"CG Power and Industrial Solutions Q4 FY22 Earnings Conference Call"

May 2, 2022

MANAGEMENT: **MR. S. VELLAYAN – CHAIRMAN, CG POWER AND INDUSTRIAL SOLUTIONS LTD.**
MR. N. SRINIVASAN - MANAGING DIRECTOR, CG POWER AND INDUSTRIAL SOLUTIONS LTD.
MR. SUSHEEL TODI – CFO, CG POWER AND INDUSTRIAL SOLUTIONS LTD.
MR. RAMESH KUMAR - PRESIDENT (INDUSTRIAL SYSTEM), CG POWER AND INDUSTRIAL SOLUTIONS LTD.
MR. MUKUL SRIVASTAVA - PRESIDENT (POWER SYSTEMS), CG POWER AND INDUSTRIAL SOLUTIONS LTD.
MR. RANJAN SINGH - EXECUTIVE VICE PRESIDENT (RAILWAY BUSINESS), CG POWER AND INDUSTRIAL SOLUTIONS LTD.

Moderator: Ladies and gentlemen, good day and welcome to the CG Power and Industrial Solutions Ltd. Q4 FY22 Earnings Conference Call hosted by DAM Capital Advisors Ltd. 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. Thank you and over to you, Ma'am.

Bhoomika Nair: Thanks, Faizan. Good afternoon everyone, and a warm welcome to the CG Power and Industrial Solutions Q4 FY22 Earnings Call. We have the management today being represented by Mr. S. Vellayan – Chairman, Mr. N. Srinivasan – Managing Director, Mr. Susheel Todi – CFO, Mr. Ramesh Kumar, President Industrial System, Mr. Mukul Srivastava, President (Power Systems), Mr. Ranjan Singh – Executive Vice President (Railways). I'll now hand over the call to Mr. N. Srinivasan for his opening remarks, post which we will open up the floor for Q&A. Over to you, sir.

N. Srinivasan: Thank you, Bhoomika. Good afternoon, ladies and gentlemen. Let me extend a warm welcome to you for the Q4 and FY22 Annual Earnings Call. I am Natarajan Srinivasan – Managing Director of the Company. I would like to briefly introduce my colleagues who are with me on this call. Our chairman, Mr. Vellayan Subbiah is on the call. He needs no introduction. Ramesh Kumar – President Industrial Division. He is a CG veteran and has been with the Company for more than 31 years and served at a various senior positions in the Company. He takes care of Motors and Drives business. Mukul Srivastava, President (Power Systems). He is also a CG veteran having spent about 30 years with the Company. He is taking care of Transformer and Switchgears business. Mr. Ranjan Singh is Business Head for the Railway business. Ranjan is also a CG veteran with 28 years of service to the Company. Susheel Todi – CFO has been with the Company for more than 17 years. That's my introduction for you.

Company Performance:

We have issued a press release on the Q4 and FY21-22 annual performance. In the press release, we have given corresponding last year data. However, these are not comparable since the Company was under severe financial stress last year. It would take a few more quarters to build up corresponding comparable data as we normalize our operations moving forward.

Q4 Performance:

Sales grew year-on-year by about 38% and operating PBT by 366%. All the businesses of the Company continued their good performance in Q4 and the results for the Financial year 2021-22 constituted the best ever in recent times. Aggregate sales for the quarter were higher at 1407 crore recording a growth of 38% year-on-year while 3% lower quarter-on-quarter. PBT before exceptional items was at Rs. 131 crore constituting 9.3% of sales as against Rs. 28 crore, 2.8% of sales during previous year sale period. Free cash flow generated for the quarter was 86 crore.

Sequentially, margins were lower due to product mix, cost push, execution of firm price orders and one-off warranty provisions in Power segment.

FY21-22 Performance:

Aggregate sales for the year were higher at Rs. 5159 crore recording a growth of 104% year-on-year. Profit before exceptional items was at Rs. 502 crore, 9.7% of sales in FY22 as against a loss of Rs. 91 crore in FY21. Free cash flow generated for the year was Rs. 392 crore. During the quarter, Tube Investments of India exercised its option to subscribe to 9 crore equity shares by paying the warrant subscription money of Rs. 58 crore. The Company prepaid its term debt of Rs. 235 crore using the internal accruals.

Now, I move to segment-wise performance.

Industrial System Q4 performance:

Aggregate sales for the quarter were higher at Rs. 960 crore recording a growth of 30% year-on-year and lower by 6% quarter-on-quarter. PBIT for the quarter was higher at Rs. 135 crore with a growth of 67% year-on-year and lower by 7% quarter-on-quarter. Unexecuted order book as at March 2022 was at Rs. 2122 crore, which grew by 27% compared to Rs. 1673 crore as at March 2021.

Financial Year 21-22 Performance:

Aggregate sales for the year were higher at Rs. 3644 crore recording a growth of 103% year-on-year. PBIT for the year was higher at Rs. 464 crore with a growth of 125% year-on-year.

Power Systems Q4 Performance:

Aggregate sales for the quarter were higher at 448 crore recording a growth of 59% year-on-year and 4% quarter-on-quarter. PBIT for the quarter was higher at Rs. 27 crore recording a growth of 190% year-on-year and lower by about 47% quarter-on-quarter. Sequentially, PBIT margin was lower due to change in product mix, execution of firm price orders and warranty provisions. Unexecuted order book at the end of March 2022 was at Rs. 1564 crore, which grew by about 48% compared to Rs. 1057 crore as at March 2021.

FY22 Performance:

Aggregate sales for the year were higher at Rs. 1516 crore recording a growth of 107% year-on-year. PBIT for the year was higher at Rs. 145 crore, a substantial growth of 250% year-on-year.

Financial results consolidated:

Consolidated results include the performance of the operating subsidiaries at U.S.A. namely QEI Inc. and in Sweden, Germany, and Netherlands, which are collectively referred to as Drives and Automation, Europe and other non-operating and holding subsidiaries.

Quarter 4 Performance:

Sales for the quarter were Rs. 1507 crore as against Rs. 1118 crore in Q4 of FY2021 and PBT before exceptional items was at Rs. 139 crore as against PBT of Rs. 19 crore in Q4 of FY20-21.

Financial Year 21-22 Performance:

Sales for the year were at Rs. 5561 crore as against Rs. 2964 crore last year and PBT before exceptional items was at Rs. 528 crore as against loss of Rs. 117 crore in FY21.

Summary:

1. This Company, CG Power and Industrial Solutions was acquired by Tube Investments of India on 26th November 2020 and FY2021-22 was the first full year of operations under the new management. The financial year has been a defining year seeing the complete operational and financial turnaround of the Company. All the businesses bounced back and performed to its potential regaining the confidence of customers and vendors. Several landmarks were achieved by the business during the year. Highest ever sales by Motor Division, highest ever sales by Railway Division, highest ever order booking for the Transformer Division. Order book at the end of the year stood at 3686 crore. During the year, several legacy issues were resolved leading to improved financials and financial rating of the Company. The Company completed the recasting and audit of accounts for the five years from 2014-15 to 2018-19. To give effective recasting, the Company undertook voluntary revision of accounts for 2019-20 and 2020-21. Post the recast and the audit of recast accounts, the Auditors of the Company issued an unmodified clean audit report on the account for the company.
2. The Company completed the long pending sale of the land at Kanjumarg during quarter 3 of FY21-22 and the entire sale proceeds amounting to Rs. 402 crore were received. The Company paid off the debt relating to CG House where its corporate house is located and got back the property free of encumbrances. The Company prepaid an aggregate net debt of Rs. 650 crore including CG (including CG House Debt) during the year applying the sale proceeds of the property and internal cash accruals. As on March 31st, 2022, the Company has a debt of Rs. 302 crore and a cash and cash equivalents of Rs. 452 crore. The Company also secured the obligations pertaining to guarantees issued by the Company to additionally secure the loans granted to its subsidiaries abroad. These loss-making subsidiaries have been closed or under closure.

Financial statements with detailed notes are available as part of the stock exchange filing and the Company's website, www.cgglobal.com.

Between myself and my colleagues, we will be happy to answer questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: I have two questions. My first question is on the Railway part of the business. If you could help us understand how has the company been able to scale up its portfolio and this business both in terms of capabilities and the addressable segments in which its present. Recently it was also given a trial order or a developmental order from Railways for a propulsion system and electric, so what are the plans and the roadmap to scale up the railway business? And any synergies to play for larger PPP projects along with Tube Investments in this segment?

Ranjan Singh: The question is that how have we been able to scale up from the levels of last year to this year. Basically we have been in the segment of rail transportation and railway signaling and since both of them are required for the infrastructure boost of Railways and since we have the products available for locomotives, electrification, as well as railway signaling, we could grab the orders and executed within the time schedule, and hence we have been able to reach the levels that was there which we achieved in about 2018-19 as well. Going forward, as you have rightly said that we have got a trial order for this one set we would be taking up for its development through ourselves, self-development, as well as through partners and we will look forward to more opportunities like this in the space of transportation, as well as signaling going forward for our growth.

Ramesh Kumar: **For Motors,** Actually we had the capacity and this year, we have scaled up our capacity to almost close to 85-90% in some plants and then the market was also good except for the quarter 4 where we had a little bit of trouble in the market because of the COVID in January and February. Otherwise, factories also had a little bit of impact that is about 50% of the manpower not coming to work. So, other than that the demand was good, but some of the products where we had a less demand because of external problems like agriculture demand could not take off because of the unexpected rains continued till November and December. Other than that the market was good last year and of course the pressure was there for the margins also because of the commodity prices.

Renu Baid: My second question is more pertinent related to the fourth quarter performance. Two things, usually sequentially we see Q4 tends to be stronger both in terms of execution for Industrial and Rail, but in this quarter if we see partially you did highlight impact from COVID 3.0, but in addition, if you can throw some qualitative inputs in terms of how was the overall demand environment across key segments and the signs of slowdown that you witnessed at the onset of the quarter, have they eased now starting April-May or you think the commodities linked inflation will be hurting demand as we move ahead as well? And if you can also help quantify what was the quantum of provision that we did in the Power Systems business this quarter?

Ramesh Kumar: I partially answered your question earlier. So, just to give you a little more. The unprecedented price increase the market could not take, so unfortunately if you see generally the price revision for industrial products happens once or maximum twice in a year, but unfortunately last year we had to revise our prices by almost 4-5 times, which market could not absorb, so this happened basically after September and generally after Diwali that is from November, December onwards, most of the products' demand picks up that is how the quarter 4 is always slightly better than the quarter 3, but unfortunately this year because of the commodity price and also the COVID and the third thing is the rainy season extended up to December, so these are three things, which have slightly impacted for the quarter 4 performance, but we are only 3% less than quarter 3 that we could manage only because from March onwards, the market started picking up. So, now it is much better than the January, February.

Susheel Todi: Renu, you were asking about the power provisions, so in terms of that, it's a one of warranty provision, which actually in quarter 4, the amount is not very significant but it is coming up to around Rs. 6-7 crore.

Renu Baid: Okay, the reason I highlighted was despite this provision, actually the other expenses have declined sequentially. So, was there any material to be highlighted or its more of a mix impact that you've seen.

Susheel Todi: It is more about the mix impact and also there is some reduction in the sales as well compared to quarter 3, so that's why the overall cost also has come down to that extent.

Renu Baid: Thanks.

Moderator: Thank you. The next question is from the line of Ankur Sharma from HDFC Standard Life Insurance. Please go ahead.

Ankur Sharma: Just going back to the Industrial Systems business where we have seen the 30% growth for the quarter, fair to assume that most of this would have been price led and very little volume increase because if I remember, in the Q3 call you had mentioned that you would have taken price hike in the range of 30-35%. So, fair to assume, therefore, Q4 largely price led.

Ramesh Kumar: Not only price rise, but even in the quantity also, this year overall demand, both the inflation, as well as the quantity was good. If I have to give you some numbers with respect to IEEMA declared numbers up to January we have, the quantity growth is almost about 42%. We have grown by 59%, which is over and above the inflation. They give cumulative. They don't give the entire quarter. Entire quarter will take some more time because by end of May, the quarter figures will come, but even the quarter quantity growth is also consistently good right from quarter 1.

Ankur Sharma: If you could also talk about your Capex plans for 2022-24. Where are you looking at investing? I think, Transformers could be one area where you would be looking at setting up capacities. I think Motors side, you said you are touching new high capacity utilization of 90%, so if you could just spend some time on quantum of CAPEX next two years and which areas you are looking at?

N. Srinivasan: We are evaluating various options to increase the capacity by normal course by way of debottlenecking and expansion. So, we have not firmed up anything to talk like that. So, certainly we are still on drawing board. As and when we finalize, we will be able to share with you, but certainly we are looking at increasing capacity in Motor, as well as Transformer, but as far as Railways is concerned, it has got its own depending upon the projects in which we won the tender and then we participate, accordingly CAPEX will be incurred. So, there is nothing very specific. We are evaluating various options.

Ankur Sharma: Okay, and one last one would be on the Fans and Pump businesses. Can you quantify the sales for FY22 for each of these end segments? If you can share margin details, I'll leave that to you. Whatever you can share with us for FY22.

N. Srinivasan: So, we can't share that information as of now.

Ankur Sharma: Thanks.

Moderator: Thank you. The next question is from the line of Niket Shah from the Motilal Oswal Mutual Fund. Please go ahead.

Niket Shah: I have 2-3 questions. So, one is the Vande Bharat train opportunity, if you can help us understand what kind of size opportunity this can be for CG and what all work can we do with the Vande Bharat train opportunity. Second question was on the R&D side, what would be our R&D spend for the year and how should one think about that going for the next 2-3 years and the last question is on the export side of the business, if you can give us some light in terms of when can we start seeing some traction on the export side and how large is it in FY22?

N. Srinivasan: Mr. Ranjan, could you talk about Vande Bharat.

Ranjan Singh: As I said last time that we have got a development order of Vande Bharat in which we would be developing part of it ourselves and part of it through associated partners and this will be just a development order as of now. Going forward, when we establish our credentials, we will be ready and fit for participating in the tenders after 2 years of time. Then we could be in a position to fight against all the competitors who are the major players like ALSTOM or MEDHA and Siemens.

N. Srinivasan: With respect to your other questions, on the exports. In two of our businesses, exports are possible, already Transformer and Switchgears, they are exporting and Motors is doing it in a small way, but there is a huge amount of domestic demand to be fulfilled. Unless we are able to build enough capacity, after meeting the domestic demand then only the exports will come. Anyway, the exports is our agenda. It depends on how we are able to ramp up the capacity and what kind of demand that can happen in India, so this is regarding the second question. Third is actually each business, every business is actually looking at beefing up its R&D capabilities. When the first transformer unit was there, there was a large R&D base. It used to be there in Kanjurmarg. Post sale, that all has vanished now. Going forward, from this year onwards, we are recruiting people to beef up our R&D and then correspondingly depending upon the projects we take, R&D spend is being allocated.

Niket Shah: One more question, if you can help us understand how much is your fixed price contract just to get a sense of margins because if you take a new order at this point in time and if commodity cools off in the next six months or one year, you get a significant margin traction at that time if its impacting you right now or how should one think about that?

N. Srinivasan: So, we cannot share this information on how much is fixed price contract because each business has got its own dynamics. So, Railways business, for example, somehow the orders have got price variation clause, Transformer business and Switchgear business some large orders, they have built-in price variation clause, some to book the commodity prices we take care of them to procure or book enough quantities. So, cumulatively, we are trying to see how we can manage if there is a negative impact. Beyond this, we will not be able to share any information.

Niket Shah: Any guidance you want to give on margins given the fact that it's an extremely volatile environment from an external standpoint perspective with too many moving parts, so any thoughts if you can give us?

N. Srinivasan: You have answered the question. Extremely volatile, too many moving parts. It is definitely not possible for anyone to commit on any margin. Even in Q3 quarter, I said this is a one of kind, this margin cannot be sustained. However, our efforts to maintain margins, improve margins will not lag, it will always be good, definitely, but the environment you know what is happening outside.

Niket Shah: Thank you so much. I will come back in queue.

Moderator: Thank you. The next question is from the line of Charanjit Singh from DSP Mutual Fund. Please go ahead.

Charanjit Singh: One is on the Industrial Motors market. If you can highlight what is the kind of growth expectation going forward and maybe you can split it also in terms of low-tension, high-tension motor, how the trend is shaping up from various end-markets perspective? That is my first question, sir.

Ramesh Kumar: Generally, this motor industry, apart from the last year that is because of the last to last year, huge COVID issues, last year quantity demand was slightly more. Otherwise, the general assumption is that it is 2-3 times of the GDP growth.

Charanjit Singh: Okay, and sir in terms of if you have to look at our market share in high-tension and low-tension motors, are there any major changes there if you can highlight over the last financial year?

Ramesh Kumar: Last financial year, we have regained our market share almost to the extent of 2018-19, which was our best market share.

Charanjit Singh: The other thing is on the Railways front, earlier the tendering had been slow and how do you expect the tendering from the Railways going forward in FY23 and any products which you are introducing from railways perspective? Also, if you can touch upon the Power Electronics side which used to be an important area for CG power earlier, how we are scaling up the Power Electronics segment specifically?

Ranjan Singh: From the tendering size, the tender cycle has already been on the upside from the Railways side and going forward also it is good. We have a decent backlog at the start of the year. So, we don't see any issues in the current year that is FY23 going forward. As far as new products that are going into the Electronics side is concerned, we are developing the electrics for MEMU, which is called the Mainline Electric Multiple Unit and this year we have planned for the prototype to be offered wherein it’s a mix of complete items like power electronics, traction machines, transformer, and bought-out items, which go into the railway vehicles and this is the area that we would like to pursue more and more. The opportunity of passenger transit is going into that direction.

Charanjit Singh: Just if I can squeeze one more question on the Power Systems side specifically, so on the domestic Power Systems, specifically the outlook from Power Grid or from the State Transmission Companies perspective, so how is the demand outlook for the power transformer segment and on the distribution transformers, are you seeing a change in the procurement from the Discoms, any thought there? That’s my last question.

Mukul Srivastava: As regards with this demand on the power transformer and distribution transformer, the demand was good both in Q3 and Q4. There are a lot of projects as you know that the Government utilities try to complete the projects by the end of Q4 to close their accounts. So, at both the places, the demand was very good.

Charanjit Singh: Sir, my question was more towards the next year’s demand outlook from the central utilities as well as the state utilities, how you are seeing the market growth outlook and in terms of again in the power transformer space, any major market share changes, which we have seen versus the competitors?

Mukul Srivastava: As you know that we came from a very low base of FY21. So, in FY22 we gained our market share and going forward also the demand of power transformer and distribution transformer both is looking to be good as we can witness in this month also. There has been virtually shortage of power availability in the market. Therefore, going forward at both the places, the demand seems to be growing and since we are now back with most of our utilities, our past issues are over and we are able to approach and supply the products in time. So, we should be gaining a good amount of market share in the coming year also.

Moderator: Thank you The next question is from the line of Kirti Jain from Canara HSBC Life. Please go ahead.

Kirti Jain: My question was with regard to new product initiatives and exports. How have the exports moved for the Company and what are the initiatives we are taking to improve the exports?

N. Srinivasan: I think I answered this question a little bit earlier. So, in our products suits actually the transformers, switchgears and we have some exports in motor, we have exports opportunity. Railways actually, we do whatever we work for the Indian Railways here. So, as far as motors is concerned, our exports are not very significant because there is a huge amount of domestic demand, which we have to meet. As you know, Mr. Ramesh Kumar earlier has also mentioned that we have increased our market share to 35-36% this year, so going forward, we need to first expand our capacity. After meeting the domestic market, then we will have to focus on exports. So, the exports is definitely on the agenda, but it will take over a period of time. You have to identify which markets, which customers. You also know what is happening in Europe right now. The same is the case with the transformers. We have lost a bit of capacity on the sale of the first unit, so this is very much on the agenda, but it will take some time.

Kirti Jain: Secondly on electric vehicle mobility, anything you can highlight sir?

N. Srinivasan: So, on the electric vehicle mobility, we are talking to some existing players and see how we can develop motor for electric vehicles. We are talking to a lot of people. We are also doing some development work. Nothing concrete has come to disclose or talk. This is certainly a priority area for us. We continue to work to see how we can meet the requirements of the electric vehicles.

Kirti Jain: Thanks a lot.

Moderator: Thank you. The next question is from the line of Mayur Patel from IIFL AMC. Please go ahead.

Mayur Patel: We saw 230 bps decline in gross margins quarter-on-quarter and year-on-year. So, I understand commodity prices, so just if you can guide us going forward into the subsequent quarter, do we see much more pressure on the gross margins or are there any levers or any price hikes or any mix related factors, which can help us restrict this decline in gross margins?

N. Srinivasan: So, it is actually very difficult to answer this question because we ourselves have no idea. We are taking all steps to address margin concerns and I have mentioned earlier how we are trying to protect the increase in commodity prices by covering by three or four steps which we are taking. The market being so dynamic. So, it very difficult to say how things will pan out, how much price you can pass on, how much increase in cost you can pass on. So, I can't make any statement on this. Hope you can understand.

Mayur Patel: I understand it is very difficult to predict the commodity price trajectory, but at current commodity prices, is it possible to guide us some path that the decline is largely done or should we expect some more sequential decline in gross margins at the current prices?

N. Srinivasan: So, as I said, it is not possible sir. We don't know, for example, steel prices or copper prices will go up or not, I have no control.

Mayur Patel: Speaking about current steel prices and current copper price as you speak, how is your gross margin likely to remain going forward, assuming there is no further increase?

N. Srinivasan: If everything is constant, then I think current margins can be maintained. There is no problem.

Mayur Patel: Just one more question from my side, any colour can you give on the order pipeline across segments, qualitative or quantitative, whatever is possible? Going forward the pipeline for new orders if you can share any insights, it would be great?

N. Srinivasan: It is also not possible. It is a very general question. There are so many products, so many orders, how we can we predict. So, it is not possible to answer this question.

Mayur Patel: Thank you very much.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Sir, just one clarification, you said with respect to Vande Railways order, you are at least 2 years away from here in terms of capability and qualification, is that the right understanding?

Ranjan Singh: Yes, that is the right understanding. We have to first do the prototype and then the steel trial will be there and then only really will we be in the position.

Nitin Arora: Second, I am again harping on the demand side, the end customer of yours. We have seen a lot of industries slowing even before the COVID starting going down, whether it's the auto and the other industries or the FMCG. I am talking about the third wave, which you have mentioned has impacted where the number of days would be lesser than the other COVID waves, but generally going forward because you said in the commentary the price hike looking difficult for some consumers, the end industry to take, has there been some slow down you are seeing across the industry because of this high inflation part or if you can help us understand what's the growth you are looking at from these industries, so the question is more from the demand side, is the price hike getting you difficult to pass on to a consumer, is it more to do with their output going down is what I wanted to understand.

N. Srinivasan: I think Ramesh briefly mentioned this earlier. So, I think some of the orders, which are linked to projects and projects, the position will be different. Stopping the project in between is generally unlikely. They will move on, they will go ahead, whatever the increase in cost, they will take. So, as far as the retail is concerned, there was a little bit slowdown as experienced earlier, but Ramesh did mention that post-March, even in the middle of March and then from there onwards, things are looking better. So, as of now, we are not seeing that kind of a slowdown to impact demand.

Nitin Arora: Sir, lastly, I am sure you must be doing this exercise being a thin margin business we are in, what's the percentage of order book which is fixed price? I understand you passed on a comment we are having a very different order, very different products, but I think that's the part you must be playing being a 10-11% margin company. If you can help us understand what's the total overall number in terms of percentage, which is fixed price, if you can, that's my last question.

N. Srinivasan: I think in the motor business whatever price at which we accept orders is the price we have to deliver. So, our options are to protect how the cost can be hedged or covered. In transformer and railways, there are some contracts which give us price variation clause. So, to that extent, we are protected. Rest of it your call, how do you want to take the order, how do you want to plan. Other than that, as I said earlier, it is not possible for us to share this much percentage of covered by price variation, this much is not covered, that data we will not be able to share and we don't have.

Nitin Arora: Thank you very much, sir.

Moderator: Thank you. The next question is from the line of Dhruv Maheshwari from Premji Invest. Please go ahead.

Dhruv Maheshwari: Just slightly medium to long term, our parent Tube evaluates its performance on certain parameters like revenue growth, free cash flows to PAT, ROCEs, and PBT margins. given that now we have been in CG for almost a year and a half, are there sort of benchmarks from a medium to long-term perspective that we set for ourselves, maybe margin may not be the right sort of thing because of the reasons that you explained, but it will be helpful actually on how to think about this.

Susheel Todi: I think all parameters what you are asking in terms of the parent company, we are in line with that and definitely our objective is to remain all these four parameters where we are working on. So, going forward, that will be the target, no doubt about that.

Dhruv Maheshwari: Sir, in terms of margins generally there is a certain long-term guidance from a Tube perspective, for CG, if you can just share the long-term targets will be very-very helpful whenever possible.

N. Srinivasan: Since we have not really worked on what should be the long-term targets, etc., we are not in a position to say anything at this point in time.

Dhruv Maheshwari: Understood sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Mayank Chaturvedi from Aquarius Securities. Please go ahead.

Mayank Chaturvedi: I have a couple of questions on the Transformers business. First would be, you said that you are looking for capacity increase on the Transformers business as well. So, is this capacity increase besides the relocation of the Kanjumarg facility that you are looking at?

Mukul Srivastava: We have two transformer facilities, one in Bhopal for power transformer and one in Gwalior for distribution transformer. We are looking for capacity expansion in both these plants.

Mayank Chaturvedi: Would that capacity expansion be a function of relocation of the Kanjumarg facility that we are yet to relocate?

Mukul Srivastava: Yes, partly.

Mayank Chaturvedi: We do lag our peers on the HVDC opportunity that is coming up, so are we looking for any product developments on the transformers or on the switchgear side to participate in the same?

N. Srinivasan: So, I think nothing has been decided. So, it will not be correct for us to say anything positively. We are evaluating options. No decision has been taken on all these whatever you are mentioning. So, we can't say anything positively yes or no.

Mayank Chaturvedi: One last question from my side, broadly on the working capital cycle of the company. Now that we are largely looking at short cycle orders, so what according to you would be the optimal working capital cycle level or would we trend maybe in the negative range as a percentage of sales? How do you think the optimum working capital cycle for the company would be?

Susheel Todi: Each business has a different working capital cycle. So, what we have today, the motors, railways and the power transformer and switchgear, so it depends on every business, the working capital cycle would be there, but definitely we don't want anything any overdue creditors with us and any overdue debtors. So, we really want to be intact on our working capital side. So, what we have today largely will be the same working capital at a Company level.

Moderator: Thank you Mr. Chaturvedi. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: My first question is with respect to the price increase that we would have taken in the motors business. On a blended basis, over the past 12-18 months, what kind of price increause you have taken?

Ramesh Kumar: Close to 40%.

Ravi Swaminathan: And with respect to the top 3-4 demand drivers for LT and HT Motors, if you can just give a broad sense and what is the kind of, how are both the segments growing? Is LT growing faster than HT or the other way around if you can give a broad idea, that will be great and your volume growth outlook for LT and HT motors in the next 1-2 years?

Ramesh Kumar: Actually I said this earlier, generally, we don't have any such data that how much growth but generally what we do is 2-3 times of the GDP growth is what happens in the motors, whether it is the LT or HT, but with respect to the first question, currently the water and wastewater, cement, steel, all these core industries are doing very well, even the pharma is doing very well.

So, those drivers are there because whatever expansions they have planned as Mr. Srinivasan said that they are not stopping irrespective of the inflation is so high, they are not stopping their projects in between. So, that is giving us the good growth.

Ravi Swaminathan: So basically, HT Motors are consumed more in the large projects, steel, etc. do they consume only HT Motors or even LT Motors are consumed, if you can give a broad thought process on that, motor and steel?

Ramesh Kumar: If you go by kilowatt, water and waste water, more is HT motors because it's a large project and other industry, they generally, if you go by kilowatt, both are almost equal, if you go by the number, the LT motor will be obviously more.

Ravi Swaminathan: And the headroom for market share gains in this particular business, so basically we have 36-37% market share. Is there a possibility or do you see scope for it to increase to more than 40% market share, is that kind of scope is there in the motors business?

Ramesh Kumar: See generally what happens is when the technology increases, the technology norms, the efficiency norms come into the picture, so the major players will be there and the small players goes, you have an opportunity to take their market share.

Ravi Swaminathan: And is the shift from IE2 to IE3 to IE4, is it happening, is it happening at a rapid pace or at a slow please, any sense on that?

Ramesh Kumar: Yeah, it is definitely happening. IE3 is taking good growth and IE4 is still there, but definitely it will be the future, these two are the future.

Ravi Swaminathan: And with respect to the Railways segment, with respect to the Vande Bharat orders, you had mentioned that it will take, correct me if my understanding is not right, it will take us a couple of years to prove ourselves in that particular segment, is my understanding right?

Ranjan Singh: Your understanding is correct.

Ravi Swaminathan: So, these Vande Bharat trains would be awarded in the next three years is what the government is telling, so basically the last one year opportunities, the one we would be able to see, is my understanding right with respect to that?

Ranjan Singh: Indian Railways is not going to stop making these trains. Indian Railways is going to grow and expand, the network is going to expand. They will try to take not just the passenger transit, they are also going for Vande Bharat in the goods as well. So, this model of distributed traction is going to be the norm now so that we are able to see the trains that being announced currently are say around 200 numbers, which will have to be made in the next 2-3 years' time. It is not going to end here. There will be more and more trains that will come with more and more economy booming up and people more and more travelling into air-conditioned trains with better features.

I believe that there would be more and more demand and by that time, we would be ready with our products and be able to fight it out in the market.

Moderator: Thank you, Mr. Swaninathan, may we request that you return to the question queue for followup questions. The next question is from the line of Gunjan Kabra from Niveshaay. Please go ahead.

Gunjan Kabra: The first question was on the motor replacement program that was out like 2-3 years back, so with the change in the energy norms, it is advisable to put IE2 or IE3 motors, so are we getting more of the replacement demand also, like what would be the market size of this replacement demand and how does this program work?

Ramesh Kumar: As of now, as per the norm it is only IE2; IE3 and IE4 is depending on the customer, for example, the process industries they are looking at more into IE3 and some of them are IE4. So, it is rapidly increasing. The share of IE3 and IE4 is increasing because it is not declared exactly in the IEEMA statement that how much percentage of IE2 and IE3 are being sold, so it will be very difficult, but definitely the rapid growth is there for IE3, and IE4 will be the next in line to grow.

Gunjan Kabra: Sir, what I understand is that if there are new plants then that new plant would be installing IE3, but when the existing plants such as IE1 or less than that also, so are they replacing their motors with IE3 because the lifespan of the motors is around 10 to 15 years? So, on that side of the business, are we seeing any replacement demand?

Ramesh Kumar: The replacement demand is also there, but not everybody can afford to invest so much capex. So, it is mostly at the new plants, but there is no norm from the government. It is only the personal interest the people want to reduce their energy cost, people are working on what is the number of months the payback, based on that, they are replacing it. Replacement business is also there.

Gunjan Kabra: In terms of market composition for electric motors, if I say in India, is it like more imported also apart from sourcing it domestically, like what would be the domestically sourced and imported if you could highlight in the industry?

Ramesh Kumar: Imported, it is not standalone motor import is much less, but there are motors which come along with the equipment. So, overall, there are no exact figures available, but what we know is almost about 15-20% is imported, that basically comes along with the equipment. Standalone motor import is very less.

Gunjan Kabra: In the electric motor or the transformer business, what is your sense on the capex activity in the inflationary environment right now that we are seeing? Are we seeing more traction in the business or is it more like a wait and watch scenario by the end-user industries?

N. Srinivasan: See actually, for example, Railways and Government related projects, they already made announcements in their budget provisions they are going ahead, which means notwithstanding the inflationary environment, they are going ahead with the projects. Therefore, the demand will be sustained. In private sector, they might take a call because of the cost escalation, etc., is it worthwhile to go ahead or not worthwhile to go ahead. And some emergency important capex, which need to be done that will happen, this is all being decided. I don't know whether I've answered your question.

Moderator: Thank you Ms. Kabra. May we request you to return to the question queue for followup question. The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: A couple of bookkeeping questions. First, if you can share with us what have been the average capacity utilization levels across the three key segments at the end of FY22?

N. Srinivasan: So, maybe you can take this question offline, Renu. We will try to give you section wise.

Renu Baid: Second is, if we see the order inflow trend, especially in the Power System business, it was on an average Rs. 450 crore. So, while last quarter, the inflows did see a big jump, again, in the current quarter we are seeing the inflow trend tapering down to that Rs. 450-500 crore level. So, any read-through in terms of the near-term order pipeline from key segments or end markets? Any slow down or delay in decision making because of this sharp jump in commodity prices or it's more of just a timing issue and order inflow outlook should be strong yet again for next year?

N. Srinivasan: So, both for Railways, transformers, switchgears, generally these are tender driven businesses. We have given the position as on 31st March. After that as and when tenders get finalized, we respond and then finally we get the order, then only we can say. We have just discussed this on what basis capex is being planned. I think the government orders and projects, which are already up and running or which have been initiated for kick off, our understanding is that they will get completed.

Renu Baid: On the M&A side, if you see, in the previous quarter the management did highlight that they would want to do M&A in new areas to build capabilities, but if we see some of the existing segments and categories where we are short of capacity, exports of power transformers or maybe to some extent in switchgears, will you also be exploring M&A's in these segments or it would be only concentrated towards the new age businesses or new technologies only?

N. Srinivasan: So, I think every opportunity is to be evaluated. Experience has taught me that every opportunity has to be evaluated. So, unless and until something is concrete, we can't discuss. Otherwise, in the existing business products, any opportunity comes, certainly if there is anything valuable and worth the value, certainly we will look at it.

Renu Baid: And one last question, last year you had mentioned that beginning this calendar, you have fixed target cost initiatives?

N. Srinivasan: So, we can't say that we are going to reduce 5%. It is an ongoing thing. When we plan our budget itself, we take cost initiatives, but these are not for public consumption. We can't say how much cost percentage we are trying to reduce. So, it is purely internal. It is an ongoing thing. Certainly, we are looking at every aspect.

Renu Baid: Sir, my question was broadly the kind of unprecedented second wave of cost inflation that we have seen beginning March, do you think that we will be broadly be able to offset that inflationary pressure driven by various internal initiatives that are already underway, so will that help us in the current fiscal to tide through this inflationary environment to a good extent or do you think there could be certain other business strategies on the cost or the mix side of the business?

N. Srinivasan: We can't say without knowing what is the kind of supposing 20% rate hike is there, I don't think I can offset by our internal measures. So, we can't give a definitive answer to this.

Renu Baid: Got it, sir. Thanks so much.

Moderator: Thank you. The next question is from the line of Krishnakumar from Lion Hill Capital. Please go ahead.

Krishnakumar: Sir, just a question on the electric vehicle business broadly speaking for the group, but from CG Power perspective, do you see any synergies in terms of supplies or any product joint market with some of the new EV initiatives whether it is supplying into the Hyderabad Company, which makes EV tractors and batteries or into any other group entity, any synergies that you could talk about, if at all?

N. Srinivasan: So, to the EV, I think as far as CG is concerned, CG is capable of manufacturing motors for the requirement of electric vehicles, whether it be group or non-group. We are working on that as I said earlier. So, this is one area as of now that we have some capability which we can probably leverage to meet the market requirements. I hope I have answered your question.

Krishnakumar: Sir, just on the battery side, we hear a lot of negative press on that. Is that something an area where CG power may have interest, is it an area not of any interest to you sir, broadly speaking?

N. Srinivasan: So as of now, we have not thought about this or are not making any efforts to enter this segment.

Krishna Kumar: Thank you, sir.

Moderator: Thank you. The next question is from the line of Gautami Desai from Chanakya Capital. Please go ahead.

Gautami Desai: Sir, we are very long-term investors and we have two sources of information, one is from the Company and the other is when we speak to the dealers and the suppliers, which goes on a continuous basis. So, our information from the dealers for this particular quarter has been that CG Motors has given maximum discounts in the long time of their own history, the figures that we have is that discount in motors has gone up to 67% and also they have said that there has been such kind of discounts even in motors like flame proof motors where CG Power doesn't have much of a competition. So, one side when we are struggling with margins with the input costs and the various reasons that you have given us, we would like to know the strategy that CG Power has adopted in giving these kind of discounts in this particular quarter.

Ramesh Kumar: Actually discounts have no meaning because it is ultimately what is the landing price to the customer or a dealer because all the competitor's price lists are different. If you see, Siemens and all must have gone up to 82%. So, there is no comparison between any competition and CG because their price lists are different and we cannot compare with one or two stray cases here and there. It may be a strategic decision of the Company that what is the price where we need to give because it may be depending on the customer or maybe a strategic industry where we wanted to be, we don't want to lose our market share. So, we take care on overall basis. It is not possible to have on each and every order evaluation of the margins.

Gautami Desai: Sir, actually you are very right and we have done that comparative analysis. We have taken the price list of various companies and then we have compared motors and the price, which you have been giving and the information that we have collected is that the other companies, they have not sold at the kind of prices, which CG Power has, if they cannot afford in this inflationary environment, how come we have afforded and that has shown in the margins?

N. Srinivasan: So, if you can share this information with me then I think we can go into and then we can have a call with you.

Gautami Desai: Fine sir. Where do I share this information?

N. Srinivasan: You reach out to Bhumika Nair and then we will get the number from her.

Gautami Desai: Sir, just one more thing, you've been very clear about this and also your annual report doesn't show, but still just wanted to make sure do you anticipate any kind of contingent liabilities left towards any of your subsidiaries or any such thing?

N. Srinivasan: So, in this annual accounts already has been uploaded in the website, whatever is disclosed there are the contingent liability, other than that, nothing we are aware of, whatever we are aware of, we have already disclosed. So, beyond this, we are not expecting any contingent liabilities to come.

Gautami Desai: Thank you very much, sir.

Moderator: Thank you. Ladies and gentleman, that was the last question for today. I would now like to hand the conference over to Ms. Bhumika Nair for closing comments. Thank you, and over to you, ma’am.

Bhumika Nair: I would just like to thank everyone and especially the Management for giving us an opportunity and taking time out. Sir, any closing remarks from your end?

N. Srinivasan: I would like to thank everyone who participated in the call. It will be our earnest endeavor to improve our performance day-by-day, quarter-on-quarter and month-on-month. If nothing else is there, I think we can close the meeting.

Bhumika Nair: Thank you so much for giving us an opportunity, and thank you to all the participants for being there.

Moderator: Thank you. Ladies and gentleman, on behalf of DAM Capital Advisors Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your line.