HPL Electric & Power Ltd.
Regd. & Corp. Office :
1/21, Asaf Ali Road, New Delhi-110002 Ph.: +91-11-23234411
Fax : +91-11-23232639 E-mail : hpl@hplindia.com
Website : www.hplindia.com
CIN No. : U74899DL1992PLC048945

Date: May 31, 2017

BSE Limited,
P.J. Towers,
Dalal Street, Fort
Mumbai–400 001
Scrip Code: 540136

National Stock Exchange of India Limited,
Exchange Plaza, C-1, Block G
Bandra Kurla Complex, Bandra East
Mumbai–400 051
Symbol: HPL

Dear Sir,

Subject: Transcript of Conference Call with the Investors/Analyst.

The Company had organized a conference call with the Investors / Analyst on Tuesday, 23rd May, 2017. A copy of Transcript of conference call held with the Investors / Analysts is enclosed herewith and the same is also being put up on the Company's website at www.hplindia.com.

Kindly take the same on record.

Thanking You.

Yours Faithfully,
For HPL ELECTRIC & POWER LIMITED

HPL ELECTRIC & POWER LTD. 1/21 Asaf Ali Road New Delhi-110002

VIVEK KUMAR
COMPANY SECRETARY

Encl: As above

"HPL Electric and Power Limited Q4 FY2017 Results Conference Call"

May 23, 2017

ANALYST: **MR. ANUBHAV GUPTA -EMKAY GLOBAL**

MANAGEMENT: **MR.GAUTAM SETH - JOINT MANAGING DIRECTOR**
HPL ELECTRIC & POWER
MR. V.R. GUPTA - DIRECTOR
HPL ELECTRIC & POWER

Moderator: Ladies and gentlemen good day and welcome to the Q4 FY2017 results conference call of HPL Electric and Power, hosted by Emkay Global Financial Services. We have with us today Mr. Gautam Seth, Joint Managing Director and Mr. V.R. Gupta. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask the questions at the end of today's presentation. 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 would now hand the conference over to Mr. Anubhav Gupta from Emkay Global. Thank you and over to you Mr. Gupta!

Anubhav Gupta: Thanks. Good evening everyone. I would like to welcome the management and thank them for giving us this opportunity. I would now hand this call to Mr. Seth for his opening remarks. Over to you Mr. Seth!

Gautam Seth: Good evening everyone. On behalf of the Board of Directors, we extend a very warm welcome to all of you to discuss the financial results for Q4 and financial year 2016-2017.

Before we discuss our financial performance for the quarter and the full year, I would like to give a brief introduction about ourselves, particularly for those who are less familiar with us. HPL Electric and Power Limited is one of the leading electric manufacturers in India with a 40-year-old established brand. We are the leaders in electronic energy meters with a 20% market share, 50% market share in change-overs and a leading LED manufacturer with a 5% market share in low voltage switchgear.

Today, we are a one-stop shop for the low voltage electrical equipments ranging across meeting solutions, switchgears, lighting and wires & cables. Our nine state-of-the art manufacturing facilities have capabilities across design and product development, component designing and tool manufacturing, which is basically the electronic, mechanical, plastics, so we kind of do every type of manufacturing in-house.

Further our distribution network is well entrenched across India consisting of 90+ branch offices, 2700 authorized dealers and 20000 distributors and retailers. Our strong thrust on R&D and backward integrated manufacturing capabilities, enable us to launch innovative products with improved features while keeping strict control on our operating overheads. It has also helped us evolve from a pure products supplier, to an integrated solutions provider.

Coming to our fourth quarter financial performance, we have successfully displayed sequential growth in Revenue, EBITDA and PAT compared to the third and second quarters, driven by healthy growth across all four businesses, which are the metering, switchgears, lighting and wires and cables. Our metering business has again entered into a growth trajectory, marked by an input traction in orders from utility. Slower off-take in metering orders had impacted our first half performance; however, now the tendering process is gaining momentum.

As on March 31, 2017 we had pending orders from the utilities of nearly 200 Crores, of which significant portion was finalized during the end of March. We believe that there is an increased backlog of metering orders of about 2.8 Crore meters. This is the quantity, which should get tendered over the coming quarters. Further in addition to smart meters, there is also a good potential for solar net meters backed by government's push for solar powers.

Our lighting business displayed remarkable growth in the fourth quarter driven by increased sales of LED bulbs and luminaries. Our lighting sales increased despite the phase out of CFL products and the voluntarily reduction of low margin businesses, such as projects from EESL.

We have now expanded our lighting product range, which includes Lighting Electronics, Drivers, Ballast & other electronic components. The 70 Crores orders from Bhopal Smart City Automation Project is currently under execution and should start contributing from Q1 of the financial year 2018.

Further we are already in advanced stages for more such orders of Smart City lighting. Our switchgear business has been growing steadily along with marked improvement in margins. The EBIT margin in switchgear business has improved from 20.8% in FY2016 to 23.1% in FY2017, driven by a better product mix.

Our wires and cables business has also grown on a sequential basis driven by improved volumes and upward price revisions. EBIT margins in wires and cables business has improved from 5.1% in FY2016 to 8.1% in FY2017. Overall, our business is now on a strong footing backed by a healthy order book of Rs.285.4 Crores, providing a better revenue visibility for the coming year.

We are now on a strong foundation in the form of a comprehensive product range and a strong R&D and manufacturing capability. Various government schemes like the UDAY Scheme, Smart City Mission, IPDS, Deen Dayal Upadhyay Gram Jyoti Yojana, Housing for all which has affordable housing, implementation of RERA and the Pradhan Mantri Awas Yojana should lead to an increased business opportunity for us in near future. Our focus will now be on increasing our brand visibility through consistent brand promotion activities, incentivizing our dealers and aggressively reaching out to more and more dealers and retailers.

We are confident that these measures should help us capitalize on various positive sectoral tailwinds and aim for a long-term sustainable growth. With this I would now like to hand over for call for question and answer session.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answers session. The first question is from the line of Giriraj Daga from the K M Visaria Family Trust Family Trust. Please go ahead.

Giriraj Daga: My first question is related to the metering segment. Overall last year, the performance has not been so good; So, what kind of performance or ordering pickup we have seen in the last quarter and with this quarter and what is the growth extent for all segments?

Gautam Seth: If you see historically, going back to the first half of the year, the tenders which had come out were very less and the drop in the tender rates or the orders given by the utilities was almost 35% to 40%. Now when you see the position right now with the current orders, which are under evaluation, and they had various stages of evaluation, where they are right now getting finalized, the total quantity of orders is around 2.8 Crores meters, so which in value of terms would translate anywhere above 2000 Crores. In a 3000 Crores industry, almost two-third of the quantity is currently under evaluation by various utilities, so that is a positive sign for the industry. Post October last year, we did see certain tenders coming out and HPL also has been able to take certain good tenders. As on date our pending orders are 199 Crores from the utility. These are all for metering and about 50 plus Crores have been received only in the last 15 days, so definitely, right from the generation of tenders coming out, to the evaluation process happening, the order process is much faster than what it was six months or nine months before, so that is positive. From Q4, we have seen a 10% increase in our net revenues on the metering side, but going forward definitely looking at these positive points, what we see across the industry on the metering side, it seems to be in a much better situation compared to what it was about a year back. You must also realize that the gap we have seen in the ordering process where the tenders were either not getting finalized or were not coming out or were not decided, the demand rather has been intact, so what has happened is that the stocks of all the utilities have got depleted, so therefore there is an urgency with some utilities for ordering quickly. So right now, our position is better in terms of the enquiries and the tenders.

Giriraj Daga: Any growth guidance for each segment?

Gautam Seth: If you see from Q3 to Q4, both product verticals have had a growth and in fact the lighting segment we had a much better growth, wires also, we have grown, the other ones have been a bit stagnant I would say, at least the switchgear segment. The other government projects like the IPDS, Deen Dayal Upadhyay Gram Jyoti Yojana, Housing for all, they all have huge potential in the coming years. There's a positive outlook. These projects have gained more traction off-late and even in the February budget, the allocation by the government on both the schemes, the IPDS and the Deen Dayal Upadhyay has been increased to 4500 to 5000 Crores each. So, there are a lot of positive signals from that point of view. From a consumption point of view, when we look at it or even from the trade side, the negative impact of the demonetization, is no longer evident. Going forward, looking at the kind of product range we have and the infrastructure we have built up, we see huge growth potential. So, I am not putting a specific number but overall on a growth side, we can expect to witness double-digit growth this year.

Giriraj Daga: Two more questions, when we look at the lighting, is there any one off or any contract that was completed because of which the number is looking good at 95.6 Crores? So, is there any one-off in the quarter in terms of revenue, where we booked one large order?

Gautam Seth: There was no big contract, that was executed in the previous quarter. The Bhopal Smart City project will start generating revenue from this quarter, that is, Q1FY18. Even the other contracts, EESL as we have indicated already, the company has consciously kept out of some low margin projects, so there is no single project behind the revenue increase. There is a good volume growth across the product segments for LED mainly, which is complicated to this kind of growth.

Giriraj Daga: Can we assume this to be the base rate going forward for all quarters?

Gautam Seth: Sorry, your voice is not clear, can you repeat?

Giriraj Daga: Can we assume the 95 Crores revenue as the base rate and can we build on that, in the coming quarters?

Gautam Seth: You must realize that the last quarter, from a trade perspective, was one of the best quarters, so always like to see some changes happening on a quarter-on-quarter basis based on the cycles of the trade cycles, but roughly that can be assumed to be a base. One, especially the first quarter, one just needs to keep in mind the impact of GST on the trade.

Giriraj Daga: My last question is on the working capital. If I look at the inventory, this has gone up and even the receivables days have gone up, and creditor days have declined. So, net-net we have seen a very sharp increase in net working capital. So how will you see that and what reasons will you attribute and how do you see the working capital panning out over the next one year?

Gautam Seth: Our working capital has gone up and due to the reasons, you just mentioned, which were substantial, there's been an increase on the creditors side of 129 Crores, which has increased our net-working capital and we are already aware of this and we would see some corrections happening. In terms of inventory, we are already engaging on how the company needs to go forward, considering GST and we expect that there is going to be a change in our supply chain management and there will be a reduction in our inventory points. Currently we have 25 warehouses across the country, which are giving a state wise billing to each state and under the GST regime, that is no more required. So that could come down. We are seeing that our channel financing has led to some positives. We have 225 dealers now who have signed up. Some time is required by both the bankers who are executing this to do the KYC norms of our dealers and distributors and by the time they are engaging them, the minimum time is between 45 and 60 days for every dealer, while they are clearing. So, we have already started the process. By the end of the second quarter and in the third quarter, we would start seeing certain remarkable changes happening on the trade debtors to the channel financing. So, there are different measures regarding the creditor payments and in future, it would be normalized.

Giriraj Daga: What are the utility debtors out of total debtors?

Gautam Seth: Can you repeat that? Your voice is not clear.

Giriraj Daga: Utility debtors portion out of total debtors for metering segment, SEBs?

Gautam Seth: Sure. The utility debtors, they are at the same level. Broadly, the positive impact of UDAY could be seen only in two utilities, but mostly if you see on a longer-term basis, not much improvement seems to have happened. March 31, 2017 was the deadline for all the states to join UDAY and I would believe about 27 or 28 states have joined. Even in Tamil Nadu, which at one time it seemed that they may not join in but we do find that most of the states have joined in now. The sense what we get from the government is that they are looking at a bigger way in which UDAY is going to reform the sector and we are also very hopeful that within this year we would see some more reforms happening, some more positive steps happening, so that our debtor days comes down relatively.

Giriraj Daga: If you could give the number?

Gautam Seth: Our total debtor days are currently at 173 days and which is up by about 6 days from the previous year.

Giriraj Daga: I have the total but only the SEB outstanding? What is the absolute amount?

Gautam Seth: I think during the call, we will just give you the breakup.

Giriraj Daga: Thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Avneet Anand from SBI Capital Securities. Please go ahead.

Avneet Anand: What is our gross debt level?

V.R. Gupta: Gross debt level is at 362 Crores.

Avneet Anand: Within the current liabilities we do not have any number? I see that is a part of the short-term borrowing? Within the current liabilities, we do not have anything at that level, right? Only 360 Crores is the gross debt level?

V.R. Gupta: Gross debt level and net.

Avneet Anand: Secondly in this lighting division, what proportion presently is LED and what is CFL right now?

Gautam Seth: CFL for the entire year is around probably 22% or 20%, so that has been drastically coming down. In real numbers, our CFL business has come down by over 50 Crores last year. So, the growth what we see on the books is basically due to a higher growth happening in LED and the LED luminaries. So that is something which is growing and within this financial year 2018, we expect most of the business from LED and CFL would play a very, very negligible part in the whole sales product mix.

Avneet Anand: Just on this, I think the current quarter was quite good on the lighting side, but if I consider the PBIT margin, that is drastically down. I think it is around 11% versus around 17% - 18% last year same quarter. So even for the full year if I see, it is around 14.5% versus 20% so is it that a lot of products have been posed at the cost of margins or how is it?

Gautam Seth: We have been seeing a price pressure in the last two years; prices have been a big disruption across this sector. Even the EESL projects, they have been doing have been putting a big pressure on all manufacturers on the cost and selling point of view. Our strength at HPL has been that we are very well backward integrated. So whenever there is a drop in pricing, we have been working to come out with newer models and try to retain the margins, so therefore if you see in the last two years, our margin on lighting has been fairly good and we have seen of course a good increase in the volume, but the margins have come down, so again definitely there is a lot of work that is going on in our R&D, so whenever if you see the trend how it happens in the market, the selling prices come down much more drastically, then the innovation takes place to compensate and cut down on our costs and I think that is the current cycle. The way we see the industry going, in the next 12 months, we do see some of these things to continue but there is already some amount of consolidation happening on the competitive scenario, that today there are more fewer manufacturers who are playing at least in the bigger projects and I would believe that may be going forward the way we look at this industry almost from now it is 6000 to 7000 Crores; the industry is expected to reach 30000 Crores by 2020. That is a very enormous jump that any type of industry in this country is going to witness. So, when we see our own situation vis-à-vis from some competitors, we definitely have a very big competitive advantage in terms of our R&D and manufacturing and also the capability to integrate these types of lighting into smarter lighting by way of various communication technologies, by integrating them into software and making them into high end solutions. So, this is the way we have been going. Of course, our team needs to come out with better and more cost-effective things to get the margins back, and I believe we would be able to manage with that.

Avneet Anand: So just on the same thing, for Q4 the margins were around 11% and for full year it is around 14.5%. So going into FY2018 what would be a more predictable margin? Will the full year or the 4Q numbers a more realistic number?

Gautam Seth: I would say we are starting somewhere because the kind of margins what we have made to in the last two years, they were around 15% to 16%, I do not think those types of margins in lighting are sustainable. Again, because of the price disruption, we feel the prices are now bottomed out, there is a lower level, which is being achieved and then that is happening also based on the kind of innovation and the technological changes that are happening. Coming back to your question, we would say somewhere around 13% to 14% annually because fixing on a quarterly basis, as I said there could be spikes and something could go up or even the prices could come down suddenly but those levels, on an annual basis, are sustainable. To add to that, when you look at the orders what we have taken from let us say the Bhopal Smart City lighting, those kinds of projects still have a much better margin than the usual trade business. So, as a company with the same consortium, we have already been bidding for more such projects, so again we are quite hopeful that if some of those projects materialize, then even that could make the margins go up.

Moderator: Thank you. We will take the next question from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: Can you give me the breakup for each of your businesses in terms of what is the B2B and what is the B2C part of the sales?

Gautam Seth: If you see three businesses what we have, the switchgear, lighting and wires are all B2C. In fact, in the last year that is FY2016 we did have some business coming in from EESL, which is now very negligible. So almost the entire business from all these three verticals are the B2C businesses. In metering about 85% is the utility and balance 15% is the B2C.

Digant Haria: Sir, this Bhopal Smart City contract that would generally be a B2B contract, right, in the lighting segment?

Gautam Seth: Yes. Though our sale is not directly to the government, but from an institutional customer point of view, would classify that as B2B.

Digant Haria: All right. On the metering segment, I just wanted to know which all state electricity boards are we empanelled with? Like are we empanelled across all the 25 to 26 states which are a part of UDAY and we are eligible for bidding in any of the orders which come out or we have strong relationship with certain SEBs and not so strong with others?

Gautam Seth: We have been supplying to almost every utility and over the past couple of years; being one of the largest players in this industry, so every state utility, even the central utilities whether they are the PowerGrid or the NTPC, we have been supplying to all the government related projects we have been catering to. Even on the private side, 15% to 20% sales what our metering has done on the B2C side we have been supplying to almost every commercial establishment, builders, industries and even the end consumer, for their sub-metering requirements.

Moderator: Thank you. The next is question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir my question is on the metering part of the profitability. There's a big drop in this and it contributes largely to your absolute drop as well. So, some thoughts behind the reason for this drop-in profitability and what do you see as profitability, in absolute and percentage terms, going forward? So, is it more than your drop-in sales.

Gautam Seth: That is right. The maximum drop on the margin side is on the metering side, you see in the fourth quarter and that is what we evaluate, it is more on the product mix. So that is because every type of meter has a different kind of profitability, whether it is a single phase, three phase, private meter, prepaid meter, so every metering category has a different profit. Let us say the structure and even specifications wise, let us say a single phased meter by two different utilities depending upon what kind of specifications or features they may have. So, if you see in Q4, there has been a drop in the EBIT margins to about 15.5%, although the metering margins for the entire year has been at 17.2% and in the last six years, our margins have always been fluctuating between 17% and 22%. So, from the overall band of maintaining the margins, we have maintained it in FY2017, although it has been on the lower band, but let us say, as the newer technologies are coming in and the smart meters come in a bigger way, that again provides an opportunity for us to enhance our margin. If you see that, may be 15 to 20 years, every four to five years we would find a new generation of meter coming and whenever that happens, for at least a year and a half, that gives us an opportunity to have a much better margin until it becomes a much more standardized or a commoditized product.

Pritesh Chheda: Sir my second question is on the metering side, the industry generated highest business or sales in FY2015; thereafter it has dropped. Do you think that for you and the industry or let us say for you would you go back to your peak sales in FY2017 and hence peak utilizations and better margins in FY2018, considering the inflow of orders?

Gautam Seth: For us the peak was not in FY2015 but in FY2016.

Pritesh Chheda: So, you think you will surpass the peak of FY2016 and FY2017?

Gautam Seth: Looking at the way the orders are currently placed today, the tenders and the various stages of evaluation they are in, that is possible even for us to achieve our FY2016 figures, but again these are tenders that are dependent upon when they would get finalized, somethings may happen in a month’s time, something in three to four months’ time. That is obviously there, a rider from that point of view but from an opportunity point of view, with the existing flow of orders and even without considering the smart meters, the kind of orders which are currently being evaluated, it gives a chance to us as well as the other players to peak in this year at least up to the level probably of FY2015 or FY2016.

Pritesh Chheda: Can you tell us what was the volume of meters sold in FY2016?

Gautam Seth: FY2016 was 60 lakhs meters.

Pritesh Chheda: And your reference 20% market share was at 60 lakhs meters, right?

Gautam Seth: That is right.

Moderator: Thank you. The next question is from the line of Devam Modi from Equirus Securities. Please go ahead.

Devam Modi: What is the tenure of execution of the current order backlog of Rs. 285 Crores and also what was the corresponding order book last quarter and year-on-year compared to this 285 Crores?

Gautam Seth: Your voice is echoing.

Devam Modi: Basically, my question is what is the tenure of execution of the current order backlog of 285 Crores and the second question is that, what was the corresponding order book compared to this 285 Crores last quarter and year-on-year?

Gautam Seth: Sorry the first part of the question is not clear? I believe you are asking us how much time it would take to clear those orders? Is that your question?

Devam Modi: Correct.

Gautam Seth: If you see the metering orders which are 199 Crores that normally would take about four to five months to clear them. The other orders are much more quicker orders which would happen probably in the next two months because they are normally of wires, switchgears, and all, which are normally B2C with a small delivery schedule given by the dealers or the customers or whatever. Can you repeat your second question? I am sorry your voice is not clear.

Devang Patel: What is the sort of order book last year? What is the corresponding order book for the last year and year-on-year as well as last quarter, as of December?

Gautam Seth: Opening order book was around 300 Crores which currently as on date is 285 Crores. So, there is a marginal difference in that.

Devam Modi: When you are saying opening, this you are talking of January 1?

Gautam Seth: No, I am talking about April 1, 2016.

Devam Modi: What we would say is that even in April 1, 2016 the order book was very healthy because the meter orders did not play out the way they were expected to that is why the performance sort of took a dip in FY2017, is that the correct understanding?

Gautam Seth: But then you need to realize that because the tenders and the order input was very less during the year, so the pending orders on metering side have been coming down and that has now reached 199. It is a view for us to go forward based on the tendering.

Devam Modi: What kind of live tenders would we be having on the metering side?

Gautam Seth: As I said earlier, the tenders we have bid for or probably we are going to bid for or the tenders which are already out and notified, the total quantity of such meters is 2.8 Crores, which are about over 200 Crores in value.

Devam Modi: Last question basically on the working capital front, the debt seems to have come down only by a smaller level compared to what we were assuming. I think there has been working capital expansion, so where do you see this debt now settling at over the next two quarters?

Gautam Seth: Sales is coming down because of the channel financing as I said earlier this year by end of Q2, we would start seeing a substantial reduction based on the channel financing. In terms of the stocks, there is already a way to bring down our stocks based on the GST, so we really need to see what kind of a supply chain structure we would be following and I think in the next 15 to 20 days we would be very clear on our roadmap on how the inventories need to be structured, how our supply chain needs to be panned out based on the GST. In terms of if you see the net working capital going up, the sundry creditor payments in this quarter have been a little higher and I would say that would get normalized by next quarter wherein we would find the working capital coming down.

Devam Modi: That’s it from my side. Thanks.

Moderator: Thank you. The next question is from the line of Apurv Kulkarni from Nine Rivers Capital. Please go ahead.

Apurv Kulkarni: Just two questions; could you give us the split between the conventional and the smart meters that you would have sold for the year and the difference in the margins amongst the same? The second question would be the absolute capex plan for this year and would there be any chance of outsourcing production? Thank you.

Gautam Seth: Smart meters if you see, the government has been talking almost now for more than a year on the smart meters and the positive point what has come out is now that the government has notified the new specifications and the standard for smart meters and I think it is IS16444. So that is the standard for the smart metering. As a manufacturer, we already have the technology with us, we already have a working technology where we have provided the smart meters to various customers but these meters are now undergoing testing as per the new specifications. In terms of actual business done on smart meters, not much has happened in the entire industry because it was to happen in the last year but somehow that was one of the reasons why there was an ambiguity between the state and the centre and we did not find there are a lot of tenders coming in because at that point in time, it was assumed that the smart meters would immediately takeover. Fortunately, or unfortunately that did not happen and now the rush of orders is all on normal meters. In the context of smart meters what you and I understand, that is not happening right now. They have also moved with each manufacturer, assessing the capacities the companies have put in and what is their ability to deliver the smart meters. So, smart metering is going to come in a big way. When it is going to come is something to be seen by all of us. In terms of quantities, most of the business what you see on the books are all non-smart meters. There could be some small pilot projects or some small orders, which may have come so largely it is all the non-smart meters. Coming to your second question on the capex, we would see quite a normal maintenance capex happening in this current year. So about 25 Crores could be the capex of the entire year. Can you repeat the third question, please?

Apurv Kulkarni: That’s it.

Moderator: Thank you. We will move on to the next question that is from the Priyanka Bansal from India Ratings. Please go ahead.

Priyanka Bansal: Sir my question is regarding inventory. Sir despite decrease in our turnover, inventory have shot up in FY2017, so if you could give us the break up of inventory segment wise, so which segment has led to increase in inventories in FY2017?

Gautam Seth: We could share the figures with you, but the maximum inventory is on the metering side and because they have certain cycles of inspections happening. So, we will just give you the breakup of inventories. There is one more point, we have seen that the inventories have gone up and this is due to the opening of a new factory in Guwahati where right now a lot of production is going on and that has led to increase in our inventories overall as a company, but we see that as a temporary phenomenon, which would come down as the sales picks up from the new inventory.

Priyanka Bansal: Sir what all benefits are we looking at from this Assam manufacturing facility and what all products will be manufactured then and what benefits will it have on the cost or rating terms?

Gautam Seth: Here we are manufacturing switchgears, which are going to be mainly switches. These are the modular switches, MCDV. We have the MCCB, the changeover switches, broadly they are switchgears, then metering where we have the energy meters, so these are broadly the products what are going to be manufactured there. The benefit is in income tax, excise, and there are other subsidies and there are certain smaller benefits also, which are attached with that. Now you need to understand that these benefits would or may have some impact due to GST. So, we really need to I think by the beginning of July, we will be clear about actual benefits product wise. The rates of GST have just been announced, so based on those evaluations, we would really need to see what product and what benefit is available and whether it really makes sense to manufacture it there or in our other factories over here.

Moderator: Thank you. The line for the current participant seems to have dropped out. We will move on to the next participant that is from the line of Saurav Ginodia from Stewart & Mackertich. Please go ahead.

Saurav Ginodia: Thank you for the opportunity. Sir you have sold 60-lakh meters in terms of volumes in FY2016, if you can share the similar number for last year?

Gautam Seth: Around 51 lakhs.

Saurav Ginodia: 51 lakhs and Sir what would be the average borrowing cost for the gross debt of Rs.363 Crores.

Gautam Seth: It is around 10%.

Saurav Ginodia: Around 10% and Sir our tax rate is around 26.5% for last financial year, so what would be the reason for lower tax returns? What could be the tax rate for next year?

Gautam Seth: Due to MAT only. MAT credit was available and that was our reason of lower taxation.

Saurav Ginodia: For next year what tax rate should we pencil in?

Gautam Seth: It will remain in this range.

Saurav Ginodia: In this range only.

Gautam Seth: Partly also because warranty seems to be there and rate will be in this range.

Saurav Ginodia: That is all from my side Sir.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir a small followup question. I just wanted to check your outlook on the non-metering business. How do you see the growth in switchgear, lighting, and wires and cables separately if you could give some idea on the growth? Second in this business line the biggest drop in margin is from lightings if you could give some thoughts on the lighting segments and margins as well?

Gautam Seth: In terms of our own business plan, we definitely see a big rise in the trade segment, which is the non-metering and in terms of switchgear because traditionally that has the best margin and in the last year, we have been able to improve our EBIT margins from 20% to 23% on switchgears, so our internal focus is a lot on the switchgears where we see it is as a big opportunity, looking at all sides whether you look at the government projects, because we are supplying right now to the IPDS, to the rural electrification, housing for all is coming out, which will be a very big customer segment for us because our product range if you see right from switches, MCVDV, wires, and even consumer lighting everything goes into houses, whether it is an affordable housing or even at the high end or a mid level housing, so that is our focus. We see a very positive move with RERA coming in because with this, what we have seen only in the last one month, there seems to be a big urgency from the builders, they will not come out with new projects under RERA, but the speed of completion of existing projects is going to be very high and in the next one to two years even if you see the bulk of the projects, which were on the floor probably delayed, then these projects getting completed would really give a big boost to companies like us who are directly supplying to these type of builders through our trade channels, so this is positive for us. Even yesterday, the government has announced that they would complete over 12.5 lakh houses on the Pradhan Mantri Awas Yojana. There are lots at the state level; you have these Mukhya Mantri Awas Yojana, so these all have a direct impact on the switchgear sales what we have. We are also doing another exercise; to revisit our distribution network. So, this year the focus has been to really strengthen our redistribution network wherein our distributors who would cater to many retailers are being inducted into the system, so there's a lot of things and the types of activities what we are doing, would have a direct impact on our trade business, particularly to switchgear. Coming to wires, I just added this thing because switchgears here again we have been able to improve our margins in the last year growing from 5% to 8%, so here again we would like to utilize the spread what we are doing on the trade side. On the publicity side, we have below the line trade publicity what we have been doing, we have already enhanced the budget almost to 2X. The points of sale publicities have really gone up and we are looking to have a dealer, let us say a dealer board coming in most of our counters. So, there is a lot of activity happening on the trade side and we really believe that this is going to be a long-term thing for us going forward. As we see a better and a much more organized distribution network, which we believe would come in by the second quarter with a strong local ground level publicity happening, that is when we look to do a much more mass media advertising wherein our channel would be at the right place to capitalize on those kinds of investments what the company would do. What was your second question?

Pritesh Chheda: If you could peg your growth rate on these?

Gautam Seth: On the lighting margins is what you were mentioning?

Pritesh Chheda: And also the growth rate on the non-metering business?

Gautam Seth: So, in terms of growth as I said earlier, we can easily look at a double-digit growth on almost all of them. Of course, the LED segment is growing at a much faster pace and we would see the LED business to grow in a larger manner. Again, there would be some drop in the CFL business as this would be probably the last year where the drop in CFL would to some extent impact our books, so that is there, but overall, for all the non-metering businesses, we do see good growth coming in, with probably improved margins or retention of margins at least on the switchgear side. On the lighting front, the fourth quarter saw a drop I would say on the margins, but the way our teams are working more on the technical side and with the kind of innovation we are doing, we see the margins to come back to some extent. Wires being a much more commoditized business, there the EBIT margin is at 8%. I think we would look to even try to better it this year and probably look to reach maybe a double-digit figure in the future.

Pritesh Chheda: Sir the lighting margins would come back from quarter four number or full year number?

Gautam Seth: Full year number is around 14.5% and that is where we should be able to sustain that. You must realize that the lighting industry has seen so much of disruption on the pricing and the cost pressure again, that would continue to happen because the way the industry is growing at such a larger pace and government playing a very active role in actually competing with the market players and trying to bring down the pricing, so that kind of a pressure would remain going forward at least for the next one to two years.

Pritesh Chheda: Thank you Sir.

Moderator: Thank you. The next question is from the line of Sangeet Lakkar from New Berry Advisors Ltd. Please go ahead.

Sangeet Lakkar: Sir I wanted to know your capacity utilization for metering as well as non-metering segments?

Gautam Seth: Our capacity on metering is about 90 lakh meters.

Sangeet Lakkar: Utilization?

Gautam Seth: We have done about 51 lakh meters last year, so there has been in fact a drop in the quantity as well as in the value. The balance utilization if you see is around broadly on an average I would say about 60%.

Sangeet Lakkar: 60% is for the non-metering segment.

Gautam Seth: That is about 60%.

Sangeet Lakkar: Sir what was the rationale of increasing the capacity in that case, in setting up a plant in Guwahati?

Gautam Seth: The only rationale was on the tax benefits, so if you see the benefits what were coming because this was probably the last benefit what was available for any manufacturer before the GST was coming in and both the central and the state government shave been confirming that there would be an ongoing benefit that would accrue from that subsidiary. So now if you see from our point of new, the trade products whether it is a MCB, switches, or distribution boards, they have a large amount of taxation, which accrues on the excise duty point of view with a very low input contract coming in. So, for us to go there and the benefit accrues for the next 10 years, so it is an enormous amount of benefit. Earlier the company has availed this benefit in Himachal and now we hope to have a similar benefit. Of course, we need to see the exact impact after GST because that may change something or we may even maintain the same benefit, so that is it, but for the 10-year benefit, that makes a very good sense of it.

Sangeet Lakkar: But is there any clarity on the benefits that it will continue or to some extent it will continue or how does it work?

Gautam Seth: No, the benefits would be there because there is an income tax benefit and there is excise benefit. The excise benefit would probably get merged into the GST, but exactly what happens we would probably be in a better position to share it in the beginning of July. One thing, the main component manufacturing for even the Guwahati unit would happen in our existing plant. So, all the electronic manufacturing and the main components would be utilized from our existing plant, so we are utilizing the tax benefit. Secondly, since each being a growth, we might get some benefit on us being locally there and being close to our markets, but the main objective obviously was on the taxation benefit.

Sangeet Lakkar: Thank you.

Moderator: Thank you. The next question is from the line of Priyanka Bansal from India Ratings. Please go ahead.

Priyanka Bansal: Sir just wanted to understand how much is the capex incurred on this Assam Guwahati plant?

Gautam Seth: It is over Rs.20 Crores in the Guwahati plant.

Priyanka Bansal: I just wanted to understand Sir whether this is financed from internal accruals or some debt is also being released for this?

Gautam Seth: This is all from internal accruals because we currently have no fixed term loans. Everything is on the working capital side.

Priyanka Bansal: Thank you.

Moderator: Thank you. The next question is from the line of Giriraj Daga from K M Visaria Family Trust. Please go ahead.

Giriraj Daga: Sir two questions, one on the working capital like what kind of benefit we can see from channel financing because in the presentation we have talked about Rs.75 to Rs.100 Crores kind of receivable reduction, but if our business goes up, so then the absolute amount may not decline and the second on inventory, if we talk about the GST, our finished inventory last year was about Rs.98 Crores roughly, about one-third of total inventory, so we will see reduction only on the finished inventory once the GST comes and the consolidate our warehousing is my thought process correct on that side?

Gautam Seth: Sorry your voice was not clear. You will have to repeat the second question again. I am sorry.

Giriraj Daga: My second question is, if I look at inventory breakup, it is about one-third in raw material and one-third in work-in-progress and one-third finished goods, so if we consolidate our warehousing post GST implementation, we will see reduction only on the finished goods side of inventory?

Gautam Seth: Yes.

Giriraj Daga: So that may be, even if we assume 30% to 40%, so overall pie may reduce by 10%, so is that thought process right or we might see further reduction also?

Gautam Seth: You are right in your analysis, but one thing you need to see is that since we would be having bigger mother warehouses going forward, so the inventory of the finished goods would come down and on the raw material side and the WIP, that is the conscious effort we are making, so that is something I do not think, immediately at least, GST would give us that kind of a reduction.

Giriraj Daga: My first question was on the receivable side?

Gautam Seth: On the channel financing, if you see, we have 225 dealers who have signed in for the channel financing. All these documents have been submitted to the banks and almost on a weekly basis, we are getting approvals for various dealers.

Giriraj Daga: I understood Sir. You have already explained that well. My question is that we have talked about Rs.75 Crores to Rs.100 Crores of trade receivables reduction, once we are done with channel financing, so my question is if the absolute business increases in double-digit and going forward also, we grow by double-digit, so the absolute receivables may not come down from the current level?

Gautam Seth: But let us say once the business is increasing, because as more and more dealers come in, right now you do not see the visible reduction on the debtors, but by the end of Q2 and Q3, the debtors' reduction would start coming down enormously, so even if the business were to go up in double-digit, the net debtors would come down.

Giriraj Daga: So, what is the expected number of days we might see, let us say in FY2018 or FY2019?

Gautam Seth: We expect the debtors to go down in the absolute numbers of about Rs.50 Crores by the end of Q3.

Giriraj Daga: My last question is on ROCE Sir. If I look at the ROCE of the company, with a double-digit growth, it would still be difficult for us to repay ROCE and ROE above the cost of capital, so what further we need to assess there, what further we need to do there to increase our ROCE and ROE?

Gautam Seth: You know as our capacity utilization goes up and turnover goes up, because that is where the focus of the company is, we would expect this to come up to at least say double-digit like 10% on this.

Giriraj Daga: By when?

Gautam Seth: Within I would say maybe in FY2018, otherwise by FY2019.

Giriraj Daga: Thanks, and all the best.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

Gautam Seth: Thank you all of you for coming here and giving us a chance to present ourselves. We always remain here for any questions you may have. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us. You may now disconnect your lines.