

Crompton Greaves

Q1FY11 Post Result Conference Call Transcript

Representative:

Mr. S.M. Trehan - Managing Director

PL Rep.:

Kunal Sheth - 91-22-6632 2257

Date: 20th July, 2010

Moderator

Ladies and gentlemen, good evening and welcome to the Crompton-Greaves Post Results Conference Call hosted by Prabhudas Lilladher. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. Joining us on the call today from Prabhudas Lilladher is Ms. Amesha Vora and Mr. Dilip Bhat, Joint Managing Directors along with Mr. Kunal Sheth, Analyst, Prabhudas Lilladher. I would now like to hand the conference over to Mr. Sheth. Thank you and over to you sir.

Kunal Sheth

Thank you Vivian. Good evening everyone. On behalf of Prabhudas Lilladher, I would like to welcome Mr. Trehan from Crompton Greaves on the call. We will start with Mr. Trehan giving us a brief update and then we will open the floor for a Q&A. Over to you sir.

Sudhir M. Trehan

Talking first of the CG standalone, net sales growth over corresponding period last year 14%. EBITA growth 23%. And PAT growth 24%. Talking of consolidated numbers, net sales growth 5%, PBT growth 17%, and PAT growth 19%. As far as unexecuted order book is concerned, consolidated order book 6,802 crores, a growth of 7.7% over corresponding period last year. As far as order intake, CGN consolidated order input during the quarter 2,732 crores, which is a growth of 34.5% over corresponding period last year. I think these are the key highlight numbers. I would rather take the questions and then respond to them. Thank you.

Moderator

Thank you. Ladies and gentlemen, we will now begin the question and answer session. At this time, if you would like to ask a question, kindly press "*" followed by "1" on your touchtone phone. If you wish to withdraw your question from the question queue, kindly press "*" then "2". Participants are requested to use only handsets while asking a question. In the initial round of questions, kindly restrict it to 2 per person. Thank you.

The first question is from the line of Nainesh Rajani from Tata Mutual Fund. Please go ahead.

Nainesh Rajani

Good evening sir. Congratulations on good set of numbers. Couple of questions that I wanted to ask. Power division actually the growth has been quite subdued. Can you just throw some light on the power division a India in terms of the competition and how the margins have been sir?

Sudhir M. Trehan

You are perfectly right that in India the power systems the growth is subdued. Margins have improved compared to the corresponding quarter last year. Growth is subdued because the customers have not taken delivery of the equipment, be it the transformers which gears our power quality equipment.

Nainesh Rajani

Okay.

- Sudhir M. Trehan** We are quite hopeful that another 2 quarters they will start taking the orders.
- Nainesh Rajani** Is it specific to the private sector?
- Sudhir M. Trehan** No, this is confined to both private sector and public sector undertakings.
- Nainesh Rajani** Right sir. Sir, in terms of volumes, is the volumes under pressure or it is because the value has been down because of the raw material prices that have been down. So has the volume seen growth over the past on a year on year basis or that also is down sir?
- Sudhir M. Trehan** I am not clear of your question when you use the term, volume. What do you mean by volume. These are made to order products.
- Nainesh Rajani** Sir, the made to order products what I just wanted to understand in terms of transformers and all the other orders volume wise in terms of not the value of the total orders that will be executed, but volume wise are we seeing an uptake or volume also has been _ pretty much on account of lack of off take of these orders?
- Sudhir M. Trehan** Volume has also been muted. The growth is not muted because the value is down.
- Nainesh Rajani** Okay.
- Sudhir M. Trehan** The growth is muted because both value and volume, I understand your question now, are muted.
- Nainesh Rajani** Okay.
- Sudhir M. Trehan** Because they are fitting in inventory as SG or WIP because the customer has deferred them picking it up which we were quite hopeful.
- Nainesh Rajani** Okay.
- Sudhir M. Trehan** That what was made in May we will pick up in May. June, didn't pick it up. June one is still sitting. So I am hoping in next 2 to 3 months the pick up will start happening, because these are made to order equipments.
- Nainesh Rajani** So you cannot confine this to any specific sector or any specific industry as this.
- Sudhir M. Trehan** This is confined to both transmission and distribution to both public sector undertakings and private sector.
- Nainesh Rajani** Right sir. Sir, my second question actually is related to margins. Raw material as a percentage of sales actually has come down and our staff cost actually has gone up. I just wanted to understand if you can, I mean ask this question as most people have asked this question quite repeatedly, but if you still explain as to how come and what kind of efficiencies have you gotten that you know our raw material as a percentage of sales has fallen so sharply sir?

- Sudhir M. Trehan** First of all, I think let's get the reference point correct. What new statements are making let me understand first of all. You are comparing with a sequential quarter like.
- Nainesh Rajani** No sir. Even if I take it on a YOY...
- Sudhir M. Trehan** If you take the first quarter, the first quarter...
- Nainesh Rajani** That's right sir.
- Sudhir M. Trehan** Then the personal cost is constant at 5.4%.
- Nainesh Rajani** That's right sir.
- Sudhir M. Trehan** In absolute term it has gone up, but so has the growth gone up.
- Nainesh Rajani** Okay.
- Sudhir M. Trehan** So if you calculate percentage of personal cost, it is constant.
- Nainesh Rajani** Fair enough sir.
- Sudhir M. Trehan** If you look at so there is that's why the margins have improved. Because some costs have come down.
- Nainesh Rajani** Alright sir.
- Sudhir M. Trehan** No costs have gone up.
- Nainesh Rajani** Sir raw material as a percentage of sales has actually come down sir.
- Sudhir M. Trehan** Just one moment. According to me, it should be almost, one moment. It is first quarter to first quarter is according to me up because it was 67.1 and it is now 67.8. It has come down with reference to sequential fourth quarter if you are comparing.
- Nainesh Rajani** Okay.
- Sudhir M. Trehan** Fourth quarter was 68.2. First of all let's get the numbers right. We are talking of standalone.
- Nainesh Rajani** No, we are talking of standalone.
- Sudhir M. Trehan** That's right. So I am also talking of standalone. So we are on the same page.
- Nainesh Rajani** That's right sir.
- Sudhir M. Trehan** So then material cost compared to quarter ended June 2009 has come down.
- Nainesh Rajani** Okay.

- Sudhir M. Trehan** But, sorry. It has gone up. But with reference to sequential quarter ended March 2010, it has come down.
- Nainesh Rajani** And what would be the reason for the same sir, the sequential.
- Sudhir M. Trehan** The same is material prices, if you look in to the material prices of quarter ended June 2009, every quarter the material has been going up, all four quarters.
- Nainesh Rajani** Alright sir. I will come back for further questions if need be.
- Sudhir M. Trehan** Sure.
- Nainesh Rajani** Thanks a lot. All the very best.
- Sudhir M. Trehan** Yeah.
- Moderator** Thank you. The next question is form the line of Abhishekh Puri from JM financial. Please go ahead.
- Abhishekh Puri** Good evening Mr. Trehan and congratulations on a good set of results.
- Sudhir M. Trehan** Good evening.
- Abhishekh Puri** Sir, just one question on the transmission and distribution for the domestic business. If you can give us the proportion between the two.
- Sudhir M. Trehan** The domestic business of C&G in you are now asking me the standalone numbers.
- Abhishekh Puri** That's right. For the standalone numbers.
- Sudhir M. Trehan** Yeah. They are on the press advertisements anyway. I'll just open it and read out for you. Power systems standalone is 845.9 crores.
- Abhishekh Puri** Sir transmission and distribution.
- Sudhir M. Trehan** Yes, this is transmission and distribution. Power systems is.
- Abhishekh Puri** For both of them sir, if you just broadly give us ...
- Sudhir M. Trehan** No, we don't share that. We give you only 3 segments. This way there is no end then it will become 6 segments. I will have to start splitting it. Not that I don't have numbers. Not that I want to hide anything, but at certain point we have to say we gave these segments and not more.
- Abhishekh Puri** Sir it was just broadly to understand the market dynamics at this point in time.

Sudhir M. Trehan You ask me a qualitative question, I will try to explain you the market dynamics. But giving numbers, because if I give you this quarter, then I have to give you every quarter and it becomes too much of a number crunching for me to really keep that many numbers in front of me.

Abhishekh Puri We appreciate that. In terms of qualitative questions I think if you could just give an outlook on how the distribution market is shaping up currently for us?

Sudhir M. Trehan See, the distribution market as on date has behaved almost the same way as transmission market which is very surprising to me. There has been deferment after the orders have been made even from the distribution side. Unfortunately, in distribution side, our 90% of the business is with the industry and hardly 10% has been utility. So I won't be able to comment about utility business for distribution. But industry has also been deferring including exports because from India we do some exports also distribution. Most there has been deferment and that's the reason both transmission and distribution of the standalone company has been sort of a flat very subdued growth.

Abhishekh Puri Okay sir. In the opening remarks you said that you expect that to improve in the next 2 quarters.

Sudhir M. Trehan Yeah.

Abhishekh Puri So should one assume that going forward volume growth will be muted in Power System business?

Sudhir M. Trehan The Power Systems will be better than the first quarter how much better I don't know how much it will pick up. But as a company we are quite hopeful that we will still end up the year with a growth of 14 to 15%. If power is muted, we will have to make it up by extra efforts because industrial is now picking up very strongly and consumers. If power starts picking up, may be we will over shoot the numbers. But I would say what we said last quarter, I still see the year's growth of India standalone 14 to 15% irrespective of power being muted or it may pick up, which we will know in a quarter or two. But because the order inflow of power is very, very strong, domestic order inflow of CG standalone is a growth of 53% over last same quarter. So the orders are still pouring in at a phenomenal rate, but the customer is trying to I think delay so that he can defer the payments by 1 month 2 months by not picking. And I think he is looking for his cash flows in these projects and trying to delay, which may smoothen out because the whole process is picking will take another 6 months before the whole project cycle restarts correctly after the last years' slow down.

Abhishekh Puri Okay. Sir, thank you so much for this and I'll come back with further questions.

Moderator Thank you. The next question is from the line of Sachin Trivedi from UTI Mutual Fund. Please go ahead.

Sachin Trivedi Hello.

Sudhir M. Trehan Hello.

- Sachin Trivedi** Yeah sir, congratulations on a good set of numbers.
- Sudhir M. Trehan** Thank you.
- Sachin Trivedi** Yeah. Sir part of the question has been answered, but still trying to understand as far as the power system is concerned, is the customer delaying the pickup only for the cash flow issues or there are some more issues if you can throw some light on that?
- Sudhir M. Trehan** See, I won't be able to because the customer we have a system of checking with the customer 3 months before that is scheduled in every - these are you understand made to order products.
- Sachin Trivedi** Yes.
- Sudhir M. Trehan** So if the delivery is in June, we will check with him in April our front end marketing will call on him and check up we are going to start manufacturing your transformer or switch gear or power quality equipment. Are you sure your project is on time? Shall we go ahead? Because if we don't make the delivery, we end up paying liquidated damages and penalties.
- Sachin Trivedi** Yes.
- Sudhir M. Trehan** So we can't delay compared to what we have committed, because it is a financial loss to us once we are delayed. If that time the customer's answer has been yes, please go ahead, the we have stages in which he has to come for inspection .Every stage our experience in this quarter has been he has delayed by couple of days on some pretext or the other. Hence he has extended it getting made on time. After he has made, he has delayed sending inspectors and clearing. After inspection there is a clause of then giving dispatch instructions. So to me it is giving a feeling that somewhere either his project is delayed, but he doesn't want to lose the clock. It is not late by 1 year that fine let's put it on hold. He is behind by 2, 3 months, but he is worried during the past experiences that these transformers if taken out of the slot, then come back only after 6 months. He doesn't want a 6-month delay. He is looking for, wrong to use that word, but I think he is looking for some 3 3sduw5 5o buy some time. Is he buying the time because his project is delayed? Is he buying the time because he has no cash flow? Is he buying the time because both are linked, his project is delayed he doesn't want to make payment for just this equipment. I have a feeling he is streamlining the whole process and as the pickup started happening 6 months earlier he has not streamlined may be there are more projects running, if you look at even the largest public sector utility Power Grid, they didn't do well last year.
- Sachin Trivedi** Yes.
- Sudhir M. Trehan** So may be they have more orders coming in of extra high voltage transformers than they are ready to deal in the project size. So thoda bahut kuch problem hain.
- Sachin Trivedi** Yes.

- Sudhir M. Trehan** But it doesn't look like a serious problem, because then I wouldn't have got more orders. Then he would have stopped new orders coming. They are the same customers, either industry or utility. When in fact the order input is flowing in and the order input growth is 53%, shows it is a temporary phenomenon which should take 2 to 3 quarters to sort out.
- Sachin Trivedi** Okay. Sir, you are ...
- Sudhir M. Trehan** And hence, it has resulted in our inventory going up because we didn't anticipate that he will not pick up because in April in May he confirmed he needs it, then delayed. So we are hoping he will pick up July, August, September. And we will catch up either in quarter 3 or quarter 2 and let's see how quickly the cycle comes back.
- Sachin Trivedi** Okay. Sir as far as exports market is concerned, if you can share ...
- Sudhir M. Trehan** Export is down definitely.
- Sachin Trivedi** If you can give just some numbers is it 10, 20% down or it is more
- Sudhir M. Trehan** Last year let me see the actual number of exports. One moment, I will open that page. It is down by let me give you the number. Last year the export was 261 crores in the same quarter. This year it is 222 crores. It is down by 15%.
- Sachin Trivedi** And sir how is the outlook in your exports?
- Sudhir M. Trehan** Export will remain down around 10%, because first quarter is 15, I have a feeling year will still end with exports down compared to last year. We don't dispatch, we don't take action on them till LCs are opened. And the customer is most of the time requesting open credit, which we are not agreeing. And he is delaying opening LCs.
- Sachin Trivedi** And sir, when do you see the export recovery really to happen based on your clients?
- Sudhir M. Trehan** 11, 12 according to me because what I am seeing Europe and other places, their growth has started happening in Euro terms. Same power DND has grown 7% in Euro terms in our overseas entities both in Europe and North America, which is a sign that their economy which was dramatically down on DND is looking up now. So I hope the exports in 11, 12 will be back to normal out of India, but will be down definitely in 10, 11, which we will have to make up from domestic.
- Sachin Trivedi** Okay. Sir one final question from my side is on the tax rate, although I have asked the same question last time, but again the tax rate on consolidated basis is close to 29, 30%. Is there any specific reason why tax rate is down?
- Sudhir M. Trehan** You are talking of standalone or consolidated?
- Sachin Trivedi** Consolidated.
- Sudhir M. Trehan** Consolidated tax rate is about 29.5% and last year was also about 30.2%.

- Sachin Trivedi** Okay, because my numbers are showing slightly higher tax rate in that case.
- Sudhir M. Trehan** In quarter 1 last year.
- Sachin Trivedi** Yeah.
- Sudhir M. Trehan** Of consolidated our tax rate was 30.2% and consolidated like for like quarter 1 of current year is 29.5%.
- Sachin Trivedi** Sir these are the normal tax rate and there is no off in this.
- Sudhir M. Trehan** No, there is no one off in both. Neither in the last year quarter 1 nor in this year's quarter 1.
- Sachin Trivedi** Okay sir. Thank you. I really appreciate it.
- Sudhir M. Trehan** Thank you.
- Moderator** Thank you. The next question is from the line of Abhijit Dev from Kotak Mutual Fund. Please go ahead.
- Abhijit Dev** Good evening sir.
- Sudhir M. Trehan** Hello.
- Abhijit Dev** Yeah, good evening. My question related to the other expenditure part. We have seen for the last 2 quarters, the March and June quarters the other expenses basically coming down even on absolute basis both on the standalone as well as the consolidated results. How sustainable is it going forward, sir?
- Sudhir M. Trehan** First of all, if you look at other expenditure of standalone, it hasn't come down.
- Abhijit Dev** Yeah for this ...
- Sudhir M. Trehan** Last year first quarter was also 149 and this year is 150 crores. So if it has gone up by 1 crore, it hasn't come down. If you look at consolidated, then last year was 305 crores.
- Abhijit Dev** Yeah.
- Sudhir M. Trehan** And this year is 287 crores. And you have to take into account that the Euro translation difference is about 15%.
- Abhijit Dev** Okay.
- Sudhir M. Trehan** So same Euro expenditure in overseas entities will show now 15% less in Rupees. And hence it is looking less, but actually other expenditure is almost the same.
- Abhijit Dev** Okay. Sir what about on the standalone front sir? They have still remained you know ...

- Sudhir M. Trehan** What about on the?
- Abhijit Dev** On the standalone front also it is stagnant as you rightly pointed out.
- Sudhir M. Trehan** That's right.
- Abhijit Dev** So will it be sustainable going forward also, I mean the ...
- Sudhir M. Trehan** Quarter on quarter it will be sustainable.
- Abhijit Dev** Okay.
- Sudhir M. Trehan** So you compare quarter 1 to quarter 1 it will be sustainable. Don't compare this now to different quarter, because there are various costs, various increments, various things are given quarter over. So quarter 2 to quarter 2, quarter 3 to quarter 3 like that it will be.
- Abhijit Dev** Okay.
- Sudhir M. Trehan** If we don't do that then we won't be able to maintain our margins.
- Abhijit Dev** Right. So where are all these cost savings coming from? What are the major areas you are looking at?
- Sudhir M. Trehan** All the overheads. These are all other expenditures.
- Abhijit Dev** Right sir, thank you.
- Moderator** Thank you. The next question is from the line of Charanjeet Singh from BNP Paribas. Please go ahead. Mr. Charanjeet Singh, your line has been unmated, please go ahead.
- Laxman** This is actually Laxman from BNP. I have two questions. Europe business actually came in stronger.
- Laxman** At the end of the year was actually down in the European or international business in Euro terms. What spurred the sudden growth?
- Moderator** Thank you. The next question is from the line of Sheena Pervoza
- Sheena Pervoza** Okay. Thank you, thank you Mr. Trehan for this call. I did have a question regarding your overseas order book, you mentioned that you saw like 7% growth in Euro terms in Europe and North America.
- Sheena Pervoza** Okay, I'll just go a little slow. I just had a question regarding the overseas order book. You mentioned that you saw 7% growth in Euro terms. Are you seeing a turnaround in your overseas orders?
- Sudhir M. Trehan** Yes, as I mentioned to you, the order input of consolidated has increased first quarter to first quarter basis.

- Sheena Pervoza** That's right.
- Sudhir M. Trehan** By 34.5%.
- Sheena Pervoza** Are you able to break that down, the domestic and overseas?
- Sudhir M. Trehan** The standalone Crompton Greaves domestic in Crompton Greaves India as CG as an entity has grown 53%.
- Sheena Pervoza** Okay.
- Sudhir M. Trehan** So you can calculate that it will come to your overseas entities have grown by 19%.
- Sheena Pervoza** Okay, that sounds good, very promising. And just the other question also, last time I think you all had mentioned you were looking towards more into the projects and substations business. So I just wanted to understand your strategy there. Are you planning to go into it and if so why?
- Moderator** Thank you.
- Sheena Pervoza** I just had a question regarding the substation business. Are you still looking to enter into that in a big way? And you know what are the events behind this move?
- Sudhir M. Trehan** We got a large order for substation for 765 kv from UP Power Transmission Corporation Ltd. about 320 crores in this quarter. And we are seriously looking into getting turnkey substation business for extra high voltages for 400 kv and 765 kv.
- Sheena Pervoza** Okay, and what is the reason for that? Because typically margins are lower in this business.
- Sudhir M. Trehan** Margins will be lower in this business compared to pure product sale. But these projects will also bring their product sale, which will be also a margin on top of the project margin.
- Sheena Pervoza** Okay. So it is mainly to grow the order _.
- Sudhir M. Trehan** That's right.
- Sheena Pervoza** Okay, great. Thank you very much.
- Moderator** Thank you. The next question is from the line of Anupan Tiwari from Reliance Mutual Fund. Please go ahead.
- Anupan Tiwari** Good evening everybody. Can you hear me, sir?
- Sudhir M. Trehan** I will try to, but somewhere I think, not your fault, somewhere in this conference today audio quality is poor. Please go ahead. Speak little slowly so I can grasp you.
- Anupan Tiwari** Sure sir. First of all sir, lot of congratulations on your very excellent annual report and elaboration that you have made on your products and your segments. It's really nice to understand the business. Couple of questions, one from your this _ from Saudi Arabia company

that you did for 750 mva current rating transformer, do you think that this would give you a better platform for India when this product starts to have a market in India.

Sudhir M. Trehan Definitely.

Anupan Tiwari As of now, if I understand correctly, 500 mva rating is the highest rating that we are operating in.

Sudhir M. Trehan That's right.

Anupan Tiwari And second question, with your overseas entities, order intake has gone up and it's a very significant number. Do you see a real change in the economy over there and this can sustain?

Sudhir M. Trehan See what has happened is there was a muted outlook of the housing markets in the developed world, which affected the company's distribution transformer business. The good news is that the wind energy is back in the frame and CG is able to leverage its strength in the wind energy sector to increase its market potential.

Anupan Tiwari Okay.

Sudhir M. Trehan And hence the order inflow on the distribution side coming from this renewable wind energy has pumped up the growth in sales as well as the growth in order input in the overseas entities.

Anupan Tiwari Sir, just I have to ask you as a directional question, I don't ask you to quantify. But do you feel that now at least you can maintain the order intake figure in overseas entity at the last years' level?

Sudhir M. Trehan Definitely.

Anupan Tiwari Okay. And next question on your MSC Power, PTT, and our whole wind energy EPC business now you have a fairly very good integrated product in service platform for wind energy business including say products and complete EPC capability and complete automation capability. Do you have any plan to replicate it and scale it up in Europe and Indian market?

Sudhir M. Trehan Europe we have already started working on it. We have had a large order of an offshore wind mill project for _ which is about 50 km away from the shores in Belgium. It's a very prestigious project. We have done that, the whole 180 mva, 150 kv, 33 kv substation for that at an offshore basis. We are _ for it also. The project is almost complete through March. It is about 1,200 tons in weight. This will be transmitted 50 km in both on the 3rd of August. So this is our first offshore windmill project, which we offer complete solution rather than just the products. We have brought it, as I said, from US to now Europe. We will get our feet little more and then we will try to replicate the same business model of solution providing for wind _ in India.

Anupan Tiwari And how has been response to slim in US, sir?

- Sudhir M. Trehan** Slim in US is picking up, but at a slow pace, because US still believes that the transformer can be outside the wind turbine tower and does not affect the beauty of the surrounding environment while Europeans are more beauty conscious and don't want to see in the nature any boxes like transformers.
- Anupan Tiwari** Okay. One last question from my side sir. You are doing some Capex for high machines in Hungary for industrial motors. Is there any plant to scale up the capacity for big size motors there?
- Sudhir M. Trehan** We are scaling up in Hungary big size motors.
- Anupan Tiwari** It is like you are seeing local market improving or that would be primarily for exports?
- Sudhir M. Trehan** In Hungary what we will do is for European and Middle East countries, not for Hungary as such. Hungary as such there is no demand. But it will be other West European and Scandinavian and Middle Eastern countries.
- Anupan Tiwari** And any plan to increase these higher size motor capacity in India, sir?
- Sudhir M. Trehan** Yes, in India we are investing in a big plant in Bhopal where we will be spending about 55 crores to take the motors which we make today up to 5 mega watt. We are taking it up to 12 mega watt. And generators up to 25 mva. We have already bought the land. The building construction has started. Plant and equipments are on order and the plant should be complete by the end of the year.
- Anupan Tiwari** Okay. So our production can start by next financial year.
- Sudhir M. Trehan** That's right.
- Anupan Tiwari** Thank you sir and best of luck.
- Sudhir M. Trehan** Thank you.
- Moderator** Thank you. The next question is from the line of Fatema Pacha from ICICI Prudential. Please go ahead.
- Fatema Pacha** Hello sir. Firstly, just a clarification on the order inflow that you are talking about. Are you saying that the order inflow on consolidated basis has grown up by 34% or the order book has grown up by 34%?
- Sudhir M. Trehan** Order intake has grown in the first quarter on a consolidated basis by 34.5%.
- Fatema Pacha** Okay. So my sense is the subsidiaries per say I think you have done only a 700 crore order inflow. Would that be the right number?
- Sudhir M. Trehan** No. The right number will be 913 crores in the overseas entities.
- Fatema Pacha** Is that 1,800 crores in Q1 in standalone, right? Because you _

- Sudhir M. Trehan** _ order inflow in quarter 1 is 1,113 crores.
- Fatema Pacha** In Q1 FY 11 you are seeing 53% order inflow growth, right in standalone?
- Sudhir M. Trehan** That's right.
- Fatema Pacha** And you had 1,100 crores order inflow in Q1 last year.
- Sudhir M. Trehan** No. This year 1,103 crores. Last year, 721 crores. Wait one moment, I am looking at the wrong number.
- Fatema Pacha** Yes.
- Sudhir M. Trehan** Nahi theek hain, theek hain number. Yeah, sorry. You are right. The standalone India number is 1,818 crores.
- Fatema Pacha** Exactly, yeah.
- Sudhir M. Trehan** Correct.
- Fatema Pacha** And so you are saying subsidiaries is only 700 crores.
- Sudhir M. Trehan** No. And the subsidiary is 914 crores. So total is 2,732 crores.
- Fatema Pacha** Okay 900 crores. Sir, like I met you once before when you said that the subsidiary business is primarily Europe. But when you went through the annual report, here it has realized only 17% of your total sales is from Europe. Everything else is you know may be Asia ex India and US. Sir, is this order inflow primarily you know in the similar proportion or it is you know very country specific?
- Sudhir M. Trehan** See, roughly the order inflow is in the same proportion as the revenue which is coming from Europe and North America regions.
- Fatema Pacha** And sir my observation is that only 17% of your consolidated sales is Europe, would that be right?
- Sudhir M. Trehan** Can you say it again?
- Fatema Pacha** That your consolidated sales for FY10 fro Europe is only 17%.
- Sudhir M. Trehan** Say it again. I didn't get you.
- Fatema Pacha** The Europe sales, as in sales for country to Europe region was only 17% of your consolidated sales in FY 10.
- Sudhir M. Trehan** FY 10, okay. First quarter Europe is about 25%.

- Fatema Pacha** Okay, sir and you know like I've been tracking commodities so I know that you know first half of Europe was extremely good seasonally. So do you think that second half, you know, there could be concerns because there is the summer break and then post that there is the winter. So then they generally tend to come back only by December, January or may be later January or February. So second half could be like at least second half of this calendar year could be muted from Europe.
- Sudhir M. Trehan** But again it was muted last year also. These are seasonal phenomena of the plants being closed in July and August in Europe.
- Fatema Pacha** But the second half last year was much better than first half because last year was an abnormal year.
- Sudhir M. Trehan** Yeah. But the way we are seeing when we say this year the overseas entity this order inflow in first quarter is up by 19%, that 914 crores versus last years 766 crores, kindly take into note that this is 19% growth in Indian Rupees. And last year to this year Euro translation difference itself is 15%.
- Fatema Pacha** Yeah, it is even higher _ **Sudhir**
- M. Trehan** Growth in Euro is roughly 34%.
- Fatema Pacha** Okay, so you feel it's very strong.
- Sudhir M. Trehan** That's where I feel little more confident about Europe and the Americas now. At least distribution transformer business which was affecting us due to the housing market is being compensated by the good wind energy, wind forms back in to business.
- Fatema Pacha** Okay. And sir just one question on the standalone business, you know, very much against some other you know participants who have you know spoken about your staff cost and your other expense being higher, my just doubt is that you know I am just seeing your staff cost here on an increase of only 8%. Even like PSUs in our country have been giving double-digit hikes. So do you think, you know, in the bid to ensure that you know investors are pleased with the margin that you are showing, may be you could be running a very high attrition level or you know we might ...
- Sudhir M. Trehan** Our attrition level is lower than the market. The salary hike which we have given this year is average 20%, maximum 35, 40%.
- Fatema Pacha** It is looking lower in your staff cost number. That's the reason ...
- Sudhir M. Trehan** It is not looking lower. It is 20% higher. When we talk of staff cost, we talk of executives and government. Obviously, we haven't given to the workmen 20% hike. So if you look at the number, the number is a mix of salary and wages.
- Fatema Pacha** Okay.

- Sudhir M. Trehan** Out of that if you split them into salary and wages and increase the wages by 2%, you will find the salaries have increased by 20% and overall impact is 12, 13%. 63 has become 72. 9 over 63 is 14, 15% which is built up of executives and white collar getting average 20%.
- Fatema Pacha** Okay.
- Sudhir M. Trehan** And hence peak 40% and of course poor performers 10% so average 20%.
- Fatema Pacha** And sir, what is the composition of other expenses? It is quite variable. Like you are on a similar you have a higher sales versus your 3Q of 1,200 crores and your other expenses have been lower. I am assuming _ percentage of sales.
- Sudhir M. Trehan** All overheads, salaries of people like me and those who don't work.
- Fatema Pacha** That should be variable sir.
- Sudhir M. Trehan** Not variable. In our concept, it is other expenditure. Because what we give you there is only the material, the employee cost, and rest every cost is other expenditure.
- Fatema Pacha** Okay. Sir, don't you think this percentage of sales figure is extremely low?
- Sudhir M. Trehan** You are worried about that?
- Fatema Pacha** I just want to ask whether it could be higher or you know there is a one off on this.
- Sudhir M. Trehan** No, there is no one off. You put our last 10 years 40 quarters numbers 41 quarters and you will find there is nothing abnormal.
- Fatema Pacha** Okay.
- Sudhir M. Trehan** There is no one.
- Fatema Pacha** Okay sir. Thanks a lot sir.
- Sudhir M. Trehan** Thank you.
- Moderator** Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in the conference, please limit your questions to 2 per participant. The next question is from the line of Joost Vost American Century Investments. Please go ahead.
- Joost Vost** Thank you. Mr. Trehan, on a consolidated basis, if you're looking at the power systems revenues, they're still trending negative. In view of what you've mentioned earlier regarding recovery in Europe and other overseas markets, what do you think is a reasonable estimate for full year 2011 in terms of growth year over year in that specific division?

Sudhir M. Trehan Normally, we don't give numbers specific division, we give number of the company overall. So I will repeat my statement which I have said earlier that standalone CG we expect the years sales growth to be of the order of 14 to 15%. And all overseas entities in local currency we expect the growth to be of the order of 5 to 6%.

Joost Vost Thank you very much. If my numbers are right, on the consolidated business, raw material as a percent of revenue in the quarter just reported a 52% versus 47.8% in the fourth quarter of the previous fiscal.

Sudhir M. Trehan I think we are calculating them differently, because both numbers don't tally with what I have in front of me we are talking of a consolidated number and as per me, the fourth quarter of previous year our material to sales ratio was 62.9%. And even in this quarter it is 62.9%. So I think we are not on the same page.

Joost Vost Okay. Let me ask a general question then. In terms of that ratio, do you expect that to stay at similar levels going forward?

Sudhir M. Trehan That's right.

Joost Vost Okay. And then finally on the consumer products division which apparently doesn't get a lot of attention in this call, it looks like the business is strengthening both in terms of revenue growth as well as in profitability. What's your confidence level in terms of further strength in that area please?

Sudhir M. Trehan I would comment about further strength, but my confidence is pretty high that this sort of a growth both in sales and profitability will be maintained in the next 3 quarters.

Joost Vost Thank you very much sir, I appreciate it.

Sudhir M. Trehan Thank you.

Moderator Thank you. The next question is from the line of Ritesh Chheda from MK Global. Please go ahead.

Ritesh Chheda Congratulations on a good set of numbers. Just one question on the industrial system side we've seen good improvement and some traction. But just if you could share some experience in terms of the quality and the place of this traction and specific product segments which are showing traction and how stronger can this traction be in the subsequent quarters?

Moderator Excuse me sir, I am sorry to interrupt.

Ritesh Chheda Yeah.

Moderator Mr. Chheda, if you could be a bit louder, sir, because your voice is coming very low.

Ritesh Chheda Should I repeat my question?

Moderator Yes please.

Ritesh Chheda Okay. Industrial systems has seen improvement in terms of traction over the last 3 quarters. This is specifically domestic. I just wanted to know your experience in terms of the quality of this improvement, specific product segments which have seen improvement, and how confident are you in terms of you know if this traction can improve further here on?

Sudhir M. Trehan I would definitely say that this what has happened is the third consecutive quarter where industrial systems sales have been going up.

Ritesh Chheda Yes.

Sudhir M. Trehan And trend is widespread and uniform. HT Motors have grown, LT Motors have grown, Fractional Horse Power Motors have grown. And the very fact that it has gone on for 3 quarters and is widespread _ in the whole product range right from Fractional to LT to HT, this may confidence that what has happened in first quarter will be maintained for the rest of the year.

Ritesh Chheda Okay. On the industrial side which kind of industries is it possible to know have shown or contributed to the traction?

Sudhir M. Trehan This is going into power. This is going into cement. This is going into oil and gas, going into metal, both aluminum and steel. So it is again very widespread in every industrial segment. It is going into sugar. The demand has been really high picking up for continuously the quarters now.

Ritesh Chheda Okay, so is it fair to assume that all these sectors that you have mentioned have seen a strengthening over the last 3, 4 quarters in terms of demand for these systems?

Sudhir M. Trehan That's right.

Ritesh Chheda Okay, thank you and all the best to you.

Sudhir M. Trehan Thank you.

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

Madhuchanda Dey Yeah, good evening sir, hello.

Sudhir M. Trehan Good evening.

Madhuchanda Dey Yeah. My question, I am harping on the same point of _ issues from _. I guess you are referring to both your private sector and public sector clients, right?

Sudhir M. Trehan Yes.

Madhuchanda Dey So in your assessment, is there any particular macro factor which is causing this? You said there is just a marginal delay. What macro factor according to you is causing this which is something that you would like to monitor?

- Sudhir M. Trehan** See according to me it is just the readiness of the organizations in handling the projects which have been delayed, deferred for the last 18 months and they are coming back on stream and they are just gearing up for it.
- Madhuchanda Dey** Okay, so I mean this is something which is very generic. Nothing to do with any company-specific issues.
- Sudhir M. Trehan** No, according to me no. Because there is a, you see the whole industrial Capex is moving up.
- Madhuchanda Dey** Right. That is why I am more curious to know that is the problem.
- Sudhir M. Trehan** So that's why I feel it is only a temporary phenomenon. It may go away 1 to 2 quarters.
- Madhuchanda Dey** And while you were sounding distinctly positive on order flows from your overseas business, how has it changed over the last 3 months basically?
- Sudhir M. Trehan** I wouldn't have the data month wise. It would be very difficult for me to pass judgment. We have the data quarter to quarter.
- Madhuchanda Dey** No, but has it been like a progressive improvement across over the months?
- Sudhir M. Trehan** These are made to order. They come in lumpsums. They are not that uniform they flow in month to month. As a matter of fact, even in my opinion, quarter is a small cycle to judge these products performance both in sales and order input. Because the lead time for these products is 3 quarters. And the order input cycle lead time is another 3 quarters. So splitting it into a cycle shorter than a quarter would not serve much purpose. According to me, the cycle should be longer than even a quarter, but unfortunately, we have to give numbers quarterly and hence we do give numbers of the quarter.
- Madhuchanda Dey** Okay, so you really cannot say whether June was a better month than May.
- Sudhir M. Trehan** No, not possible to say that, no.
- Madhuchanda Dey** Okay sir. Thanks and all the best.
- Moderator** Thank you. The next question is from the line of Harish Bihani from India Bulls Institution. Please go ahead.
- Harish Bihani** Good evening sir.
- Sudhir M. Trehan** Good evening.
- Harish Bihani** Sir, given the composition of existing order backlog in the domestic power division, can you also say that the execution time is increasing because of the current order backlog?

- Sudhir M. Trehan** No, the execution time is same, because you commit the delivery to the customer based on his need. These are made to order. And as I said, the average delivery period is anywhere between 6 to 7 months. And that quantity is even running today and this order backlog is roughly for 11 months.
- Harish Bihani** Right sir. Sir, my second question is on the domestic power division we did about 11% YOY growth in FY 10. Are we looking at similar numbers in FY 11 or slightly lower given that there have been some delays on the customer front?
- Sudhir M. Trehan** I would look around the same number, but as I said, I don't want to give numbers for 3 segments separately. I have given you the number for the standalone company and for overseas entities separately.
- Harish Bihani** Right. Sir, my third question is there has been a 15% increase in the overseas staff cost. Is it that we are giving some salary hike or ...
- Sudhir M. Trehan** Obviously, April is the month for bonuses and salary hikes and last year was a good year for us. So there were bonuses.
- Harish Bihani** Right sir. Sir, my last question would be on the absolute number of the order backlog in standalone business.
- Sudhir M. Trehan** The absolute number of?
- Harish Bihani** Absolute number of order backlog of the standalone business.
- Sudhir M. Trehan** Order backlog, the standalone order backlog is 3,733 crores.
- Harish Bihani** Right sir. Thank you for answering my questions.
- Sudhir M. Trehan** Thank you.
- Moderator** Thank you. Ladies and gentlemen, due to time constraints the management would be taking one last question. The last question is from the line of Anupam Tiwari from Reliance Mutual Fund. Please go ahead.
- Anupam Tiwari** Thanks for giving me opportunity again. Sir, it is just curiosity, nothing specific with numbers, how Crompton Greaves is placed in terms of protection equipment for service stations?
- Sudhir M. Trehan** We do not make protection relays. We make only switch gears. We have developed our digital protection relays, which are under trial. By next year we will be selling them on a mass scale. This is our own developed technology which is under the trial.
- Anupam Tiwari** Okay.
- Sudhir M. Trehan** For select customers.

- Anupam Tiwari** Okay. And last question sir, do you think that this high mva ratings like 750 could be introduced in India soon?
- Sudhir M. Trehan** They will be.
- Anupam Tiwari** Okay.
- Sudhir M. Trehan** Power volumes are increasing and hence India would be launching these higher ratings in the country.
- Anupam Tiwari** Okay, so do you think this year?
- Sudhir M. Trehan** No, it depends on the customer. According to me, tenders should come in the second half of this year or may be the supply may happen in the next financial year.
- Anupam Tiwari** Is there also like say higher voltage rating there is any qualification criteria for this?
- Sudhir M. Trehan** There is a qualification criteria that you should have made that sort of a rating and have had that experience.
- Anupam Tiwari** Okay. Thank you sir, thanks a lot.
- Sudhir M. Trehan** Thank you.
- Moderator** Thank you.
- Sudhir M. Trehan** Thank you.
- Moderator** Ladies and gentlemen, that was the last question. Thank you Mr. Trehan.
- Sudhir M. Trehan** Thank you very much.
- Moderator** Mr. Sheth. Ladies and gentlemen, on behalf of Prabhudas Lilladher that concludes this conference. Thank you for joining us. You may now disconnect your line.