HPL Electric & Power Limited
CIN : L74899DL1992PLC048945
Corporate Office : Windsor Business Park, B-1D, Sector-10,
Noida - 201301 (U.P.) | Tel.: +91-120-4656300 | Fax. +91-120-4656333
E-mail : hpl@hplindia.com | website: www.hplindia.com

12th November, 2018

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 27th October, 2018 made by the company about the Conference Call scheduled for Investors/Analysts on Tuesday, 30th October, 2018. 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=3eb36823c8b414e7e934f2e0af3da010641437e49524495d66b6b358709bf23f, 2.5.4.45=032100E234C1A60CCB36368F0C1FF32031C16B9EC4C0C83F861248F1AB5F64A048C162, serialNumber=052767230d5f1c44b1c2164eefdb84f2c760ac7359949d646e7ce9b91f23d372, cn=VIVEK KUMAR
Date: 2018.11.12 13:33:08 +05'30'

Vivek Kumar
Company Secretary

Encl: As above

"HPL Electric & Power Limited Q2 FY2019 Earnings Conference Call"

October 30, 2018

ANALYST: **MR. HARSHIT KAPADIA - ELARA SECURITIES PRIVATE LIMITED**

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

Moderator: Ladies and gentlemen good day and welcome to the HPL Electric & Power Limited Q2 FY2019 Earnings Conference call hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. I now hand the conference over to Mr. Harshit Kapadia from Elara Securities Private Limited. Thank you and over to you Sir!

Harshit Kapadia: Thanks Stanford. Good evening everyone, on behalf of Elara Securities we welcome you all for the Q2 FY2019 conference call of HPL Electric & Power Limited. I take this opportunity to welcome the management of HPL Electric & Power represented by Mr. Gautam Seth, Joint Managing Director and Mr. V.R. Gupta, Director. We will begin the call with a brief overview by the management followed by Q&A session. I will now hand over the call to Mr. Seth for his opening remarks.

Gautam Seth: Thank you Harshit. 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 second quarter and first half of the FY2018-2019. We recorded strong performance in the second quarter driven by favourable momentum across core business segment. Our metering, switchgear and lighting businesses have now displayed positive growth trajectory over the last eight quarters giving us confidence and placing us on strong footing to deliver robust business growth over coming quarters.

Our overall revenue for the quarter stood at Rs.286.5 Crores growing by 28% year-on-year, metering business grew by 43% driven by strong execution of metering orders, switchgear business grew by 46% driven by strong growth in the trade business. There was a 12% year-on-year decline in the lighting business primarily due to the high base effect of Q2 FY2018, which saw festive season in September.

Wires and cables business grew by 12% year-on-year. Overall the revenue growth of 10% quarter-on-quarter was driven by increase in metering and lighting sales. We recorded improved EBITDA margin both on year-on-year and quarter-on-quarter basis driven by higher sales and strict control on operating cost. Our metering margin declined on year-on-year basis due to increase in polycarbonate prices; however, the margin improved on quarter-on-quarter basis, which is due to better product mix.

Switchgears margins improved due to higher realization and cost optimization measures. Lighting margins improved due to the efficiencies from better procurement. Our PAT for the quarter was Rs.7.8 Crores, registering a growth of 26% year-on-year and 39% on quarter-on-quarter basis. Our persistent efforts towards reducing our working capital cycle are yielding results. Our overall receivable days have gone down from 164 days in March to 140 days in September; this was driven by reduction in trade, which is the non-utility receivable days, from 125 days in March to 87 days in September. Our inventory days have also gone down from 149 days to 138 days from March to September. As discussed in our first quarter earning call, our endeavor shall be to maintain our net working capital at current level.

Coming to our order book position, it continued an upward trend to reach Rs.507.5 Crores (net of taxes). As on October 25, 2018, the metering order book stood at Rs.462.4 Crores, which includes the smart meter order worth Rs.52.3 Crores received from one of the leading private power utilities. Our BIS certified smart meters are gaining widespread recognition and coupled with our strong execution in the metering segment we remain optimistic about the growth prospects in the segment. We are setting up a new manufacturing facility for electronic components used in the lighting business. Due to a strong growth in both metering and lighting businesses, we shall use our existing unit for metering business and dedicate this facility entirely for the lighting business. Our total revenue for the six months of FY2019 stood at Rs.546.5 Crores. This along with a strong order book places us in a formidable position to achieve our target of double-digit revenue growth in FY2019 coupled with improved profitability. Our ad spent for the quarter was Rs.4 Crores, taking the six months total to Rs.9.3 Crores. We shall continue to channelize our efforts towards strengthening the HPL brand and product recall in the minds of the consumer. We will continue to work on strengthening our centralized procurement network, inventory rationalization, brand building initiatives and innovative product launches incorporating the latest technology. With this I would now like to hand over the call for 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 Anup Nayar from Equity Intelligence. Please go ahead.

Anup Nayar: Congratulations on a good set of numbers. Our share price has come down from IPO level of Rs.200 to around Rs.65, correction of 65% to 70%. Generally promoters use this as an opportunity to increase the stake. Can we expect any buy back plans from the company's side?

Gautam Seth: Currently we have no such plan, however, we take your suggestion and we can consider it.

Anup Nayar: Because the investor community would perceive this as the promotor's confidence in and commitment towards the business and the company.

Gautam Seth: I would not like to comment on the share price. There was some impact of GST on the trade business and our metering business was affected in FY 2016-2017. Since the last four quarters, there has been a steady increase in revenues; we have been working on all the parameters, right from improving our margins, controlling our operating costs and working on various balance sheet parameters and the working capital cycle. So, on a quarter on quarter basis there has been an improvement, as the results are better and those will reflect on the overall business.

Anup Nayar: Our new centralized procurement network and other efforts to reduce working capital, have started showing results. What will be the capex on the new electronic component manufacturing facility and the expected advantages from that?

Gautam Seth: When we started LED manufacturing four years ago, we were one of the first few players who got into manufacturing of the LED drivers, MCPCB and all the electronic components. Because of our existing electronic facility of meters, we have a large backward integrated manufacturing, so that gave us an edge in LED manufacturing. We are witnessing high growth in meters and even LED is growing, as the CFL sales have been converted into LED. We expect good growth in LED over the coming years, so the capacity which we had leveraged, was actually of the meter component manufacturing, which was manufacturing components for both lighting and meters. Given the growth prospects, we would be dedicating the existing facility for the meter component manufacturing, which it was originally doing and the new facility coming in Kundli would be focused only on lighting. In terms of capex, more than Rs.12 Crores approx. is going to be made for the set up of the facility.

Anup Nayar: As a result of this capex, how much margin improvement is expected in the lighting division?

Gautam Seth: The primary benefit would be in the form of quality maintenance. The government has imposed high duties on imports of LED components, so they have been encouraging local manufacturing. We have always showcased HPL as a backward integrated manufacturer, where we are focused on technology & quality and then using our own manufacturing, so it will help us maintain consistency in quality and other things. It also gives us control over the supply chain wherein we know exactly what to make. In the long-term definitely certain benefits are there. If you see, the pricing of LEDs have been quite turbulent in the last three years because they have been coming down and we have been stating this right from the

IPO time that there have been so many manufacturers, but we will see consolidation in the overall competitive scenario because there were so many people who entered, just trying to import. Today, there are a few competitors and there is serious competition. For us to go forward having our own facility definitely make sense; it also helps us optimize the cost because LED is a very dynamic technology and one needs to continuously do R&D. Since we now have separate units, we are well poised to benefit from the anticipated growth in metering and LED segments.

Moderator: Thank you. The next question is from the line of Divesh Shah, an Individual Investor. Please go ahead.

Divesh Shah: What is the total market size of smart meter in India in terms of meter as well as in terms of the value and what is our market share?

Gautam Seth: Right now, it is difficult to predict the market size of the smart meter. There have been only 4 to 5 tenders, which have come out though some of them have been the last tenders from EESL, but about two years back the meter industry was around Rs. 3,500 Crores, which was growing at almost 8% to 10%. The smart meters are eventually set to replace these types of meters because this is a new technology, the adoption of which would take around 5 to 10 years. It is a long-term opportunity. There have been only one or two tenders from the government. Certain private utilities are also coming out with tenders. The market size is small for now. Around 1 lakh pieces have been supplied till now, so it is still very less, but this is an opportunity for the future, which one needs to evaluate. There are only two manufactures who have the BIS license. HPL electric has now got 3 BIS licenses for different products in smart meters, so that is because of specifications that have come last year. A lot of other manufacturers are undergoing the test to comply with these standards, so a lot of things are happening and as we go forward we will see this industry evolve, so whether in couple of years may be 10%, 15% industry shifts are possible, but I cannot comment on that. Eventually the whole market is there for adoption of a new technology.

Divesh Shah: Which is the other organized player, which is competing with us?

Gautam Seth: There are 3 organized players in the market. Genus is one of them.

Divesh Shah: Genus, we and the third one?

Gautam Seth: I am not able to recollect the name, but yes there are only three players which participated in the previous tenders.

Divesh Shah: We are supplying to the power utilities and payment from power utilities is very hard to come by, so do we face any difficulties in getting payment from state electricity board or power utilities, how do we get the payment?

Gautam Seth: No, the payments are regular though the payment cycle is always 5 to 6 months, so that has always been the case for many years and we are in the business for over 20 years. The procedure is such that it does take a little time, but normally the payments are coming quite consistently and its been over 20 years we have been in this business and there is no single bad debt from any power utility. So that is a positive.

Moderator: Thank you. The next question is from the line of Omkar Rahman, an Individual Investor. Please go ahead.

Omkar Rahman: Is the growth in metering revenue driven by a few key customers and if yes what has been their contribution in this quarter?

Gautam Seth: Year-on-year or quarter-on-quarter growth is across various utilities, so it is not concentrated on one or two customers. Since many years we have been always having a very diversified customer portfolio supplying to almost every utility in the country, so similar trend has been maintained.

Omkar Rahman: If one utility is procuring from a particular supplier, does that mean we will be the sole supplier or other suppliers can also be approached by the utility?

Gautam Seth: The procurement from utilities is tender driven so normally it is not a single supplier, when a tender is finalized there are at least up to three vendors which are selected to supply within the tender. Although utility is always free to go to any supplier for the future tenders, but for that particular tender, whoever has won the orders, they are supplying it.

Omkar Rahman: Would it not be beneficial for them to keep procuring from only one designated supplier, so that there is consistency maintained in the meters?

Gautam Seth: There are central procurement rules, which the government has framed, which is not only for electricals, but it also applies to any purchases done by the government so there are certain rules, which have to be followed by every government department. I am not fully aware of the rules, but broadly I am aware that the utilities, the way the tender processes, it follows that. If there is more than one supplier which is supplying, the price is always taken of the lowest bidder, so there is never a loss for the government in procuring from multiple vendors.

Moderator: Thank you. The next question is from the line of Ronak Jain, an Individual Investor. Please go ahead.

Ronak Jain: Are we expecting employee expenses to increase over the next few quarters or the current quarterly run rate of 35 cr. will be maintained?

Gautam Seth: Broadly as the production goes up, especially the factory wages and salary, which are directly in proportion to the manufacturing activities, the employee expenses will increase but as I mentioned in my original remarks that we have been working towards rationalizing our operating expenses and we have been able to do that despite the increase in sales. So, I don't see a major spike but yes, as the production increases in the forthcoming quarters in line with sales, we can expect proportionate increase.

Ronak Jain: Sir, if we can get some colour on approximate increase, may be 10% or something?

Gautam Seth: I do not think I can quantify it right now, but if we witness an increase in turnover, though not in that ratio, we will witness some increase in salaries and wages.

Ronak Jain: Just a follow-up on the expense side. On the other expenses front, given that we are focusing on cost optimization and have benefitted from that this quarter, can we expect full year figure to be less than Rs.100 cr?

Gautam Seth: You are talking about what cost

Ronak Jain: Other expenses in P&L, so would the full year figure be less than 100cr.?

Gautam Seth: No. As it is already Rs.53 Crores in the first half and the second half is set to be better because on the trade side, the second half is normally better. So, I don't see a major drop but we are working towards reducing our expenses. Despite the cost control measures, I don't think it will be below 100cr., bearing in mind the current trend.

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

Abhineet Anand: First of all, if you could comment on the Chinese competitors in metering segment. There was a media article with respect to Chinese players doing L1 in some of the orders and secondly, if you could also mention the size of meter tenders available as of now?

Gautam Seth: I will take your second question first. Currently there are about eight million meters which are under various stages of evaluation, so it would be around Rs.1,000 Crores in terms of value. Over the last two quarters, the execution rate has been faster than the industry. Even our own order book of meters on net basis, is at Rs.460 Crores plus. Over and above that, there have been good enquiries coming in from various utilities and I see an upward trend up to March. Regarding the Chinese competition, yes, especially the government tenders in EESL and others. In the utilities we are not witnessing Chinese entries, but in certain central utilities, we are seeing some participation. Yes, I have come across a few articles with regards to the Chinese competition in the metering space.

Abhineet Anand: Does the EESL have any criteria regarding manufacturing setup in India?

Gautam Seth: We have not been participating in the double EESL tenders that started off with lighting because in lighting and then even in meters, the margins and the terms & conditions do not seem favorable in the long run. Due to that, we have not been participating; but on a tender-to-tender basis, their terms are now becoming better. Now this is going to help to eventually build up the free qualification for future tenders. So, I am aware of these things, but exactly I cannot comment on what they are doing.

Moderator: Thank you Abhineet. The next question is from the line of Divesh Shah, an Individual Investor. Please go ahead.

Divesh Shah: Again, my question regarding meter, what is our total capacity in terms of manufacturing smart meters? Number of meters?

Gautam Seth: Overall our annual capacity is 9 million meters and right now these are for normal meters, but if you look at the smart meters broadly, it is going to be similar as we make a single phase meter or a three phase meter or any other meter, in the same facility. One can safely assume that if the industry were to shift to smart meters entirely, we could accommodate that in our current capacity.

Divesh Shah: What will be the average selling price of the meter supplied to the power utilities and that of a smart meter?

Gautam Seth: You need to check the tenders because in the last tender, it was around Rs.1400 to Rs.1500 plus software and others, which were a part of a different tender. So roughly the overall cost should be 3,500 to 4,000; but it depends upon various specifications; so each time if there is a change in the specification, the cost would be according to that.

Divesh Shah: Our IPO came at 202 and since then, there has been 70% destruction in the value. So what is your message to the present shareholder who are holding the share at 202 level?

Gautam Seth: HPL Electric is a long term player; we have been in this business for many years and we do understand the metering, the switchgear, lighting businesses and if you see right from demonetization or from GST, there were constant disruptions which were beyond anyone's control. If you see in the last couple of quarters, we have been working towards improving our working capital cycle and going forward, given the growth prospects in our business segments, we remain optimistic about the long-term prospects of the company and work towards attaining a stable growth rate.

Divesh Shah: Since the share price has declined from 202 to 60, is the promoter looking to increase the stake?

Gautam Seth: Somebody just suggested before, so we take the suggestion and we will consider it.

Moderator: Thank you. The next question is from the line of Harshit Kapadia from Elara Securities. Please go ahead.

Harshit Kapadia: I have a few questions. On the lighting margins, we have seen an improvement. If you look at the other competitors who have reported numbers in the last one-and-a-half weeks, their margins have been down considerably. So what explains this difference Sir?

Gautam Seth: If you see the margins, our EBIT margin has gone up to about 12.5% and this was due to two factors. First one being the product mix, the other one being the procurement efficiencies. This is something we have started about four to five months back and we see this across the organization. We are focusing on centralized procurement, the overall benefits of which will start coming in the last quarter as it would require some time and effort. Overall in LED, we have been working on procurement and I believe that has helped us to some extent. Also, the product mix is better. Our original guidance of having about 11% to 11.5% as the EBIT margin in lighting is sustainable; however, there are continuous efforts by our team to enhance it like we have done this quarter. We hope to continue that in future.

Harshit Kapadia: This would mean there has been a very less impact of the LED price decline from June onwards?

Gautam Seth: What LED price? You mean the selling price?

Harshit Kapadia: Prices of batons and panels have been declining in the market because of a few competitors' aggressive pricing. New competitors have also entered this segment.

Gautam Seth: Our selling prices since the last two quarters have been maintained and we have not seen any decline in our selling prices, although on the procurement side as I said, there have been constant efforts since the last four to five months and we have seen some benefits. We are getting new vendors, looking at different models and in fact last month or in October when we had the Light India Exhibition in Delhi and for this festive season, we have launched a lot of new products in lighting and across the various segments whether they are consumer, commercial, industrial or the outdoor lighting. We have come out with new models and we do hope that our teams would work towards enhancing the revenue from those. We will also work on the margin. As far as prices are concerned, those have declined compared to the level 2 years back since the last few quarters it has been steady, so I do not think there has been any decline in price from our end.

Harshit Kapadia: Second question is again on margins, but on the metering side. You had earlier indicated that the polycarbonate prices have increased. Do you think it is rock bottom or do you expect further increase in the prices and the margins could be in the range of 13%-14% for the year or do you see any uptick in margin in the next couple of quarters?

Gautam Seth: The polycarbonate prices as you are aware, was quite high, but it is coming off those highs and the polycarbonate prices have softened. The impact on margin will be seen with a lag effect. In terms of margin of course we have seen slight improvement in this quarter, but in the next two quarters, it may be 14% or 15%. Any upward tick in the margin because of this may be possible in the next financial year. There are certain quantities, which are already committed, our selling prices are fixed, so that is why it took a toll on the margins. Even in the case of price reversal, there is a time lag in price pass-on.

Harshit Kapadia: Is there any plan to decline your short term debt, which has increased to Rs.520 Crores level ?

Gautam Seth: As we said we are working on working capital efficiencies, so you can see improvement right from the trade debtors, which have come down in the past six months. The inventory level is also down. We are looking to maintain our net working capital at the current level, As far as our debt is concerned, it would remain at this level. We are expecting double-digit growth in H2, so that would actually bring it to a better level compared to the sales.

Moderator: Thank you. The next question is from the line of Ashok Shah from HDFC Securities. Please go ahead.

Ashok Shah: Sir, can you just help us with the capacity utilization of various plants?

Gautam Seth: Broadly we are operating at 75-80% of the capacity. In terms of meters, multiple facilities are working almost on two shift basis, some of it being on one or one-and-a-half shifts. In terms of capacity utilization, that has gone up considerably in the last three to four quarters and we are seeing that especially in meters, where we are seeing even month-on-month increase. Even in the second quarter, from July to September, we have seen improving utilization levels on a month-on-month basis. Broadly, across all the four product categories, be metering, lighting or switchgear, these have been working at good capacity utilization levels.

Ashok Shah: In terms of turnover, when will we be able to attain FY6 level? What is the GST rate on different products?

Gautam Seth: The GST rates are 18% for meters, switchgear & wires and 12% for LED lighting. In terms of our turnover, we have grown almost 28% this year in the first half. The second half of last year had a much higher base than the first half. Despite that, we expect a double-digit growth in the second half. Overall on a year-on-year basis, we do expect 15-20% growth in our top-line, which will help us attain our previous turnover and margin levels. We are working accordingly on that and we do see a positive trend quarter-on-quarter.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants I would now like to hand the conference over to Mr. Harshit Kapadia from Elara Securities for closing comments.

Harshit Kapadia: Thanks Stanford. We thank Mr. Seth and Mr. Gupta for giving us an opportunity to host this call. We also thank all the investors and the analysts for joining this call. Any closing comments Sir?

Gautam Seth: Thank you and I would like to thank all the participants for giving us the opportunity to discuss and present our results and we continue to focus on our business; looking at bringing in efficiencies in our business, growing the revenue and also building the HPL brand. So, thank you once again.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Elara Securities Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.