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23rd February, 2019

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

BSE Limited
25th Floor, New Trading Ring,
Rotunda Building,
Phiroze Jeejeebhoy Towers,
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 13th February, 2019 made by the company about the Conference Call scheduled for Investors/Analysts on Friday, 15th February, 2019. 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
DN: c=IN, o=Personal, postalCode=110095, st=Delhi, 2.5.4.20=3eb36823c8b414e7e934f2e0af3da0106 41437e49524495d66b6b358709bf23f, 2.5.4.45=032100E234C1A60CCB36368F0C1FF320 31C16B9EC4C0C83F861248F1AB5F64A048C162, serialNumber=052767230d5f1c44b1c2164eefdb8 4f2c760ac7359949d646e7ce9b91f23d372, cn=VIVEK KUMAR
Date: 2019.02.23 12:52:01 +05'30'

Vivek Kumar
Company Secretary

Encl: As above

"HPL Electric and Power Limited Q3 FY19 Earnings Conference Call"

February 15, 2019

MANAGEMENT: **MR. GAUTAM SETH – JOINT MANAGING DIRECTOR**
MR. VR GUPTA

MODERATOR: **MR. DEEPAK AGARWAL – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the HPL Electric and Power Limited's Q3 FY19 Earnings Conference Call, hosted by PhillipCapital (India) Private Limited. As a remainder, 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 would now like to hand the conference over to Mr. Deepak Agarwal from PhillipCapital (India) Private Limited. Thank you and over to you, sir.

Deepak Agarwal: Thanks. Good evening to all. On behalf of Phillip Capital, I welcome you to HPL Electric and Power Limited 3Q Earnings Call. Today we have HPL's management, represented by Mr. Gautam Seth – Joint MD and Mr. VR Gupta. I hand over the floor to the management for their opening remarks, post which we will open the floor for Q&A. Over to you, sir.

Gautam Seth: Good evening, everyone. On behalf of the Board of Directors and the management of the company, we extend a very warm welcome to all of you to discuss the Financial Results for the Third Quarter and Nine Months of Financial Year 2018-2019.

Before we begin, I would like to mention that all financial performance comparisons would be on year-to-year basis. Our performance in the third quarter was marked by expansion in operating margin, driven by our sustained efforts towards cost optimization. Gross margin for the quarter improved, and we expect further improvement over the next few quarters.

Coming to our segment revenues in Q3 FY19, our switchgear and lighting revenues grew by 12% and 7% respectively. Our meter revenues declined by 12% due to delay in inspection of orders worth over Rs. 20 crores. These orders will be dispatched in fourth quarter and we expect to record revenues of over Rs. 175 crores in this segment for the current quarter. Profitability declined due to marginally lower revenues and higher depreciation.

Coming to our performance during the first nine months, our overall revenues grew by 12%, driven by 33% growth in switchgear segment, aided by strong trade business. Both our lighting and meter segments grew by 9%. We maintain our prior guidance of double-digit growth in metering revenues for the full year.

EBITDA margin expanded by 48 basis point due to continued focus on procurement efficiencies across business segments. Profitability remains stable.

Coming to our segment margins, metering margins declined due to higher polycarbonate prices in the first two quarters of calendar year 2018, partially neutralized by stability in prices in the second half of 2018. Switchgear margin is on a recovery path with sustained improvements, driven by revenue growth and optimal product mix. Lighting margin was stable.

Our total order book as on 7th February stands at Rs. 519.1 crores of which Rs.484.7 crores are meter orders. This includes an order for supply of 28,000 smart meters for one of the smart grid projects. Our ad spends for the first nine months stood at Rs. 11.9 crores. We are working on a new brand building initiative and strategic market campaign, which will further enhance our B2C share in our overall revenue, currently at 56%. We expect new associations in the forthcoming IPL season.

Overall, our focus remains on procurement efficiencies across business segments. As a result of our persistent efforts towards improving our working capital cycle, we have reduced our trade (non-utility) receivable days and maintained it around 90 days for quarters ending 30th September and 31st December 2018, from 125 days as on 31st March 2018. We expect further improvements in our receivable cycle, once the B2C revenue share increases over the coming quarters.

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

Moderator: Thank you very much. Ladies & gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Heer Gokhlani from Isha Securities. Please go ahead.

Heer Gokhlani: We do not participate in EESL tenders, both for meters and LED lights, is that correct?

Gautam Seth: Off-late for certain tenders, we have not been participating, mainly because the terms were not to our liking or preference. EESL is a big customer and that is a volume game. If the terms are favorable to us, then we participate.

Heer Gokhlani: What is the kind of working capital requirement for such tenders, both for Meters and LED?

Gautam Seth: The terms and conditions for light bulbs are different from those offered for street lighting or the other project lighting. EESL has come out with three metering tenders, the bigger ones being the smart meter tenders. Certain payments are extendable almost up to 8 years, with three years being the payment period. So, the payment terms cannot be generalized. It depends on the product category as well as tenders themselves. But bearing in mind the structure of past meter tenders, the working capital requirement can be on the higher side.

Heer Gokhlani: What is the difference between the metering margin on sales made to EESL and direct sales to utilities, or even through the trade channel?

Gautam Seth: Meters sales in the B2C segment, which go through our trade channel, witness comparatively higher margin, in line with our other product offerings in the B2C segment; but this forms a smaller portion of the metering revenue pie. Majority of our metering revenue is generated from the utilities. The EBIT margins are around 14% to 16%. For a couple of EESL tenders, the margins were on the lower side as the price discovered post the bidding process, was lower than what we anticipated. In general, for all utilities, the margins are between 14% to 20%, depending upon the type of product and the technology used.

Heer Gokhlani: For smart meters, would it be higher?

Gautam Seth: Theoretically yes, because generally it is not just the product, but the complete solution. It includes software and the communication system. So, the margins in a smart-meter tender should be higher for any manufacturer.

Heer Gokhlani: The expenses of replacing an existing meter with a smart meter, are borne by the customer or the utility?

Gautam Seth: The expenses are borne by the utility for the smart meters. The central government is currently driving this initiative. Although now, a few state governments have also started coming out with the smart-meter tenders. The consumer pays rent for that, which is charged monthly in the bill. Whether that amount will increase or would remain the same, if a regular meter is replaced by a smart meter, remains to be seen. In general, the rent is paid by the customer for the meter that belongs to the state or central utility.

Moderator: Thank you. We have the next question from the line of Akshay Jain, individual investor. Please go ahead.

Akshay Jain: Can you briefly explain the scope of benefits derived from being backward integrated? And in which of our product segments do we witness maximum cost benefits from the same? Or if you could explain in % cost reduction terms?

Gautam Seth: We are backward integrated in all the four product verticals. In metering, right from R&D, electronic manufacturing, complete plastic tooling, injection molding up to the final assembly testing, everything is done in-house. Primary reason behind backward integration, is to maintain the quality and ensuring consistency in the product. Backward integration is vital for all meter manufacturers to compete in the market. Over the past 10 to 15 years, we had nearly 40 to 50 manufacturers coming into metering, but only those who had control over the complete manufacturing, quality, design, are the ones which are able to sustain with a competitive business model. There are only four to five players today in the market, with no serious entrant in the last 10 years. Similarly, in LEDs, we've had many manufacturers entering the market with an asset light model. Those players were involved in trading activities, but we have seen some consolidation due to the declining price scenario. Players with no control over manufacturing, are not able to compete in the long run. When we analyze the long-term opportunities at our disposal, across the four business verticals, one needs to have control over design, manufacturing, and that is what we believe in. Our competitors may be going for different products and business models, but this has been our business model and strategy. Coming to the cost benefits, in meters and switchgears, there are certain cost benefits. Outsourcing could lead to certain short-term benefits but that depends upon the product, design or technology. The point is to have control over the design, developments and ensure quality of the product. At HPL, we are confident about our quality offerings, for around 100,000 to 150,000 products which are manufactured every day, across our facilities. Our repeat customers are due to the reputation of our high quality offerings in the market.

Akshay Jain: On the switchgear front, we have grown approximately by 30% in the first nine months. What is the growth rate target for FY20?

Gautam Seth: 1.5 to 2 years back, we had a plan in place and due to our internal reorganization, we expected the switchgear business to grow at a higher rate than the industry. We were able to achieve that in the previous year with a good growth rate. And again 32% growth in the nine months of current financial year. We again expect double-digit growth in future. We will have our business plan for the next year ready, in the current quarter. We are looking to go aggressive so a double-digit growth rate or even a higher double-digit growth rate, can be possible.

Akshay Jain: Just to quantify that, with the high base of FY19, will it be possible to achieve high double-digit growth, as you mentioned?

Gautam Seth: If not 30%, once our plans are in place, we will target something between 15-20%. By the end of next quarter, we will be in a better position of shed light on the same. As we are still looking to gain market share, there are opportunities and we will be exploiting those. As we have been able to deliver over the last 1.5 years in the switchgear segment as far as growth is concerned, there is no reason why we should believe otherwise.

Akshay Jain: Our wires and cables segment revenues have witnessed a downward trend since the last four quarters, and consequently our consolidated EBITDA margin has increased from 9.6% to 12.4% in Q3. So, given the trend, is it that the wire and cables segment revenues are impacting the overall consol margins and is there a strategy to consciously reduce wire and segment business, so that consol EBITDA margin goes up?

Gautam Seth: In the recent quarters, the reduction of wires & cables segment's share in the overall revenue, has also been one of the factors that has helped us enhance our overall EBITDA margins. But going forward, we will focus more on this business segment. Another reason behind the decline is the telecom projects which we won in the third and fourth quarters of FY18, which are not there this time. In the long run, this segment will grow. We will keep track of this segment's contribution to overall revenue because that can bring down the overall EBITDA margins. But on standalone basis, we are anticipating growth. In Q4 that may not be the case, but over the next one year, we can expect that.

Moderator: Thank you. We have the next question from the line of Vikas Singh, individual investor. Please go ahead.

Vikas Singh: My question is regarding the LED products. One of our competitors has mentioned that they are targeting lower tier cities for LED products. What is our strategy in this segment? Are we increasing your retail presence in existing markets or aggressively looking to penetrate in new cities or town?

Gautam Seth: Our lighting revenues since the last two years, were mainly from LEDs and from the trade market. Revenues from EESL and other larger projects, are almost nil. So, our entire growth since the last four to five quarters is mainly from the trade. We have seen expansion in our trade business, due to MCB and the LED lighting products. Our investments in terms of tying up with an IPL team last year and incurring incremental advertisement expenditure, are bearing fruits. Over the previous seven quarters, we have spent nearly Rs. 26 crores on advertisement and marketing. That is aiding our network expansion, which is eventually helping our switchgear as well as the lighting segments. So, in line with our competitors, even our strategy is to penetrate tier II and tier III cities and expanding our network pan-India.

Vikas Singh: This year too, are we planning to sponsor an IPL team?

Gautam Seth: This year IPL, we are vying for greater visibility. We have already signed up but by next month, we would be announcing that. Overall, we are looking for a better tie-up in terms of our brand visibility. This will help us with our revenue targets from the trade segment in the coming two quarters.

Vikas Singh: Coming to capacity utilization levels, we are already running at around 75% in metering segment and around 65% in non-metering products. Is this based on a single 8-hour shift?

Gautam Seth: The plant has multiple operations. As we were disusing earlier, since we are backward integrated, we have a lot of different processes. Some of our back-end manufacturing processes run on two shift or three shift basis, the assembly and testing may sometimes be on single shift or two shifts. Overall it is not just a single shift or two shifts. From a utilization level increase viewpoint, there is a lot of scope within our existing infrastructure, where we can look to enhance our output by increasing shifts. Our production capacity is flexible enough to adapt to any additional demand.

Vikas Singh: How much can it be then, the utilization level?

Gautam Seth: So, our utilization in metering; lot of our processes are on two shift or three shift basis, and our production since the last couple of months, has gone up. For guidance purpose, we can take it to be around 75%.

Vikas Singh: So, 75% including two shifts, is that correct?

Gautam Seth: It depends on the items. Back-end processes like the molding, electronics and other processes are working on two shift bases.

Vikas Singh: Can you please provide the inventory break-up of metering and non-metering products?

Gautam Seth: Out of the total inventory, about 65% is on the metering part.

Vikas Singh: And what is our current debt level, short-term and long-term?

Gautam Seth: Our long-term debt is only Rs. 18 crores and on net basis, our overall borrowing is Rs. 450 crores.

Moderator: Thank you. We have the next question from the line of Harshit Kapadia from Elara Capital. Please go ahead.

Harshit Kapadia: In Metering, you have mentioned in the investor presentation that the metering segment revenue is expected to be Rs. 175 crores in Q4. So, this will be the highest quarterly run-rate in the last two years. Do we expect a significant margin uptick in the fourth quarter as well? Could it be upwards of 18% because of operating leverage? And since you have a high order book, can this run-rate be closer to Rs. 160 crores from Q1 onwards?

Gautam Seth: Our target of Rs. 175 crores includes a backlog of Rs. 20 crores, which was already manufactured in the last quarter but could not be dispatched due to the inspection schedule given by the utilities. Since we have a good visibility of orders, which extends to over six months, production is on the rise and we are looking to maximize our efforts. In terms of margins, it was previously impacted by polycarbonate prices, which have now stabilized. Considering that, we have seen improvements in the margins. Increase in turnover should again help the overall margins.

Harshit Kapadia: 18% to 20% will be the range now going forward or would it continue at 16% level?

Gautam Seth: Sequentially, it has increased from around 14% to 15%. There may not be a big jump but there will be improvements, which can be witnessed over the next two quarters. The process of utilities involves inspections, post which clearances are given for dispatches. The manufactured products are not immediately dispatched due to this. Going forward, we would target a run-rate of Rs. 160+ crores. The metering business order book stands at Rs. 484+ crores. The execution during the last three quarters has been good; the production is at a healthy level; we also have an encouraging inflow of enquiries for tenders under evaluation, which are to the tune of Rs. 2,000+ crores. The outlook for the next two years seems positive.

Harshit Kapadia: But because of the election, there would at least be a slowdown in the tenders awarded in Q1. And can we expect this to normalize Q2 onwards?

Gautam Seth: That may happen temporarily. But overall, we are sitting on a high order book. So, even with the election and subsequent mild disruption over 2.5 to 3 months, the revenues are not expected to be impacted as ultimately, these are coming from state utilities. And even if the new orders don't come in, like I said, our order visibility extends well beyond six months.

Harshit Kapadia: And in the wires and cables business, we have seen a revenue decline in this quarter on a YoY basis. Was that a conscious decision from the management, to limit the wires and cables revenue this quarter or was the demand hit in this quarter? Peers have reported a strong volume growth, so wanted some inputs on the same.

Gautam Seth: There are two things. Last year in the third quarter, there were certain orders for telecom cables for 4G installations, which were extended even to the fourth quarter of last year. This year we did not have orders from that segment. So, that has partially contributed towards the decline. The other aspect is that although the overall industry level demand in the wires & cables segment is healthy, it was a conscious decision from our end to not go all out to get the orders, with a view to keep our margins intact as well as to improve receivable cycle in the wires business. For the long run, we will be chalking out a business plan where we can witness steady growth, with a conscious view of the margins as well as the credit enjoyed by our customers and dealers.

Harshit Kapadia: And is the reason behind the decline in EBIT margin on a YoY basis, the rise in commodity prices and inability to take price hikes?

Gautam Seth: Yes, there is always a lag between the increase or decrease in the prices. So, of course, copper also has been quite volatile across the last couple of months. So there is always a lag, but generally there is a pattern in which the prices are passed on either way, as an increase or decrease. So if there is something, it is just purely a temporary thing. But generally the price benefit or either way the movement gets passed on to the consumer.

Harshit Kapadia: Can you update us on your channel financing initiatives? Has your working capital cycle improved on the non-metering business side?

Gautam Seth: Our non-utility debtor days based on the gross turnover, has come down to 82 days. We are witnessing steady improvements over the levels witnessed a year or two ago. We are working towards bringing this to around 70-75 days. On the channel financing front, 90 dealers are already on-board. On a quarter-on-quarter basis, the movement has been positive. So, again, going forward in the next year, we would see improvement in the debtor days for non-utility business.

Harshit Kapadia: Can you also help us understand the current real estate demand scenario as most of your portfolio, caters to the real-estate segment. Have you seen any impact of liquidity issues and subsequent slowdown in real-estate, thereby slower growth in B2C products, like wires and cables or lighting or switchgears in this quarter or in the coming quarter in Q4, compared to the first half?

Gautam Seth: Despite demand, due to the liquidity position of the customers or the builders, there are times when we end up not supplying or even delaying the delivery schedules based on the payments being made upfront by the builders. So these issues are there. The slowdown in real-estate will continue for a while. But as I mentioned before, our share in the switchgear and even other businesses, are on the lower side. So, we have grown in the switchgear segment by 32% this year. Even last year, we have witnessed good growth in the domestic switchgear segment. This is mainly because of our internal rejig in this segment and we are looking to increase our market share. Despite the short-term headwinds in these segments, we are expecting double-digit growth. Although there is liquidity issue, the market opportunity is huge.

Moderator: Thank you. Our next question is from the line of Heer Gokhlani from Isha Securities. Please go ahead.

Heer Gokhlani: What is our annual meter capacity, in terms of units?

Gautam Seth: Our capacity is 90 lakh meters per annum.

Moderator: Thank you. Our next question is from the line of Vikas Jain, an individual investor. Please go ahead.

Vikas Jain: What is the order book level as on 31 December 2018?

Gautam Seth: As on 07 February, we are sitting on almost Rs. 520 crores of orders, out of which Rs. 484 crores are for meters, about Rs. 17 crores for switchgears, Rs. 12 crores for lighting. These are net of taxes. On gross basis, these are over Rs. 600 crores.

Vikas Jain: And what is our EBITDA margin in the metering business?

Gautam Seth: I have the EBIT figures with me. It's around 16%. Sequentially, from Q2 to Q3, that has increased from 14.2% to almost 16%. So, this, as I mentioned earlier, is because of the polycarbonate prices, which had a negative impact on the margins for the first two quarters of the calendar year 2018. And being a major raw material component in the meters, that had adversely impacted the margins, which is now gradually improving.

Vikas Jain: With Saubhagya scheme being one of the key growth drivers for electrification, what kind of headroom do we see? What is our metering pipeline, attributable to this scheme?

Gautam Seth: In the past we've had certain pending orders in the order book, related to the Saubhagya scheme. Saubhagya scheme currently covers 2.5 crore households. That is almost coming to an end right now, by the end of March or a couple of months more, that would mark the end of the first phase. Post elections, it would depend on how the new government is going to push the Saubhagya scheme.

Vikas Jain: Our top-line has remained stagnant for some time now. Any specific reason behind that?

Gautam Seth: 2-3 years back, we had certain events which adversely affected our top-line. One of the years, there was an impact on the metering industry where specifically, the entire metering industry was down by almost 30%, when the government was contemplating shifting the regular meters to the smart meters. The other impacts are pertinent to demonetization and GST; those again had an impact last year, due to which our business segments recorded muted growth. From April 2018, we have seen revival in the overall market. Hence, we maintain our guidance of double-digit growth, which we are confident of achieving in FY 2019. Across all the four segments along with the solar segment we will witness healthy growth rates over the next few years.

Vikas Jain: What is your outlook on the lighting segment? How are we placed vis-à-vis our competitors given the pricing scenario in the LED space and the competitive pressure?

Gautam Seth: In terms of competitive positioning, we are well placed because among all the top manufacturers, we have had an early mover advantage as far as backward integration is concerned, in terms of manufacturing including the electronics and the complete driver manufacturing. The importance of own manufacturing setup is gradually being realized by the market. This is vital so that one can control the design & development, because LEDs require constant R&D and innovation. In terms of the declining price scenario, the prices have gradually decline over the past 3-4 years. But since last 1-1.5 years, the decline has not been significant. In fact, over the last one year, it has been stable. Now overall, we are not witnessing a price decline scenario. Today, right from bulbs or batons or the other trade products, even on the projects front, the prices overall, are competitive, so on an order-to-order basis, the prices may change. With our backward integration, having our own R&D facilities and control over manufacturing, our cost competitiveness will continue to increase in future. Despite the pricing scenario, we have been able to maintain our margins at around 11% to 12%. We see the margins stabilized at this level. Significant consolidation has taken place in the industry with the exit of smaller players. With better industry norms and increasing consumer awareness to use branded products, we see things improving further hereon. The worst phase in this business is behind us and going forward, the industry will grow at a healthy rate and as an established player, we stand to gain immensely from this.

Vikas Jain: Thanks. And just to conclude, what is the cash and debt level on our books as on 31 December?

Gautam Seth: Net debt is Rs. 468 crores.

Vikas Jain: And cash?

Gautam Seth: Cash is Rs. 73 crores.

Moderator: Thank you. Ladies & gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Deepak Agarwal for his closing comments.

Deepak Agarwal: Thanks. I now hand over the floor to the management for their closing remarks. Over to you, sir.

Gautam Seth: I would like to thank everyone for coming and giving us a patient hearing. And we look forward to a good Q4 and along with the increase in the turnover, we as management, are also committed towards improving the margins and on the working capital. Thank you very much.

Moderator: Thank you very much. Ladies & gentlemen, on behalf of PhillipCapital (India) Private Limited, we conclude today's conference. Thank you for joining us. You may disconnect your lines now.