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28th November, 2019

The Manager,
Listing Department,
National Stock Exchange of India Ltd.
"Exchange Plaza", C-1, Block G,
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Mumbai – 400 051
Symbol: HPL

BSE Limited
25th Floor, New Trading Ring,
Rotunda Building,
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Dalal Street, Fort,
Mumbai – 400 001
Scrip Code: 540136

Subject: Transcript of Conference Call with the Investors/Analysts

Dear Sir

This is with reference to the intimation dated 12th November, 2019 made by the company about the Conference Call scheduled for Investors/Analysts on Monday, 18th November, 2019 at 4:00 PM. A copy of Transcript of the conference call held with the Investors/Analysts is enclosed herewith and the same is also available on the Company's website i.e. www.hplindia.com.

Kindly take the same on record.

Thanking You

Yours Faithfully
For HPL ELECTRIC & POWER LIMITED

VIVEK KUMAR

Digitally signed by VIVEK KUMAR
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Vivek Kumar
Company Secretary

Encl: As above

"HPL Electric & Power Limited Q2 FY 2020 Earnings Conference Call"

November 18, 2019

MANAGEMENT: MR GAUTAM SETH – JOINT MANAGING DIRECTOR, HPL ELECTRIC & POWER LIMITED

MODERATOR: MR ABHINEET ANAND – SBICAP SECURITIES

Moderator: Ladies and gentlemen, good day. And welcome to the HPL Electric & Power Limited Q2 FY20 Earnings Conference Call, hosted by SBICAP Securities. The discussion today may include some forward-looking statements, and this must be reviewed or considered in conjunction with the risks in the industry in general and our business in that particular space.

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 telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr Abhineet Anand from SBICAP Securities. Thank you and over to you, sir.

Abhineet Anand: Thanks, Karuna. The management today is being represented by Mr Gautam Seth – Joint Managing Director, and other senior management team. We will have opening remarks form the management post which, we will open the session for Q&A. Over to you, sir.

Gautam Seth: Thank you, Abhineet. Good evening, everyone. And a very warm welcome to all of you present on the call to discuss our financial results for the second quarter of the financial year 2020.

In line with the guidance we made in the last quarter's earnings call, we produced strong sequential growth in the second quarter, both in the meters and the lighting business. We also yielded improved operating profitability.

Meters business continued to see traction as it grew by 22% quarter-on-quarter to Rs. 165 crores backed by timely execution of orders.

Lighting business grew robustly by 48% quarter-on-quarter and 12% year-on-year to Rs. 52 crores. Growth in our lighting business was majorly driven by the expansion of the distribution network and offering a wider assortment of products to our customers. Our focus in this segment will be on providing a more comprehensive range of value-added products and further expanding our distribution network.

Furthermore, augmenting our product development and marketing efforts, HPL's successful association with Haryana Steelers Pro Kabaddi Team as its official LED lighting partner is yielding positive results in the lighting trade segment.

Performance of the switchgear segment was subdued due to the weak macro-economic environment, which adversely impacted the demand from real estate, industrial, and the infrastructure markets, which includes the government segment as well.

In the wire segment, the management took a tactical call to increase its product prices. This led to a decline in our sales. However, given the low margins, it did not impact our overall bottomline much. We will gain substantially in this segment once there is acceptability of the increased price in the market.

On the profitability front, we continued our focus on improving our operating profitability in the first half of this year, as our EBITDA grew by 8% on a year-to year-basis to Rs. 65.3 crores. EBITDA margins expanded by 145 basis point to 12.6%, driven by a higher contribution of metering business and efficient cost control.

Looking ahead, we are confident of posting double-digit growth on a year-to-year basis in meters, lighting, and wire and cable segments in Q3. On an overall basis, we expect mid to high single-digit top-line growth, along with improvement in operating profitability.

Further, we are witnessing increased inquiries and tendering activities in meters as tenders worth over Rs. 2,000 crores or around 1.6 million meters have already been floated. Current order book, which stands at a healthy level of Rs. 390 crores along with the increased momentum in tender activity provides good revenue visibility for the year ahead.

Favourable policy initiatives like the government's plan to set up an Rs. 25,000 crore fund to revive the stalled housing projects, and its ambitious, smart metering programme, coupled with increased government spending is expected to boost demand for HPL's products, especially for switchgear and meters.

We as a company are fully geared up to capitalise on these initiatives and the demand recovery in the real estate and infrastructure markets.

With this, I would now like to hand over the call for a Q&A Session.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Nilesh Soni from IndiaNivesh. Please go ahead.

Nilesh Soni: Sir, a couple of questions. Regarding wires and cables segment, can you please quantify the distribution network and the retail touchpoint that you have specifically for the wires and cables segment?

Gautam Seth: At HPL, we currently have over 900 dealers and distributors and 27,000 retail points. But all of them may not be buying our wires and cables. So, as I said earlier, as a company, we have taken a conscious call to improve our realisations in the market, and so around a quarter back we have increased our prices quite substantially in the market.

With this, what we have seen is that there has been a little slower traction in many areas, which of course now we are optimistic that it will start picking up. So, therefore, you will find a drop in the wires and cables segment in the last two quarters. But going forward, we find that most of our network will again come back through patronising our wires and cables. If you see earlier, maybe even two to three years back, our sales in wires and cables were much higher in terms of value and volumes. And our coverage in our distribution network was much more widespread.

But what we didn't realise was that even with those kinds of volumes, the kind of margins that we were making was not sufficient. So, there has been a conscious call to enhance our pricing so that we are able to get better margins as we go forward when the volumes improve. On an immediate basis, looking at only Q3, which is just ahead of us, we expect good volume and the value growth in the wires and cables segment. Overall, as we go forward, we hope to achieve a much better growth along with a much better margin in the near future.

Nilesh Soni: Sir, can you quantify, I mean, can you guide regarding what can be the margins for wires and cables going forward? And what can be the outlook for the raw material which you procure? And I think copper would be the major raw material which you procure.

Gautam Seth: That’s right. Currently, our margins are around 4% to 4.5%, and easily we can look at a much higher margin, I would say the margin where we would like to come on an immediate basis should anywhere be around 7% to 9%, that is something that we would like to see the margins at. But over the last couple of quarters, if you see, our margins have been pretty low. So right now, with our volumes also being low, immediately we don't see the margins going up. But as the volumes will pick up, at those unit prices what we are selling at, we do hope that the margins should come to at least a higher single-digit figure.

The major raw material component is, of course, copper, which is an internationally traded commodity, which is governed by the LME. Of late, looking at the past couple of months, the prices have been pretty stable in terms of the copper pricing. So that's how we see it. But in terms of when you look at enhancing the margins, that will happen mainly on higher volumes and then bringing in a lot of efficiency in terms of manufacturing with a low cost of selling the products.

Nilesh Soni: And sir, where do you procure this copper mainly from, can you guide on that?

Gautam Seth: There are two big established sources in India, which is the Sterlite and Hindalco. So, we buy it from them. These are the two recognised sources where we buy our copper from.

Nilesh Soni: Okay. And the last question, sir, can you quantify the current utilisation for the wires that cables segment?

Gautam Seth: Currently, I would say our capacity utilisation is much below 50%. Earlier, we even were operating at 65%, 70% levels. But currently, if you see, based on the last quarter, it would be well below 50%.

Nilesh Soni: Okay. So, this was basically because the prices were increased and you were unable to sell, the volumes were low, so that’s why the utilisation was also low

Gautam Seth: I would put it the other way that, although it's easy to achieve higher volumes in wires, it was a conscious call to make certain corrections in the pricing and then go back into the market and place the product at a much higher brand positioning. So that has been done. We are very confident about the quality and the technology of our wires, and we have a state-of-the-art manufacturing facility.

Now with this price correction, we see much better long-term profitability once we again enhance back our volumes. You must realise that over the past couple of years among the four product verticals the wire has always been contributing the least in terms of the revenue typically around 9% to 15% to our total revenues.

And overall, even by dropping the volumes, it does not make an impact on the overall margin or even our consolidated top-line. But we thought it was better to do a course correction in the meantime and then again look for growth. So, on an immediate basis, in Q3, we are expecting some growth on a year-on-year basis. But overall yes, by maybe the end of the year or next year, we expect our volumes to reach closer to the previous level along with a different level of margins.

Nilesh Soni: Okay. And sir, you can't quantify for wires and cables separately the dealer and the retail network, right?

Gautam Seth: As we have four broad verticals, and then looking at the retail channel, we have a couple of products which always go in tandem. So, we have the MCB distribution boards, wire, switches, and trade lighting LED bulbs. So, typically, all these products are available to the entire network of retailers that we have. Now they might be distributed through certain specific dealers and distributors, but when you look at the retail channel, eventually, all our products get a presence on their shelves.

And so, we don't have a specific channel for wires. Wires are one product that can go along with any type of, a lighting product or electrical or domestic switchgear. So, I will not be able to quantify how many dealers. But looking at the volumes the dealers or retailers who are participating, has reduced in the short term. But again, as I said, with the new efforts and the new strategy that we have in place, the volumes will pick up as we go forward.

Moderator: Thank you. The next question is from the line of Viral Shah from Prabhudas Liladher. Please go ahead.

Viral Shah: Sir, in the presentation you had mentioned that one of your business, the metering business, is expected to grow significantly in Q3. So, how confident are you? And what are drivers for this commentary?

Gautam Seth: Currently, we have an order book of Rs. 360 crores. So that itself gives us visibility, for the next two quarters. Of course, some of them are scheduled orders, but overall, if you see in the last three to four quarters, our execution on the metering side has been steady, and it has been growing at a steady pace. So, that is one of the key drivers we see immediately for the third quarter.

In terms of inquiries in the market, there are tenders today at various stages of evaluation, amounting to Rs. 2,000 crores. And so that again gives us visibility going forward beyond this year as well, where a lot of tenders, whether they are from the state-level utilities, from EESL, whether it is combining of the single-phase, three-phase products of the smart meters or prepaid smart meters.

Therefore, from a demand point of view, the visibility going ahead in the short term or even in longer-term, looking at the next two years, seems to be very intact and quite positive. This is where our immediate confidence comes in from, looking at the way the execution is happening on the metering side.

Viral Shah: Fair enough. But would you be bidding for tenders such as a SEBs where there is stress being witnessed, and our working capital could be stretched? So, would we be keen on getting such orders as well?

Gautam Seth: So, we will be bidding for all tenders wherein we feel that the financing of that is either from central government or under its scheme.

Viral Shah: Okay. Fair enough. Secondly, in one of the commentaries, in your opening remarks, you had mentioned that there is a demand which is expected to pick up from real estate and other allied sectors. So, could you elaborate more on that and which all segments will be benefited from this?

Gautam Seth: I would believe that the standpoint the government has taken by creating a fund to revive stalled projects is positive. However, it will take a certain period before these stalled projects come back on stream. So, that is a little longer timeline, I would say. What is currently happening is that certain government initiatives and projects that were going on, like the Saubhagya Scheme and certain others, we have not seen any demand from those since the last three quarters.

But in certain sectors now, we have seen renewed investments which are starting now due to the government-related projects. The inquiries and the business, of course, come in from various contractors and through the trade. So, we are seeing renewed activity in that respect over the last month and a half, and we do expect that at least from the fourth quarter onwards, there could be a certain pickup in demand, which may help our switchgear and meters business to some extent.

For the real-estate sector to pick up, of course, it will take time. I would say maybe another year or a two-years, because of the overall stress and the way that the projects are stalled, so that may take a little more time although it's a positive step by the government. But overall, by the time the demand comes in for the electrical, that may take some time. What is important to note is that typically in a real-estate project, the electricals and lighting orders come towards the end of the project.

So, if you see, when we look at any stalled projects, typically I would assume we are in a midway stage. So, by going for completion, it will help our sector but no in the near future. Because after you have done most of the civil construction, that is when the electricals and lightings come in. So, that can be positive. But anyway, I think that could happen only sometime in the next year.

Viral Shah: Fair enough, sir. Anything post-festival season how has been our run rate in terms of all the segments and demand scenario if you could throw some light out there that would be great.

Gautam Seth: The festive season's direct impact comes in more in the lighting segment, and we have seen good traction here, especially in August and September. Even in October, we have seen the trade lighting grow tremendously. So that has been quite positive. Even beyond that, we are seeing a good demand coming in from at least the trade lighting segment, so that is something beneficial.

The meter businesses, of course, are not dependent upon any festival as such. So there again we see good traction, thanks to the order book that we have. Wires and cables, due to our internal focus, we do feel that on an immediate basis, we would be able to lift the volumes in Q3, and there the work is going on.

Switchgear has been a little dull segment for us since the last two quarters. Although we may see sequential growth in that. But, yes on a year-on-year basis, it may take some more time until we see a bigger growth coming in from there. But broadly, after the festival season, the performance of the lighting segment has been fairly encouraging. Although, certain drop in volume is always there after the festival season, still the demand seems to be quite intact.

Viral Shah: Sir lastly, any segment such as real estate or anything which has been in our order book and causing some pain, could you highlight that by any chance?

Gautam Seth: You mean only in the order book, the orders which we have?

Viral Shah: Orders which you have where you feel that there could be a pain in terms of receivables being stuck or payments not coming from the government which you would like to have?

Gautam Seth: So, when we look at the utility business, typically, the payment cycle is around six months. So, we do not see any improvement. But we don't see it deteriorating from this point either. Although there is one south based utility where due to their restructuring and other things, we have seen certain of our money coming in slow, But, I guess probably within this quarter; we will see that also being sorted out. Generally, the trend in the utility point is that it does take five to six months for the money to come in.

So, there's nothing specific which I can see at the moment. But when you look at the trade segment, our receivable days has been constant, despite our efforts to reduce it, because the trade market also has been going through certain issues. But overall, I would say things are much better from our side.

Moderator: Thank you. The next question is from the line of Harmish Desai from Ashika Group. Please go ahead.

Harmish Desai: Sir, can you make me can understand what is the size of this smart meters opportunity, and how do we capitalise on it?

Gautam Seth: The smart meters are coming in a bigger way. But there's no specific number which is available to quantify that. In terms of the tenders that are coming out, typically from EESL and from some states, that part of the business is now set to grow in a much bigger way. So, the tenders are coming out; the demand is getting created. As we go forward, maybe by this year, next year and going forward, even on a 5-7 period, that is one segment that will be growing within the broader metering business itself.

The government has been talking about replacing all the traditional electronic meters with smart meters or prepaid smart meters, and they have been giving a number of 25 crore meters. So that's a huge opportunity that lies ahead of us. Regarding the timeline, of course, the government is talking about three years, but that is something that probably needs to be defined at an execution level. Overall, within the metering, the smart meter segment is set to grow in a very big way. And at HPL, in terms of the technology, in terms of certification, we are very well equipped to exploit those opportunities.

Harmish Desai: **C**an you give me the outlook on the switchgear business for the second half of the year?

Gautam Seth: Yes. We would see a growth in the second half as compared to the first half, for the simple reason that the first half has not been very encouraging for us and so even the base is low. We have a new strategy in place, and our team is making a lot of efforts to drive this business. But overall, with the real estate market being very subdued over the last couple of months, and as we don't foresee that activity to pick up soon either, the market is going to be challenging. But, if you look at the second half as compared to the first half, we would see growth. I probably cannot quantify right now, but maybe by the end of this quarter, we should be able to give out more definite guidance in the numbers.

Moderator: Thank you. The next question is from the line of Ninad Sabnis from Sabnis Capital. Please go ahead.

Ninad: I have a couple of questions. My first question is on the lighting business. So, there was a drop in the EBIT in Q2 despite a 12% growth in the top-line. Can you to throw some light on that.

Gautam Seth: Yes, in lighting, we have seen good growth in terms of value and volumes. But, due to the change in product mix, our margin has seen a drop to some level.

In lighting, if you see, it's a very dynamic segment where the selling price is also always under pressure, as well as the sourcing or the cost of manufacturing. So, there is constant work going on by our team to reduce our procurement cost, and similarly to look at the pricing and the margins that are operating in the market. So, I would say, although there's a drop, going forward, we should be able to reach to 11% to 12% margins. But the margin also depends a lot on the product mix. We are focusing a lot on the luminous and growing our lot of other portfolios within the lighting. So, I would say it is more of a one-off sharp drop we have seen in this quarter. But going forward, especially on better sourcing and procurement, we would see the margins to resume back.

Ninad: And can you give some guidance on your overall EBITDA margins for the next couple of years? Is it possible to touch the 15% level in the next couple of years?

Gautam Seth: We are currently operating in four product segments, and typically they have a profit margin which is range-bound for different products. So, reaching a 15% level, I don't think may happen at least in the near future. The effort, of course, as a company is to enhance the maximum contribution from our meters and switchgear segment as they offer higher margins. Although the contribution from the meters business has gone up, in fact to over 60% in the last quarter, unfortunately, the contribution of switchgear has come down. Around 11% to 12% is more sustainable on a short or medium-term basis.

Moderator: Thank you. The next question is on the line of Mehul Kadam from Kadam Advisors. Please go ahead.

Mehul Kadam: What is the working capital cycle like in the B2C business? And is there any room to improve this in the near future?

Gautam Seth: If you look at our non-utility business, the working capital, although there has been a good improvement in the last two to three years, currently it is more or less stable. What we have now done is that we are working on enhancing channel financing in a bigger way. We started adopting channel financing two years back, and now there is a greater push to get in a much larger set of dealers and to do more business through the channel financing. So, our aim is that by March we need to improve that figure substantially. So that is where we are currently working on. And we do hope that going forward we will see improvement at least in the debtor days from the non-utility business.

Mehul Kadam: Okay. And a question with regards to P&L, why there was an increase in other expenses, despite a decline in the revenues?

Gautam Seth: The increase in other expenses is primarily because of three major heads. There has been an installation of certain street lighting project we took up in the professional lighting segment, so that contributed about Rs. 1.25 crores. There also has been an increase in the R&D expense and certain freight expenses which is mainly due to the higher share of meeting business. So that contributes to most of the Rs. 4 crores increase in other expenses.

Moderator: Thank you. Next question is from the line of Nilesh Soni from IndiaNivesh. Please go ahead.

Nilesh Soni: Sir, again on the wires than cables, other than acceptance of your price hike, what would be the other triggers for the growth in the wires and cables segment? And how do you see the competition intensity in that segment?

Gautam Seth: The competitive intensity in wires is, of course, quite high. There are well-established players. And we would also consider ourselves quite well established if you see our previous performance and the kind of growth. In fact, if you go back almost seven to eight years, there are very few brands which have entered in wires and cables segment and established a pan-India network and acceptability. And I would believe, HPL is one of those few successful brands which have emerged in the last ten years. So, we have been able to create an all-India network. But only what was missing from our point of view is that we need to achieve much better margins.

In terms of our network and expandability, there is a huge scope.

Looking at the market share, our market share is low in this. So, whether the industry is growing or not, I don't think that would impact our growth plans. So, from here on, we do see the volumes coming back in the wires and cables segment with much more improved realisations. So, going forward in the Q3, as we see the volumes coming back, then, of course, we can strategise and see how we can grow much faster in this segment.

Moderator: Thank you. The next question is from the line of duty Kirti Jain from Sundaram Mutual Fund. Please go ahead.

Kirti Jain: Sir, with regards to smart metering, what is the opportunity that you see in the medium-term?

Gautam Seth: So, in the smart metering field, we see that the opportunity is coming from four to five states, apart from EESL. These include Jharkhand, UP, Maharashtra, Tamil Nadu and Karnataka. So, these are the five states wherein there are opportunities. Most of these states are going to bring on their first tender, which will not be a very large tender; it will be below 5 lakh pieces. But it will be with the system integration, and it will be with an end-to-end solution.

Kirti Jain: Sir, amongst the three, say non-metering businesses which one you believe that we will attain scale sooner and the margins will improve in a faster way, among the switchgear lighting and wires and cables?

Gautam Seth: So, switchgear, we feel that we will be able to take off first.

Kirti Jain: Okay. Like sir, wires and cables, the EBIT margin is 4%. If we consider working capital, we would be at net minus or net breakeven only. So given our capital is also limited, if you use it towards the higher-margin business, will it not get a better return?

Gautam Seth: Yes, our focus is on driving growth in the switchgear segment and if you go back about two years back, the growth in switchgear, especially on the domestic switchgear has been very good. Even our internal focus has been that we need to focus on the much higher margin business, which is typically the switchgear and the metering business for us. Lighting, of course, we are very well placed, although the margins are a little lower, the volume growth has been there. And that is one product, which is much more consumer-facing for us. So that is also very important.

So, looking at these circumstances, then we did work out that wire is not a segment which we need to focus on in a big way. Hence, we have done a course correction in terms of the pricing where we feel that we can get a better unit realisation for the same product sold. And now we are pushing that. So, in the near-term, we see a certain increase in the volume. But overall, with better brand positioning, and network expansion, we hope to achieve it much better returns. Furthermore, wires are also a good add-on for the MCB and lighting segments.

However, we also understand that with such a low margin and then putting in our capital, it does not make too much sense to put in our efforts on that. But we are confident that going forward, as we have a very good product, a very good facility and a good name in the market, we should be able to perform much better in wires as well, which will eventually help us to get a better grip on our retail network. The consumer will know us better because wires are again a very visible product like lighting, where the brand recall matters. So, in the end, coming back with a much better margin will help us. Although our focus largely will remain upon meters and switchgear.

Kirti Jain: But, would it not wiser that, like as you told there are hundreds of wires and cable companies and we have lower scale also, and we are indirectly making losses due to difficulties with our working capital, and our interest cost also. So, will it not be a better strategy to exit this segment that may lead to better a better focus of our bandwidth?

Gautam Seth: When we look at the long-term growth in the trade market and more also as a consumer product company operating in the electricals and lighting space, the product basket is going to play a very important role. And our idea also of coming into wires and cables was so that we can offer a complete basket whether it is off-switches and MCBs, trade lighting. So, the wire is a good add-on product with that. Although we did achieve much higher volumes in the past, the margins were traditionally much lower. But we feel that going forward with better margins, we should be able to reach a level where we can grow with a better margin.

Further, from a retailer point of view, the basket is very important, and for that, we will need to have the wire and cables in our basket. So just existing it, although we may make some very short-term financial gain in this, but in the longer-term when we want to expand our market, become a better brand in the in the consumer market that is where we will always see a gap because in terms of any domestic requirement whenever you see whether it is of electrical or lighting, the wire is the first product which is purchased whether through the electrician or a contractor or even by a domestic householder, the wire is the first purchase that happens.

And typically, in the market where companies are today operating with multiple products like even HPL is doing, once wire of a particular company is ordered or chosen by the customer, then the probability of other products being of the same brand being chosen like switchgear and lighting stands to increase considerably. So, that is something that we need to look at, and I am sure with the strategy that we have put in place, we should be able to come up with a much-improved performance in the wire segment.

Kirti Jain: Okay. Sir, but why is it that even on a small base we have seen a 40% kind of decline, why it is not getting accepted despite our such a large pan India presence?

Gautam Seth: Yes, it is because we have enhanced our unit realisations quite a bit as compared to what we were getting previously. So, in a short-term reaction, we see a dip in volumes. But over the period, the products which are having much better realisations we are pushing into that. So, it may take one or two quarters until we are able to come back with those volumes.

By when we will be able to get to that level back, I cannot give a fixed timeline for that. But definitely, we are in that direction where on better realisations we are seeing our volumes improved. Even for certain projects where we have been giving much higher discounts till now, we have curtailed those back to some extent and even improved our payment terms on the wires. So, we took some strong actions, which as we go forward will lead to much better results.

Kirti Jain: Okay. Like sir, what is on capacity, is that in the wires and cables, how much turnover we can achieve in our factory?

Gautam Seth: In terms of revenues, we can even go up to even Rs. 300 crores - Rs. 350 crores of revenue. In some years, we have reached close to even Rs. 200 crores, which was a couple of years back. So, the capacity is not a constraint for us. Currently, we are operating at a much lower capacity, but as we go forward, we look to improve that on a quarter-to-quarter basis.

Kirti Jain: Okay. These are a new product we are looking at it, sir within our category or our adjacencies?

Gautam Seth: When you look at the product development, almost every quarter, we do have certain products coming out from each of our four segments. So, of late, we have done a lot of development in the solar switchgear segment. Furthermore, in each of our product verticals, there are a lot of new products which are under development.

Even in the lighting segment, we launched seven new products in the consumer segment, and a couple of products in the outdoor and other segments as well for the Diwali festival. Now, again, new developments are on-going in this segment. Product development is a continuous process at HPL, where new and innovative products are being developed and launched within the same four product verticals.

Kirti Jain: Currently, our ROE is a little subscale. By when do you expect the ROE and cash flows to improve?

Gautam Seth: Once we see our capacity utilisation going up, definitely we would see ROE improvement. So currently on the meters side, our capacity utilisation is at a much better level, backed by strong execution. Fortunately, even in the lighting segment, we have seen certain good improvements in the volume, and our focus is on how to sustain those volumes and grow that, post the festival season. Due to the overall macro-level conditions, the switchgear has come down, but again we are working on improving our performance there. Going forward, our return on equity will improve as our capacity utilisation improves and our revenues go up.

Moderator: Thank you. The next question is from the line of Abhineet Anand from SBICAP Securities. Please go ahead.

Abhineet Anand: Yes, I just had a few questions. First on the meter, when you said the Rs. 2,000 crores inquiry pipeline, if you can break this down into smart meters and the regular meters?

Gautam Seth: As discussed earlier, only a few states are going into smart meters. So, balance, the inquiry and tenders are for regular meters which is also quite robust. In value terms, I believe 40% should be smart meters, depends on what realisation you take.

Abhineet Anand: Okay. For the first-half, what has been our ad spend and the CAPEX?

Gautam Seth: Yes, the ad spend is about Rs. 10 crores. Going forward in Q3 and Q4, we do see a lot of BTL activities happening, which is more of a point of sale activity. So, the ad spends should be at a similar. We have incurred a CAPEX of Rs. 26 crores in the first six months.

Abhineet Anand: For the full year will there be any additional CAPEX apart from this Rs. 26 crores that you mentioned?

Gautam Seth: Probably about Rs. 10 crores - Rs. 15 crores more.

Abhineet Anand: So, given that the majority of the capacities except in meters are still low. This CAPEX is targeted in which segment?

Gautam Seth: A lot of this is on the tools, moulds and other things which are all based on volumes. They need to be replenished, and that is where a lot of the CAPEX is directed.

Abhineet Anand: Okay. Then, on the channel financing side that we have been undertaking this for the last 1.5 years. Of the 900 dealers, that you said how many dealers are under channel financing now?

Gautam Seth: I think overall if you see, I do not have the exact figure, but around 90 to 100 of them are under channel financing. Now, what you need to realise is that although there was channel financing happening, in the previous time, we had a complete recourse on that. So, despite channel financing, the debtor's figure on the balance sheet, was appearing completely.

But now if you see in the new scheme, we are adding SBI as a banking partner on for channel financing So, that is where we see a benefit of the rates happening. Even in terms of the recourse that will be only at 20%. With the experience of operating for almost 2years in channel financing, we do see much better terms coming from the bank. And overall, by the time we reach March 2020, our overall balance sheet fingers shall start improving. We are currently looking at more dealers who would again come into the channel financing.

You must realise that although there are 900 dealers, given the current state of the industry and the economy even those companies that have been operating channel financing for last five years to ten years, are at present not getting average coverage of more than 30% - 35%. So, all the 900 dealers are not under the channel financing. But our effort is to reach that figure very shortly maybe in the next one year to two years so that we cover the maximum big dealers coming into the channel financing. So, in terms of value that would be going even beyond Rs. 100 crores.

Abhineet Anand: Okay. And once questions slightly medium-term question, what to be and how do we plan our debt reduction strategy?

Management: Debt reduction strategy depends on the realisation from utilities. This is the main thing because we cannot control the receivables period from the utility. We have made efforts to control the receivables of the non-utilities, and that has come down substantially from more than 120 days once upon a time, it has been reduced to around 90 days now. As far as receivable from utilities are concerned, that depends on them only, but we are trying our best. Average receivable days on the utility side is approximately six months.

Moderator: Thank you. As there are no further questions on the participants, I now hand the conference over to the management for your closing comments. Over to you, sir.

Gautam Seth: Yes, as we go forward in Q3, we are looking at improvement in our sales volumes in at least the three of our four segments, although a lot of effort are also happening on the switchgear side. We will also continue our efforts to improve our brand visibility and expanding our network. We will also look into implementing certain feedback and suggestions that we just got in this call within the coming months.

I thank all of you for coming and giving us a patient hearing. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of SBICAP Securities, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.