems portfolio?

N. Srinivasan: Actually my answer is not going to be different, but anyway you will hear it from Mr. Mukul Srivastava. Mukul, can you answer this question?

Mukul Srivastava: I will try. First of all I am not sure from where did you gather that we have quoted at multiple tenders with margins below 15%?

Renu Baid: I did not say margins below 15%, your average prices in projects have been at least 10% to 15% lower than the L2 prices across multiple?

Mukul Srivastava: I do not think so. That data may not be okay because see our products are custom built, so it is very difficult to put an average standard price for an item and then say that is the comparison with past price or somebody's prices, that may not be correct, so that I think will be my answer for this part. As far as the margins are concerned, yes of course, as any good company, we are constantly working on various initiatives to improve our designs, reduce the cost, get into green manufacturing, Six-Sigma approach, all the initiatives, almost 20 plus, are being worked on very aggressively, a lot of thrust has been given by the new Management and people have been trained so all those actions are resulting into good, I will say reasonable margin, lowering the cost and this will be our effort in future also because this journey of excellence never stops, so we will continue to work on our designs, efficiency, manpower utilization, and capacity utilization everything we will continue to focus and let us hope.

Renu Baid: This is a reasonable amount of confidence on the new order flows carrying similar or better margins compared to what we have been reporting so far?

Mukul Srivastava: We have a defined structure of how do we make a quotation based upon various parameters and there is the hierarchy, there is an approval matrix based upon the margin, so we do very strictly follow that and based upon those prospects we do quote and having quoted definitely as any company we will also have a task cut out for various streams and SCM in manufacturing, in



CG Power and Industrial Solutions Limited
January 27, 2022

quality assurance for a design to ensure that we do improve our design so that the margins are lifted.

Renu Baid: Got it and if I can ask one question, on the railway portfolio, can you just share a brief update in terms of how large is the railway portfolio today in the current scheme of things and how has the market share moved because last 2 years I would understand there would be some shrinkage of market share in the railway product portfolio, so where are we today in terms of broad revenue maybe for the last 9 months and how large is the backlog and how are we looking to ramp up our present and portfolio in this business? Thank you.

Ranjan Singh: Thanks for the question. The railway portfolio is a mix of both products coming from industry as well as the power segment, while transformers and all go from power segment and the motors and converters and all they go from the industrial segment and from market share perspective, I think we are at level of about 19% to 20% market share in the various segments that we are where number of players are also quite high ranging from 4 to 5 competitors who are major players and that has been in all the segments whether it is transformers, motors or controllers or converters.

Renu Baid: Sure, any insight on size of the portfolio?

N. Srinivasan: We do not share separate details on Railways. Only Industrials, we are reporting as a segment.

Renu Baid: Not a problem, Sir. Thanks much and all the best.

Moderator: Thank you. The next question is from the line of Vipul Lamba from Lamba Investments. Please go ahead.

Vipul Lamba: Thanks for taking my questions. Can you let us know about the utilization in both the segments Industrial and Power?

Susheel Todi: In terms of capacity utilization are you asking?

Vipul Lamba: Yes.

Susheel Todi: Power I think we have different products, so definitely we are in the range of between 50% and 60% today and in terms of the Industrial side we are at around 70% to 80%.

Vipul Lamba: In power segment, how much is our solar contribution and how does the future prospects look like?

Susheel Todi: We do not share that individual data, and you are asking about the solar contribution, right?



- Vipul Lamba:** Yes.
- Susheel Todi:** I do not think so that we share individual product wise data, so it is coming under the Power system only.
- Vipul Lamba:** How is the future prospect do you see in that?
- N. Srinivasan:** Mukul Srivastava, could you just give an overview?
- Mukul Srivastava:** Can you please repeat your question? Are you asking about the solar segment or the power segment?
- Vipul Lamba:** Yes, in solar segment?
- Mukul Srivastava:** You see in solar segment we have various products. These products are from distribution transformers to switchgears and our EHV switchgears all go into the solar segment. Solar is doing well as you know that a lot of solar power plants are coming and apart from our existing portfolio of the products we are also working on other areas which are required by the solar segments.
- Vipul Lamba:** Thank you.
- Moderator:** Thank you. The next question is from the line of Suraj Nawandhar from Sampada Investments. Please go ahead.
- Suraj Nawandhar:** Sir, just a small question, what is your timeline for entering into the revenue order book?
- N. Srinivasan:** The order book will be executed over next 6 to 8 months.
- Suraj Nawandhar:** Rest of the questions has been answered. Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Amit Mahawar from Edelweiss. Please go ahead.
- Amit Mahawar:** Thank you. I have two basic questions, first is largely on if you see our business portfolio across industrials and power systems, we have a lot of industry transition going on, so how should one think about businesses in the Industrial vertical that will stay in CG Power or you know some of the businesses that we will enter in the other groups of businesses? How should one look at our long term industrial portfolio of CG Power. My question is more because you have focused on, you take example of you know EV value chain you know we will focus on EV motors you have EV charging infrastructure also so can you give a broad landscape of how should one assume or imagine long-term business focuses in CG portfolio? That is my first question Sir.



CG Power and Industrial Solutions Limited
January 27, 2022

N. Srinivasan: I think in the Industrial right now consists of motors, drives plus railways, these all the products whatever we are manufacturing, will continue to manufacture as adjusted or modified for the customer requirement or market requirements. Now earlier there was a question on EV and then Mr. Ramesh Kumar replied that we are certainly working on that, so whatever opportunities are there, relatable in adjacencies certainly we will be there. You asked about EV charging that is also maybe, we cannot commit actually unless something is finalized, every opportunity is being examined, so I do not know whether I have answered your question.

Amit Mahawar: I think partly maybe my question was more or maybe even if you know Mr. Vellayan wants to answer if he is on the call still, you know between two of you, my question is more to understand with the group, how should one imagine where is CG portfolio moving in the long run, where is the other group entity Industrial portfolio moving, it was more around in which businesses will take care of which segment because as businesses transition you might have product overlap that can happen that was my specific question?

S. Vellayan: Sure, I will take your question. See I think if you look at our portfolio, it is shaping up fairly well. Directionally, in TI, we have kind of talked about you know kind of our interest in electric vehicles and all of that, which means is that going to be an OEM perspective. But if you take electric vehicles, what CG talks about in their portfolio overtime is looking at EV motors or somebody earlier asked a question about you know beginning to work with permanent magnets more. So basically, we see CG becoming more a tier one supplier in that space being basically a provider of motors and controllers and perhaps kind of power electronics also to do with the whole EV segment because obviously kind of anything in the power electronics slowly CG is coming. Similarly in railways kind of anything to do with the locomotive is going to be housed in CG and CG is kind of natural lumina because it has much larger and much broader relationships in railways. So broadly the way we and obviously we have also stated our consumer intent and that it started off with fans and all that so that is obviously kind of more fans and pumps and that is how naturally houses in CG as well so we do not see too much conflict between the two. There is a definitely opportunity for supplier relationships in multiple places. So if you see what is happening overall we think that electric vehicles in India will continue to be geared, Shanti Gears have been having success, TI is a logical provider of that. If we include the OEM capabilities is being housed in TI and like you said all of the power capabilities is housed in CG. Is that clear?

Amit Mahawar: Very helpful, Sir. Thank you very much. Second and last question is on the entire power equipment portfolio, now if you see the market, may be around next 5 to 8 years you have a huge bunching up of high technology oriented transmission equipment, business tariffs going to be around STATCOM, SVC, HVDC, compliant gas based products and also if you see overall electrification market we are seeing a significant shift towards low voltage, that is what you know all the global capital allocation of companies tell us, whether it is ABB exiting the grid's business or some other players consolidating their medium voltage, low voltage presence. My question is more around across your group entities we have had a position of strength across



CG Power and Industrial Solutions Limited
January 27, 2022

businesses, now in power systems, what is your long-term vision, I just wanted to understand directionally how do you see your power segment business? Thank you.

N. Srinivasan: I think Mukul will answer this question.

Mukul Srivastava: See as you rightly said that the power system is the higher technology side business and things change very fast although it may look like segments which have equipments serving for 35 to 40 years, but constantly the upgradation keeps happening. Now in CG we are trying to keep up the pace especially in terms of developing green products, which are non-greenhouse products are there so that is one major issue which we are focusing, apart from that automation SCADA which makes everybody's life easier and faster access to data across the continents, those technologies also we are developing. HVDC is one area where we are still evaluating. We hope to come back with an answer shortly. Apart from that these equipments have to be utilized in various segments like nuclear power plants, power quality measurement, transport, traction, e-mobility all this industries requires the same bulk of the equipment, but some customization, so we are also working on those areas and wherever we have small gaps we are trying to cover them up either by internal development or acquiring new technology.

Amit Mahawar: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead. As there is no response from the line, we will move to the next question, which is from the line of Vignesh Shankar from Artha99. Please go ahead.

Vignesh Shankar: Thanks for taking my question. This is more specific to the motors especially the BLDC motors that we spoke about considering the BLDC motors has got 99% dependence on raw material from China, are we looking at alternating our motors play along with maybe a switch reference, other motor or our long-term strategy is to stick with BLDC motors?

Ramesh Kumar: Actually, we are not using any BLDC motor for any industrial application. BLDC is generally used in very small motors that are particularly in automobile industry.

Vignesh Shankar: Considering the EV play, I wanted to ask this?

Ramesh kumar: In EV, yes people are working on how to avoid magnet as far as EV motors are concerned, but that is going to be a very long-term strategy because currently all the motors, which are across the world are used by our permanent magnet motors, which is made out of rare air and dependence on China is there, so that is the reason across the globe many people are working on how to avoid magnet going forward in EV business because depending on the magnet will be very high, so that will be a long-term strategy and we are also following the same how we can convert our PMS and motors to the other technology.



CG Power and Industrial Solutions Limited
January 27, 2022

- Vignesh Shankar:** Thank you.
- Moderator:** Thank you. The next question is from the line of Vimal Gohil from Union Asset Management. Please go ahead.
- Vimal Gohil:** Sir, my question was more macro in nature given the fact that you have consistently delivered very high growth in both your segments, just wanted to get a sense on the overall private capex, how are you seeing that and there have been some talks of slowdown that we are hearing off, do you see that on the ground at this point in time and if I want to just sort of try to breakup your revenue, how much of it would be coming in from market share gains and how much of it would be actually coming in from the market itself sort of growing, if you can help us explain that! Thanks.
- N. Srinivasan:** It depends on products to products, which segment you are asking, you are asking about industrial or power?
- Vimal Gohil:** Yes, my question was actually more towards industrial, which typically depend on more private capex?
- N. Srinivasan:** So, Ramesh could you answer the question?
- Ramesh Kumar:** In the Industrial, I can tell IEEMA publishes the data for industrial especially LT Motor and large industrial machine, so we follow the data, so if you compare the data available is up to September only actually, so if you compare the September growth of IEEMA the market has grown by 100%, we have grown by 140%, so you can say that while we manage to get more than the market growth that is from the gain from the market share as well as the realization more because of the commodity price, but we are much above the market growth, in large industrial machine also if you see that market is grown by 32%, we have grown by 46%.
- Vimal Gohil:** Sorry, I just missed out in September of 100% growth was in which segment, if you can just add that once again?
- Ramesh Kumar:** It is for LT motors where we have grown by 140%. I am talking about quantity not the value growth.
- Vimal Gohil:** Right, any outlook, not on the company, but any outlook you want to probably offer on this particular segment, the market outlook, I am not asking for a company specific guidance, but any outlook that you would want to share, medium term outlook on these segments?
- N. Srinivasan:** As Ramesh said, the industry growth on motors can we say about 6%, 5%?



CG Power and Industrial Solutions Limited
January 27, 2022

- Ramesh Kumar:** It is anticipated may be about 7% to 8% going forward maybe slightly more with respect to large industrial machine because the industry, water and wastewater is doing well. It should be approximately back what we are anticipating next year.
- Vimal Gohil:** Right. Fair enough. Thank you so much and all the very best once again. Thank you.
- Moderator:** Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.
- Renu Baid:** Thank you for the opportunity. I have two or three book-keeping questions. First if you can share with us what is the consolidated gross debt and net debt on books at the end of the December quarter?
- N. Srinivasan:** Consolidated?
- Renu Baid:** Gross debt and net debt.
- N. Srinivasan:** So, how do you define net debt?
- Renu Baid:** Gross debt or total borrowings and total cash and equivalent we will calculate the net debt?
- Susheel Todi:** So, at India level we have 531 Crores and net debt is almost Nil.
- Renu Baid:** Second question is on the Industrial systems, what was the quantum of pricing actions that we took during the third quarter, we had mentioned at the end of Q2 the price hikes are planned, so if you can quantify what are the quantum of average price hikes we announced in the market and are there any further price hikes planned in the fourth quarter or end of Q4 or early Q1 because of the commodity inflation that we are seeing?
- Ramesh Kumar:** Whatever if you see after quarter two maybe upto I can say October, the raw material inflation is almost about 42% plus so we have also increased our prices in the market to almost close to that percentage, but if you see the commodity softened from November onwards in fact still slightly reduced this quarter that is going forward in the fourth quarter, so I do not see anymore price increase given into the market unless otherwise there is again if some disruption comes into the copper or aluminum or steel.
- Renu Baid:** Sure and thirdly, what was the ESOP charge that we have recognized in P&L in the third quarter as in we had issued the ESOPs to the senior Management team at CG so what would be the provisioning which is booked in the P&L?
- Susheel Todi:** So, that is approximate around 60 lakhs to 70 lakhs.



CG Power and Industrial Solutions Limited
January 27, 2022

Renu Baid: Lastly, there was somebody earlier who had asked the similar question. I will put it out in a different way from a long-term perspective may be from 3 to 5 years, are there any plans to carve out the power systems portfolio into or demerge it and sell it off at a later date or it would continue to be retained as a core business portfolio within CG? Relatively as a business it's a working capital intensive and again a big base given project or relatively different from the typical industrial solutions business which we have?

N. Srinivasan: No, we cannot answer this question because first of all we have not done any work like that. Secondly these questions cannot be done individually, these are all has to debated, it has to go to the board, the Chairman will have to take a view, group will have to take a view, there were several issues, we are in this company less than one year.

Renu Baid: Not a problem and closing if I can ask one small thing, on the Industrial solutions, Mr. Ramesh had earlier mentioned that while industrial core business has remained flattish like Q2, but there were some signs of slowdown post the festive season in the domestic and the agri market, so if you can comment or elaborate a little more in terms of the slowdown, is it just a seasonal impact which is there or actually in the end markets are we seeing certain profits of the markets slowing down because of the number of issues, inflation or anything else?

Ramesh kumar: No, it is basically because of the rains we have seen this year extended rain season, rains were there up to November in most of the places, unexpected heavy rains were there, so we thought that it is only because of that and we are very optimistic that it will revive, it is nothing to do with the inflation or any other.

Renu Baid: Got it. Thanks so much for all your inputs and insights. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Harshit Kapadia from Elara Capital. Please go ahead.

Harshit Kapadia: Thanks for giving me the opportunity. I just have one question. What are your capex plans for the next fiscal year and which segment are you looking to expand capacity?

N. Srinivasan: So, next fiscal we are just working it out, we have not finalized, so it will take sometime for us to decide, so definitely there will be some capex, exact number we are yet to finalize. So definitely because all the plants require modernization, we have not incurred much capex in the last 3, 4 years, so we will have to modernize various facilities and in the modernization and automation we will bring in some kind of automatically some expansion of capacity, but it's too early to say, we have not finalized that number.

Harshit Kapadia: Thank you for the opportunity.



CG Power and Industrial Solutions Limited
January 27, 2022

- Moderator:** Thank you. The next question is from the line of Nagraj Chandrasekar from Laburnum. Please go ahead.
- Nagraj Chandrasekar:** My question is about growth in LT motors and heavy industry growth if prices are stable being around 7% and slightly higher in heavier equipment could you break this down by the rest of our portfolio or size. I am not talking about various products where we are going to in a very small base probably motors, controllers, magnified BLDC motors where again products going from a small base but the large product segments?
- N. Srinivasan:** I have not heard your question correctly; you are asking industry growth, what is the question?
- Nagraj Chandrasekar:** My question is on industry growth for other large product segments just like Mr. Ramesh Kumar mentioned for LT motors and heavy equipment in 7% and slightly higher, what would these be for us for the other parts of our portfolio with the HT motors, be it switchgears, transformers, just want to get a sense of industry growth in the next three to five years in your view for these industries?
- N. Srinivasan:** So, 3 to 5 years, very difficult to take a call, we will not be able to say especially for all the products, it is very difficult to take a call.
- Nagraj Chandrasekar:** Basically very broadly there would be a range?
- N. Srinivasan:** There must be some credibility, the statement I can say 7%, 8%, 10%; if you ask me what is the source, it will be difficult to say, so I think we cannot attempt to answer that question.
- Susheel Todi:** You can expect the GDP growth whatever is there so that India in the next 3 to 5 years, how the GDP is going to grow.
- Nagraj Chandrasekar:** That should be broadly the volume growth for at portfolio level.
- N. Srinivasan:** Correct.
- Nagraj Chandrasekar:** Thank you.
- Moderator:** Thank you. The next question is from the line of Vimal Gohil from Union Asset Management. Please go ahead.
- Vimal Gohil:** Thank you for the follow up once again, Sir. Sir, just wanted your comment, you said that you have basically covered for the entire inflation, commodity inflation of 40% and you have taken the price hikes, which are similar, does that mean that as and when commodity normalize, you will have to reverse some of your price hikes going forward and that could probably be one possible headwind going ahead?



CG Power and Industrial Solutions Limited
January 27, 2022

- N. Srinivasan:** I think this is fundamental when the prices drop then market prices will drop, when the market prices drop we have to drop your price otherwise we will not be able to sell as simple as that.
- Vimal Gohil:** Got it and mostly when you talk about 40% hike increase in prices that would be mostly in the industrial segment, has the power segment also seen similar sort of price hikes by your company?
- N. Srinivasan:** So, the commodity prices for all the segments are the same, power has got whatever materials, copper, steel, special steel, etc., prices certainly go up, power actually, power sector if you see the most of them are tender driven, therefore as I said even some will have price variation clause that is what the future prices will be protected and it is up to you to take a call up to what extent of the MSR, which will generally go by the material cost to sales price ratio, so if it is not profitable then you do not take that order. That is how we work.
- Vimal Gohil:** Right, fair enough, Sir. Thank you so much for the clarity. Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Rajesh from Jainmay Venture. Please go ahead.
- Rajesh:** Good evening, gentlemen and congrats for very strong numbers. Mr. Vellayan, if I recollect rightly post acquisition of CGP by Tubes Investment you had given a broad range guidance of 500 Crores PBT in 4, 5 years or something like that and you will end up probably achieving that very easily this year itself, very first year, so would you give some guidance over next 3, 4 years overall margin?
- S Vellayan:** I think let us go through, see basically we have not, the first obviously we were making an estimate when we acquired this company and that was the estimate that I gave you, now my suggestion is let us go through a more detailed effort where we come up with the long-term strategy and we have numbers that we feel confident of achieving over the 3, 4 years and then we will come up with the new set of guidance that we can give you at that stage, but we have not gone through yet, we are just going through a regular budgeting process right now, we have not gone through that process.
- Rajesh:** On the softer aspects of the business when you acquired obviously there were various issues in the company and they would relate to people management, motivation level and other things, would you care to share some of those how is the situation now post almost a year of you taking the reign, how is the motivation level and the culture in the company or if anything changed?
- S. Vellayan:** Rather, than I answer that I have the team on the ground kind of answer and maybe we can have both the division head's perspective and the MD perspective on that, obviously we think the things are quite a bit better than it was last year, but NS let the division heads talk first and then you can also give your perspective.



CG Power and Industrial Solutions Limited
January 27, 2022

- N. Srinivasan:** So, Ramesh few minutes, then Mukul and Ranjan all if you can say few minutes on this.
- Ramesh Kumar:** Yes, definitely, things are much better, now people are very, very confident that they are in a big group like Murugappa and the things are also happening very fast and whether the company recovery or legacy issues are being solved very fast that is why people are very confident and the motivation levels are very, very high now.
- Mukul Srivastava:** Once the new Management of Murugappa has taken over, I think our sense of calmness prevailed, where everybody felt secured that the company is going to run. So I think that sort of job security I think propels people to give the best and assume the earlier shock of three years which was putting people on the edge, once that thing was gone, everybody felt reasonably secured, motivated and on the work front everybody wants to now contribute and give their best. There is a respect in the market now, customers are happy to accept us back and CG as a company has always been one of the company which is Indian company, which brings down the technology at affordable rate to the customers and providing long-term solutions, so I think to that extent when the customers welcome you, you are secured in the job, everybody feels motivated.
- Ranjan Singh:** The new Management has taken the leap of faith of taking the company forward with insulation of the business from the travails of the external environment, which had affected the business in the last 3, 4 years. This helped the business, which had its own core strength of its team, the people have been handling the customers, the frontline people, the people who have worked on the shop floor, the people who are on the development side all of them were just looking for the support and they have taken it so well in the short possible time that they have been able to connect with the customers back, winning back the order and with the guidance of team and the thrust on new directions like on the lean and movement for efficiency and project based management, we have been working together in a close knit team which has helped us both in terms of the topline growth as well as in bringing efficiency in our operations.
- N. Srinivasan:** I think you have heard from the CG veterans, but I am an outsider. During the last maybe one-and-a-half years I have met with the executives, workmen, union, customers, vendors across and whenever at various points of time, generally the overall view has been extremely positive and as far as the employees are concerned they were very keen to just bring back the company to its old glory and there was a passion with every one of them I could see and they had responded, whenever we gave any opportunity they responded and the proof is actually in the performance, but for a very positive vibrant and attitude this would not have been possible across the company, across segment from all stakeholders.
- Rajesh:** NS and all the other gentleman, that was very, very useful insight. Wish you all the very best for more. Thank you Mr. Vellayan as well.



CG Power and Industrial Solutions Limited
January 27, 2022

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to Ms. Bhoomika Nair for closing comments. Management would you like to give any closing remarks?

N. Srinivasan: I think we have answered all the questions. There is nothing else. Thanks for the participation.

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