

“Crompton Greaves Limited Q1 FY’16-17 Earnings Conference Call”

August 30, 2016

Moderator: Ladies and Gentlemen, Good Day and Welcome to the 1Q FY-'17 Crompton Greaves Conference Call. 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. I now hand the conference over to Mr. Neelkant – M.D. and CEO of Crompton Greaves. Thank you and over to you sir.

K.N. Neelkant: Thank you. Good Evening, everyone and thank you for joining us for the Q1 Call for FY-'16-17. This quarter has been a steady and encouraging quarter, so let me start by generally explaining the overall Business Scenario, the Segmental Numbers and then build the Consolidated Picture.

So if we were to start with the Power Systems business standalone India, I am talking about the numbers now would be standalone India numbers. The Power Systems standalone revenue was Rs.609 crores which is on a Q-on-Q comparison with first quarter of last year, so the 59% growth from Q1 of last year. Of course last year we had an outage in the Nasik factory for some period of time due to some issues, so the base was at a lower level, but on a steady state basis I think this revenue should sustain. On the margins side Power reported margin of EBIT at 5.6%, which translates into roughly an EBITDA of 7.6%. This is more a sustainable level and some more improvements from hereon can be seen as the corrective measures what we are putting in take place going forward.

On the EDP front, Power Systems is now today Rs.2,594 crores, this represents more than 10-months of executable revenue, so I can say that FY-'17 from unexecuted order book status we are fairly covered.

Despite the pressure in Transformer pricing I think these numbers are fair to expect steady state operations for the Transformer business, and in terms of order inflow, Q1 orders were about Rs.731 crores, which is also growth over Q1 of last year, a small growth of 3.5% growth but nevertheless a growth. Effectively, the execution story what we have been talking about in the last couple of calls I think the results of that are being seen in this quarter.

From Power Systems if we move on to Industrial Systems, Industrial Systems continues to perform well, continues to gain the momentum what it had created for itself last year, and with revenue of Rs.422 crores this quarter the growth is slightly decimal above 11% growth, but we have hit the double-digit growth number for Industrial Systems now. On the margin side, the EBIT is at 11%, so it will translate to slightly more than 12.4-12.5% EBITDA, which in the current state of the macroeconomic situation is where we wanted to be and it is a steady state growth from the EBIT numbers what we have been seeing in the subsequent last four quarters. If you look at margin expansion in this segment, it is mainly the volume effect and with this double-digit growth I believe it will continue though I always give the guidance at one-time GDP or I give no guidance, but on this front I would say that the double-digit growth can continue to be expected, and with that economics of scale the margin expansion further is an upside from here on.

The order inflow in this quarter, you would have noticed that it has shown a significant bump in Industrial Systems. Usually in Industrial Systems, we do not talk too much about the order input because it is a small cycle book-to-bill; however, this quarter the 46% growth is something worth mentioning because the large chunk of this growth has come from the Railways business. In the earlier calls, we have been talking about we working on our product portfolio for the Railways

business and this Q1 order input bump is essentially I think it is showing the results of the work done in the earlier quarters and what we have been speaking in the earlier quarters. The execution of these Railways orders would begin towards the latter part of this financial year and we expect that the momentum what we have created now in the new segments of Railways will continue going forward.

On the other piece of Industrial Systems business, which is the Motors... and when I say Motors I include all ranges of Motors, the low voltage, the high voltage, the FHP we have significantly outperformed the market here. So compared to the market growth of the Motors, again this continues to outperform the market and it has actually built further on the momentum which we had created last year.

So with this overall picture of the Power Systems and Industrial Systems standalone business if you look at the continuing operational EBITDA numbers it has improved significantly to about 9.4% and once we bring back the unallocable expenses including some of the standing cost related to the discontinued businesses, the reported figures will be about 6.1%, but at the business level I once again bring your attention that it is at about 9.4%.

On the revenue side, Q1 revenue for CG India stood at Rs.1,043 crores, which is a significant 35% growth from Q1 last year, standalone UEOB at the end of March was at about Rs.3,578 crores, and order inflow for this quarter has grown by about 20% from Q1 of last year and stands at about Rs.1,373 for this quarter.

So effectively, the overall picture of CG India, while it has shown significant growth over Q1 of last year, I think even if we compare with Q4 of last year, we are still in a good position because all of us are aware that Q4 is a significantly peak quarter and compared to Q4 also, we have performed reasonably well in this Q1, shows very positive signs of the execution capabilities having improved and effectively leveraging our operating efficiency.

The businesses which we will continue to have outside India which is essentially the Rotating Machines in Hungary and the Drives business in Sweden, they continue to be stable, although you may see a small drop in the EBIT at the consol level from the CG standalone India level, this is more due to the work in progress of the restructure in Hungary, where the allocation of the common cost has still not reached a steady state level.

Other updates include though these are events which happened in Q2 which is essentially there was a reporting of stoppage of production in Bhopal on account of floods and a small fire incident in Kanjur both these things have been rectified and we are now trying our best to see that these incidents do not have any impact on our Q2 numbers.

The developments on the divestments essentially first the big ticket item of the perimeter which we call "Project Spear" this you would recollect includes Belgium, Hungary, Indonesia, Ireland and US, it continues to be where we planned it to be, we are going as per schedule, and at this point of time we do not foresee any slippage from the October 31st long stop date what we had mentioned. Two specific things which were mentioned in the earlier call relating to "Project Spear" one was the Competition Commission approval required by the prospective buyer, we have now got a confirmation that that part of it is resolved. The second part of the RBI thing which we need to get from here, the necessary applications are made and we expect now it is only a question of a process, may be a couple of weeks, three weeks it should be in our hand. So "Project Spear" timeline wise going as per schedule, and we will keep giving you updates as and when any significant milestone is crossed.

The next thing the bigger ticket item again is ZIV Spain which we had talked about our intent to divest. Here also we have made significant progress. The shortlist of the prospective buyers have been done, initial meetings have been carried out, and right now we are in the middle of management presentations. Since that is a deal which is ongoing I am sorry I would not be able to give more details because it will be sensitive to the deals, but all I can say is the timelines which we had mentioned earlier we are very much on track with those timelines on divestment.

Then there were few smaller businesses which we had expressed our intent to divest or wind it down. One of them includes our Solutions business out of US, which we had stated our intent to divest. I am happy to inform you that a share purchase agreement on that deal has been reached and everything else falling into place as early as end of this September we might see a closure to that Solutions business in US and that part of the chapter of the story would be over.

Solutions business in UK is going bang on schedule as far as its winding down is concerned, and the cost incurred towards that winding down is also very much within the estimates what we had given you earlier.

So overall, I think CG India execution, operational efficiency, CG outside India continuing business stable, and CG outside India the businesses which we intend to divest or wind it down as per the timelines which we had mentioned. I think I will leave it here and wait for any questions you may have. Thank you.

Moderator: Thank you. We will now begin the Question-and-Answer Session. We have the first question from Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: I just had two questions: First is, I need details of your other income and finance cost for this quarter since the other income has declined sequentially and finance cost has increased sequentially. My second question is, do you maintain your full year guidance of your sales and profit of around Rs.325 crores for this year?

12:20Madhav: Hi! Ankit, this is Madhav. So first is your question on other income and finance cost. What has happened is that earlier we were reflecting the two on a net basis, that is the finance cost was reflected net of the finance charges that we collected or interest that we received; however, there has been a clarification by an expert committee on the subject which we have received in the month of July which requires us to kind of show it on a gross basis which is why the other income has been grossed up and the interest cost has been grossed up. That is one change. Coming on to the issue of the guidance, saying I guess we are on track in terms of our business, we are happy with our performance, we do believe we have a long way to go. So, we will not be able to give you specific guidance but we are happy with the performance the way it is shaping up.

Ankit Babel: Just on the first question, I agree that you have grossed it. My question was that it has reduced significantly on a sequential basis. Now that Rs.70 crores other income has reduced to Rs.36 crores and your interest cost has increased from Rs.19 crores to Rs.25 crores. I believe that on net debt basis you are zero-debt company. So where this Rs.25 crores of interest cost is coming? I am talking about the standalone numbers.

Madhav Acharya: Two things: One is in the month of March we had some other income from some of our assets non-performing or non-productive assets which we had disposed off, that has given us some income in the month of March, that is not there in this particular quarter. Coming on to the interest, we were not net debt zero, but we were net debt positive at that point of time, we are expecting to be net debt zero post our deal of Spear projects after that we will become net debt zero, not before. So there is an interest cost which is there and that is why the cost is.

Ankit Babel: Can this other income rate be sustained at Rs.30-35 crores for the remaining quarters?

Madhav Acharya: Yes, it will be sustained.

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

Renu Baid: As you mentioned you have changed your reporting for other income and finance cost, but if we look for FY'16, we had already restated our financials under the new accounting system IND AS and if we see 1Q17 the PAT level numbers have further declined by approximately Rs.50 crores. So, why has there been this further drop in profits?

- Madhav Acharya:** So let me explain Renu before you go to the next question. Basically we adopted the IND AS for March. There has been a clarification by SEBI dated 5th of July by which clarification they have now inserted this new definition there called 'Other Comprehensive Income After Tax' which was not there earlier. So now we are supposed to combine the exchange gains and losses into this particular account, which was not there earlier. So this is you can call it a teething trouble with IND AS at this point of time. That is what has happened. So it is reclassification at that point of time.
- Renu Baid:** This is also probably one of the reasons why the overall other income looks slightly lower, which earlier would have been because...
- Madhav Acharya:** It is because of the reclassifications that have happened and there has been a SEBI guideline, which has come on 5th of July, though ideally it should have come much before but anyway.
- Renu Baid:** Second, if we look in terms of the progress of debt repayment, has there been any meaningful development since the closure of the financial year and now with respect to deleveraging and debt repayment?
- Madhav Acharya:** The deleveraging will primarily happen when we complete our Spear deal okay, which will happen end of October. That is the time you will see a significant change in our debt profile and not before.
- Renu Baid:** The other question is if you can just also clarify little more on the Power Systems domestic. We were expecting to close some of the projects that we were having on our backlog and about Rs.20-odd crores of loss in the current financial year. So what has been the progress so far, what is the pending value in the backlog and overall combined with this your comments on Export business?
- K.N. Neelkant:** Renu, Neelkant here. Solutions business wind down is actually happening quite smoothly since I should not be telling this because I never make positive statements in our call, but actually it is happening better than our expectations. Apart from the winding down of the existing projects there are also a couple of projects where we have been able to renegotiate with the customer and get the contracts terminated without any loss on either side. So that progress is happening quite satisfactorily.
- Renu Baid:** So any losses that were booked in the first quarter from this business because overall the margins are just about 5% standalone Power Systems?
- K.N. Neelkant:** We have booked losses from that. As the projects died down and on closing whatever is the negotiated settlement with the customers and where we have to take a haircut we have been taking it project-by-project, so it has been taken and accounted in the Power Systems, EPD we have taken a haircut.
- Renu Baid:** Would it be possible for you to share the kind of haircut or overall loss on account of Solutions business?
- K.N. Neelkant:** Ballpark Q1 we have taken a provision of about Rs.10 crores in EPD, our Solutions business.
- Renu Baid:** What is the value in the pending backlog that we have today?
- K.N. Neelkant:** Let me give you a different number; pending backlog as on March '17 would be less than Rs.50 crores.
- Renu Baid:** You are talking of year-end. I am talking in terms of sequentially what has been the reduction in backlog because you mentioned that we have been able to renegotiate with customers to close and exit those projects?
- K.N. Neelkant:** Unexecuted order book today stands at about Rs.175 crores and that is what I said that at the end of the year we expect this to be slightly shade less than 50, so another Rs.125 crores of execution in this year.

- Renu Baid:** Your comments on the export performance in this quarter?
- K.N. Neelkant:** Exports to South East Asia has been reasonably good, exports to LATAM we are renegotiating with the customers so that we get secured terms of payment before we dispatch the equipment because considering the LATAM disturbances though we have manufactured or almost manufactured some of the equipments LATAM has a policy decision we are saying now that unless we have secured terms of payment for 100% of the goods value, we will not dispatch it. So that renegotiation is going on, but we expect that to be completed, LATAM sales will improve in Q2 because there has been significant headway in the negotiations with those customers and South East Asia will continue to have its momentum going forward in Q2 also.
- Renu Baid:** But any color on the quantitative aspects with respect to the growth in business in this segment or it was on an overall decline mode?
- K.N. Neelkant:** It is a stable mode, it is not a decline at all, in fact if deep dive into it certain geographies might show reasonable growth.
- Harish:** Harish here from Kotak. My first question is on the Subsidiary Power Systems revenue and margin which has been on the higher side for the last two years and same is there in this particular quarter. So if you can just help us understand what is remaining in that Power Systems subsidiary and why is the margin looking high, what is the outlook on this particular thing?
- K.N. Neelkant:** This is especially the trading arm what we call as sales network in Americas who do trading for us now in the Americas including LATAM. Now what has happened in Q1 is we have divestment of Spear and other things happening, we are accelerating the sales in this particular office to see to it that they do not have any residual backlog of equipment to be taken from the perimeter post the closing in October. So if you ask me whether it is sustainable? No, this kind of margin is not sustainable, it will taper down, but will taper down softly.
- Harish:** Just the trading arm? So after the entire sale which takes place and you are also winding down US and other businesses, what would remain in the overseas Power Systems business?
- K.N. Neelkant:** No, that part of the business is not inside the perimeter. Today what they do is they buy some products from India, they buy some products from inside the perimeter, add some trading equipment to that and sell it at the system. So tomorrow when Perimeter is no longer with us that piece of the business will automatically see a decline.
- Harish::** Second is if you can also share the gross unallocable expenditure, say for fiscal year '16 and the first quarter, there has been a very sharp jump in the net unallocable expenditure in this particular quarter. So, how do we look at this particular number both on a standalone as well as on consolidated basis?
- Madhav Acharya:** We have an unallocable cost today because we are catering to the entire business across the globe. While we are in a mode of currently selling off the businesses overseas but currently we are still running those businesses, whether it is technology, whether it is finance, whether it is everything else, and the cost of all in there. So once those deals get completed these costs significantly come down. That is one. We are netting of the unallocable income from the unallocable expenditure and reporting it. In this particular quarter my other income has actually dropped quite sharply if you look at my number versus March '16 you see there is a sharp drop. Because of that the number is looking higher in this particular quarter, which will not be the case going forward. So on an annualized basis you will find the number to be stable in that range of around Rs.100-110 crores a year.
- Harish:** Just wanted to understand what would be only the unallocable expenditure for the full year once all the deleveraging is cleared out, is there a broad range even if you can share it, it would be very helpful?
- Madhav Acharya:** The unallocable cost should drop by almost half to what it is today, about Rs.60 crores.

- K.N. Neelkant:** The reason if you connect back with my earlier statement, I asked you to look at the business EBITDA of 9.5% and look at this unallocable expense as a separate item. You would also appreciate that in this quarter as we head towards the closure of the deals and other things, some of the lawyer fees, legal fees, etc., from outside these perimeters also flow into the unallocable expenses.
- Harish:** In the standalone, we have L&A to subsidiaries of about Rs.1,000 crores. How much of this would be interest-bearing and what would be the kind of interest rate that we would be getting? When we are talking about that gross number, so understanding would be correct that now you are reporting that other income including all the other interest that you would be getting from the subsidiary.
- Madhav Acharya:** So what has happened is if you remember in the March quarter we had written off approximately Rs.1500 crores which we had given as advances to our subsidiaries, which pertain to the Spear perimeter as we call it. Now those we had to impair because we believe that that money will not come back from the perimeter. So first of all the interest on that is not there anymore. That is all completed. Now whatever advances are remaining which include my advance to suppliers in India and everything else, that is interest-bearing okay, and that is for the non-perimeter part which is going to be with us for some time.
- Harish:** So if we look at the FY16 balance sheet it is about Rs.1,000 crores.
- Madhav Acharya:** My suggestion, Harish, we can sit down together and work this out because the other people will be in the queue.
- Harish:** Your debtors for standalone are about 162 days. How will this shape up? This looks on the higher side. So say 1-year out, 1.5-years out.
- K.N. Neelkant:** We do not publish that in quarterly basis, but if you look at the pace of collection in Q1 it has significantly improved from the annual number what we had published, in number of days I think it would be decreased by about 14-days in Q1 and if you connect this to my earlier statement that is where even at the cost of holding back some sales, we are renegotiating with customers for the terms of payment.
- Harish:** Net working capital, the debtors plus inventory less creditors, is there a target you may have you want to share a broad range...?
- K.N. Neelkant:** I would love to share it, but not today.
- Moderator:** Thank you. The next question is from Bhumika Nair from IDFC. Please go ahead.
- Bhumika Nair:** Just want to clarify on this Power Segment margins that you spoke about earlier; you said that these margins that we see at about 5%, 5.5% are largely sustainable when we have actually taken Rs.10 crores hit on the Solutions business. So is this something that will be recurring in nature going forward?
- K.N. Neelkant:** Till such time the Solutions business is completely wound down, that is what I was answering Renu's question earlier, so her question was that would the Solutions business continue to incur some kind of a hit through this year, the answer is 'yes' because we still have about Rs.120 crores to execute this year. But having executed that Rs.120 crores, so if you ask me as part of our wind down strategy, FY-'17 we had reconciled ourselves to that hit. But then once that Solutions business wound down, then there is only upside from there on.
- Bhumika Nair:** If I look at the consol minus standalone, at net basis we have kind of broken even in the current quarter. Is this something that we would see that is sustainable now?
- K.N. Neelkant:** More or less, yes.

- Bhumika Nair:** Has there been any FOREX gain or loss in the current quarter that we have accounted for in the other income or any other head?
- Madhav Acharya:** There has been very little volatility in this quarter, insignificant hit actually.
- Moderator:** Thank you. The next question is from Venkatesh B from Citigroup. Please go ahead.
- Venkatesh B:** The first question is something like this; is it possible for you to break down your Power Systems business, I mean, how much percent of your business comes from Power Grid, how much comes from Exports and how much comes from other SEBs and other generators? What is the outlook for each of these segments over the next 1 or 2-years?
- K.N. Neelkant:** Venkatesh, so instead of looking at it from that perspective of PGCIL export and other domestic, I would rather look at it from a product wise of Transformers and Switch Gear and see how that behaves. But since you asked that question we will work it out and I can send it to you offline next time when we meet, but overall between Transformers and Switch Gear, both have performed extremely well and especially at the margins Switch Gear margin corrections have also done sharply and on the uptrend.
- Venkatesh B:** Actually, last year your Power Systems business had quite a few one-offs in a couple of quarters. So just the business going back to normal level should give you decent kind of top line growth on the Power Systems business. Now my question is once you get to the natural level, that you got to this time around Rs.600 crores of quarterly top line, what kind of capacity utilization will you be operating at, and do you have capacity to grow beyond that, if not, is there any plans to add more capacity?
- K.N. Neelkant:** That is a good question. In fact, Rs.600 crores top line what are seeing this quarter is despite a depression in the unit price of orders booked earlier. If we see some kind of commodities strengthening in the market, this top line will automatically go up without creating any pressure on capacity. Having said that with this Rs.609 crores top line for Power Systems in this Q1, our overall capacity utilization would be in the late 70s, early 80s.
- Venkatesh B:** Any plans to add capacity once you move to the next year or something?
- K.N. Neelkant:** This would vary between product to product, there are some de-bottlenecking projects which we have already undertaken, there are some small capacity expansions which we will be doing, but nothing significant in this year.
- Venkatesh B:** Sorry to delever on this point; 1 or 2-quarters back, Mr. Thapar had given this guidance of Rs.325 crores PAT. Now, is it something that no longer holds given the change to IND AS accounting and we really need to just forget that number or is it something we do need to keep it at the back of our mind?
- K.N. Neelkant:** I have always maintained that projection of future numbers you guys are far better than us to project it. That is one part of it. In the month of March when this number was spoken about and in the month of August where we are speaking today, a lot of things have changed, in the month of March though we had expressed our intent to divest ZIV, ZIV numbers were always there in the back of the mind calculation as far as top line and the bottom line was concerned. So I think let us wait for this tier deal, ZIV deal to get some more clarity and get an end to it, let us finish it off and then we will come back. That is where we are restraining ourselves from giving any guidance today because there are too many moving parts. But once we get a firm closure on those things, we will come back to you with a firm guidance.
- Venkatesh B:** One suggestion from my side. I request you to consider it. Now if possible to hold the conference call maybe at around 6 o'clock in the evening and not at 8 o'clock in the evening or if it is not possible you can always hold it the next day, because starting the call at 8 o'clock, it is really late. So it is a sincere request from our side, either hold it a little earlier or perhaps hold it the next day. A lot of

companies who report late in the evening do hold the call the next day at around maybe 11 o'clock in the morning or so.

K.N. Neelkant: Request well taken, Venkatesh, and today we also had the AGM succeeding the board meeting and hence the time had been shifted, but request well taken and we will ensure it next time.

Inder: This is Inder here from Macquarie. My first question is again on the domestic power side. Now, this Rs.175 crores order book that we are likely to kind of work down over the next 12-months or so, can you give a qualitative sense as to whether this is like a no margin business or is it a 5%, 10% negative margin business that we are carrying at this point of time, to get us a sense that what is underlining the new orders, what kind of margin they are coming at?

K.N. Neelkant: They are not negative margin orders, these are all either breakeven orders or shade positive orders, but what happens is once we execute the orders and come out of the site, our intent is also that some of the peripheral works we leave it and negotiate with the customer and come out from the site. So we are willing to take a haircut as I was mentioning earlier so that the overall cost of retaining that site versus taking a small haircut that is maintained. So these orders by virtue of itself are not loss-making but by virtue of us wanting to expedite the closure we are taking a haircut.

Inder: The haircut would be like?

K.N. Neelkant: That is what I mentioned, in this quarter there is Rs.10 crores built into the Power Systems number.

Inder: Rs.10 crores would be pertaining to what kind of revenue number of these kind of projects?

K.N. Neelkant: No, it is not like-to-like comparable because Rs.10 crores provisions which we make today are of actually projects which have been executed maybe two quarters back, it takes two to three quarters to get the paper work in order. So the sales per quarter to this provision per quarter is really not comparable.

Inder: You said order book is now almost close to 10-months of revenue which is giving you comfort. But can you share given the outlook in the Power Systems and also maybe in the Industrial side, what do you think your order inflow growth can be for the year, how is that panning out at this point of time and can this 10-month number kind of rise further, can it become more like 13-14-months which can start looking like translating into actual meaningful revenue growth?

K.N. Neelkant: This quarter we have actually shown 18% kind of growth in the order input if you look at the overall CG India business. My thing would be this 18% order input growth has come despite there not being any tailwind in the macro scenario. So building from that, if we split the business into Power Systems and Industrial Systems, Industrial System, I mentioned that have outperformed the market because despite the slowness in the overall scenario, we have still done extremely well and we have actually grown more than what we grew last year; last year number if I recollect right, 6% growth overall in sales which has improved to about 11% in this quarter. Since Industrial Systems have been doing this consistently for now this is the fifth quarter, I see no reason why we should suspect that growth should not continue, in fact, I would expect that the growth will maintain its momentum. Power Systems, there are two sides of it – one side of it, as I mentioned, some strengthening in the commodities will automatically give a growth to the top line and the second part of it even if this pressure on the macro economy continues, my intent of telling that we are covered for 10-months was that even if the present macroeconomic situation continues we are still covered for the entire FY17, any tailwind there is an upside.

Inder: Just a follow-up on that, given that you have talked about there is no great macro tailwind in the Power Systems. Would you want to comment on the competitive environment, have Transformer prices truly bottomed out at this point of time?

Madhav Acharya: I do not see a trend, I actually saw a trend of the Transformer prices picking up a little bit in the last three quarters, but of course, there are opportunistic cases where someone put up something

different. So that one-off case I will not read it as a trend but overall if you ask me as a trend over the last three quarters, the prices per MVA has actually been picking up.

Moderator: Thank you. The next question is from Charanjeet Singh from B&K Securities. Please go ahead.

Charanjeet Singh: Sir, on the Power Systems front, in the earlier con call we had highlighted some improvement in demand specifically relating to UDAY program and we had also booked order in Rajasthan. So are we seeing any further orders on that front or it is going to take further time before we can see finalization in that segment?

K.N. Neelkant: Last concall I had said that the Power Systems is doing well and in case UDAY takes off and I specifically said we are targeting only six states, that will be a further upside. Rajasthan order, yes, we had mentioned it, we have executed it also and that is what has also contributed to some of the things which you are seeing in the top line number in Q1. But answering your question, whether I see a macro trend of UDAY picking up, I would respond in a slightly guarded manner, I would say that almost all the state governments whom we meet are exploring how to implement UDAY. But if you ask me whether real traction of implementation has been felt on the ground, I think it is some more time away.

Charanjeet Singh: Sir, if we look at the Industrial segment, the growth has been pretty good 11% kind of number. So, can you break it down for us in terms of how has been the Low-Tension Motors and High-Tension Motors and how we see this going forward in these two categories?

K.N. Neelkant: The break-up if you want I can talk in broad terms; Railways, while I spoke about a bump in the order input, a large bump in the order input, upward bump, on the sales front we have actually not grown in Railways in Q1, as I said, this order bump will see growth subsequently towards the end of the year. As far as Motors are concerned, both the LT Motors and HT Motors are showing a significant growth which is actually propelling this 11% growth for **(Inaudible) 42:30**. I will not differentiate the growth between these two because in the current Q1 it has been almost neck-to-neck between these two segments.

Charanjeet Singh: Sir, if you can help us understand how would be the margin profile in the Railways orders -- is it the levels like what you are doing right or are there differential?

K.N. Neelkant: That is an interesting play which we have to watch out as we go forward, because significant part of this Railways orders are Electronics and Electronic Equipments cost sharply fall down with the increase in volume. So we are watching out for that. So although I am not saying that the margins will further improve from here but Electronic space has the tendency that the cost falls down disproportionately once the volumes go up. On the traditional Traction Motors alternative, it is a steady state margin, it will continue to hold this throughout.

Charanjeet Singh: We are having 10-months order backlog in the Power Systems front. Do you see that there is some risk to this order backlog in terms of maybe some of the orders not getting executed in this fiscal year? Is there a slow moving portion to this order backlog?

K.N. Neelkant: Arithmetically, the order backlog is actually more than 12-months. The reason why we said 10-months is we use the word 'executable' order backlog of 10-months. So we have already done that classification of executable and non-executable when we mentioned 10-months because arithmetically it is more than 10-months.

Moderator: Thank you. The next question is from Pawan Parakh from HDFC Securities. Please go ahead.

Pawan Parakh: Sir, I just have two clarifications: One is on the unallocable expenses front. So, there were two numbers being thrown; one was that we expect it on a full year basis to be around Rs.110 crores, and the second was consolidated unallocated expense is about Rs.120 crores for FY16 and we expect it to fall by about 50% which is Rs.60 crores. So can you help on this front?

- K.N. Neelkant:** Let me clarify that. I think you are picking up somewhere Madhav left earlier. What we said is today the unallocable expenses towards central functions like legal, IT, finance, etc., it is actually supporting a much larger organization than what will be left of CG. We are supporting the Spear, we are supporting ZIV, we are supporting even some part of the consumer products as part of our demerger agreement and hence that infrastructure has been maintained. Once these things start falling off one-by-one, and this will not be in one shot, like for instance, immediate thing to fall off will be the support to Consumer, Electricals, then subsequently Spear. The target level of this unallocable thing will drop down to 120 to half of it. This is what will be required on a sustainable basis for operating the residual business of CG.
- Pawan Parakh:** Secondly on the subsidy performance, so we also said that, given that we have broken even in this quarter, but current quarter has a substantial amount of profit from the Power business, which once again you said is not really sustainable. So once again just need to understand if a substantial portion of profit is coming from something which is not sustainable, how can we continue to breakeven at the net level?
- K.N. Neelkant:** No, I said it is not sustainable because right now what I said is they are doing business buying something from inside the perimeter, buying something from India, adding on some of the trading goods and I also mentioned that we are accelerating the revenue there to ensure that there is no umbilical cord attachment between the perimeter and this part of the business post the closure which we expect on October 31st. But please do not interpret my statement as saying that this will fall directly to zero. What I said that this kind of high margins which we are executing right now that might not be sustainable.
- Moderator:** Thank you. The next question is from Deepak Agarwal from Elara Capital. Please go ahead.
- Deepak Agarwal:** Sir my first question is, can you quantify what will be the approximate revenue and EBITDA that you booked in the ZIV business in this quarter?
- Madhav Acharya:** The revenue is approximately €24 million and EBITDA is around €3.5 million.
- Deepak Agarwal:** Any approximate color on the loss level?
- Madhav Acharya:** No, it is a positive at the profit level.
- Deepak Agarwal:** How much that would be?
- Madhav Acharya:** I will have to give you the exact number, I do not have it right now. It is a positive effect.
- Deepak Agarwal:** My second question is like you are seeing some good traction in the Railways. So let us say from 2-3-years point of view, how much do you think that the Railways can eventually contribute to your top line or do you have some internal workings as to how much you would like your Railways business to be in 2-3-years timeframe?
- K.N. Neelkant:** There is a clear roadmap for the Railways internally and that is where we started speaking about Railways separate from Industrial Systems in the last couple of calls, so there is a clear cut roadmap where we want to be in Railways but at this point of time, as we are introducing new products and getting into new areas, I think it will be too premature for me to give you a guidance. But once we fulfill the roadmap towards Railways then we will not be measuring it by the growth percentages what we are looking at but we will be looking at in a much more platform kind of growth.
- Deepak Agarwal:** Like how much would have been order inflow in this quarter or if you can quantify specifically from...?
- K.N. Neelkant:** I can give you an approximate number; it is upwards of Rs.150 crores in this quarter.

- Deepak Agarwal:** What kind of new products that you plan to introduce in the Railways like if you can give some color?
- K.N. Neelkant:** More than happy to have you in my office one of these days because I would not want to get too technical and get all of us under discussion, but effectively what we are trying to do is move from the conventional traction motors alternative into the new generation of Electronic IGBT Converters.
- Deepak Agarwal:** This would happen over a period of one year, two years?
- K.N. Neelkant:** It has already started showing results and some of the order input in this quarter is a reflection of the work done in the last year.
- Deepak Agarwal:** Last year we have got fair bit of orders from Power Grid. So, how is the execution happening there in those kind of orders?
- K.N. Neelkant:** I would attribute the momentum of Power Systems in Q4 and Q1 primarily towards the better quality and better timely execution of the orders including Power Grid orders. The top line actually reflects the answer to your question.
- Deepak Agarwal:** Including Power, but specifically can you say how it is progressing on the Power Grid side?
- K.N. Neelkant:** We are happy with the progress we are making with Power Grid, let me put it that way.
- Moderator:** Thank you. Ladies and Gentlemen, due to time constraints, we will take the last question from the line of Jonas Bhutta from PhillipCapital. Please go ahead.
- Jonas Bhutta:** Two questions from my side: Firstly, if you can share the order inflow and order book for the non-India business which is basically Industrial Systems and Automation? Coming back on the Advances side, basically based on the Annual Report, this is in addition to the previous question where there is like Rs.880 crores advances still showing outstanding to CG International BV which for me to understand is the holdco largely the perimeter business...
- Madhav Acharya:** No, that is not true.
- Jonas Bhutta:** So then to what account is this Rs.880 crores...?
- Madhav Acharya:** We have a sizeable business in ZIV and we have businesses in Automation US, we have businesses in Drives and Automation, Sweden, we have Rotating Machines Hungary, also these are the businesses. So whatever advances we are left as on 31st of March are all sustainable advances.
- Jonas Bhutta:** So those have very little potential write-off?
- Madhav Acharya:** That is correct.
- Jonas Bhutta:** In addition, ZIV also has Rs.360 crores-odd loan in the 'Annual Report', there is Rs.940-odd crores loan if you do the consolidated minus standalone, there is an element of about Rs.940 crores worth of loan at the end of FY16, of which about Rs.350-odd crores is to the tune of ZIV. So is that number more or less correct or...?
- Madhav Acharya:** I am not able to really follow your number how you calculate it, but we can sit down and see it. In terms of non-India, the Automation order intake for the quarter is Rs.260 crores, Industrial Systems order intake is Rs.80 crores, total is Rs.340 crores.
- Jonas Bhutta:** The backlog?

Madhav Acharya: Backlog non-India, Automation is around Rs.612 crores and Industrial Systems is Rs.148 crores, total Rs.760 crores.

Moderator: Thank you. I now hand the conference over to Mr. Neelkant for his closing comments.

K.N. Neelkant: Thank you, everybody especially for bearing us out for a late start at 8 o'clock, thank you for staying.

Moderator: Thank you. Ladies and Gentlemen, that concludes this conference call. Thank you for joining us any you may now disconnect your lines.