



CG Power and Industrial Solutions Limited

Q3 FY2024 Earnings Conference Call

January 23, 2024

ANALYST: MS. RENU BAID PUGALIA – IIFL SECURITIES

MANAGEMENT: MR. N. SRINIVASAN – MANAGING DIRECTOR

MR. SUSHEEL TODI– CHIEF FINANCIAL OFFICER

MR. RAMESH KUMAR – PRESIDENT, INDUSTRIAL DIVISION

MR. MUKUL SRIVASTAVA – PRESIDENT - SWITCHGEAR

MR. AJAY JAIN – VICE PRESIDENT – TRANSFORMER

MR. CHIDAMBARAM BALAKRISHNAN – VICE PRESIDENT - RAILWAYS

Moderator: Ladies and gentlemen, good day and welcome to the CG Power and Industrial Solutions Limited Q3 FY2024 earnings conference call hosted by IIFL Securities 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Renu Baid from IIFL Securities Limited. Thank you and over to Madam!

Renu Baid Pugalia: Very good evening, ladies and gentlemen. Today we have with us the management team of CG Power and Industrial Solutions to discuss the third quarter FY24 performance. From the management team we have Mr. N. Srinivasan – Managing Director, Mr. Susheel Todi – Chief Financial Officer, Mr. Ramesh Kumar – President - Industrial Division, Mr. Mukul Srivastava – President - Switchgear, Mr. Ajay Jain – Vice President - Transformer Division and Mr. Chidambaram Balakrishnan – Vice President - Railways Division. So without taking much time I now hand over the floor to Mr. N. Srinivasan for his opening comments thereafter which we can start with the Q&A. Thank you and over to you Sir!

N. Srinivasan: So thank you Renu. Good evening ladies and gentlemen. Let me first extend a warm welcome to you all for the Q3 FY2024 earnings call. I am Natarajan Srinivasan, Managing Director of the Company. I would like to introduce my colleagues who are with me on this call. Ramesh Kumar – President - Industrial Division, Mukul Srivastava – President - Switchgear Business, Ajay Jain – Vice President - Transformer Business, Chidambaram Balakrishnan – Vice President - Railways, Susheel Todi -CFO.

Company performance, Q3 FY 2023-2024 performance sales grew year-on-year by 13% and profit after tax before exceptional items grew by 13%. For the 9 months ended 31st December, 2023 sales grew year-on-year by 15% and profit after tax before exceptional items grew by 26%. Aggregate sales for the quarter were higher at 1860 Crores recording a growth of 13% year-on-year, profit before tax before exceptional item was at 282 Crores 15.1% of sales as against 274 Crores, 16.6% of sales last year in Q3 FY2023. Return on capital employed annualized for the quarter was at 38%. Free cash flow generated for the quarter was 246 Crores. Unexecuted order book as on December 31, 2023 was 34% higher year-on-year at 5556 Crores compared to 4136 Crores as of December 31, 2022.

Segment wise performance, Industrial systems - Aggregate sales for the quarter were higher at 1214 Crores recording a growth of 5% year-on-year. Profit before interest and tax was at 169 Crores as against 213 Crores in Q3 of FY2023. During the quarter the weak demand for motors led to a price war with everyone trying to sell their volume, poach into customers to retain their market share. The Company took a strategic call to sell equally aggressively to

retain the customers and protect its turf. This had the effect of drop in the margins on the one hand and a market share gain on the other. Unexecuted order book as of December 31, 2023 was 9% higher year-on-year at 1982 Crores vis-à-vis 1824 Crores as of December 31, 2022.

Power systems- Aggregate sales for the quarter were higher at 646 Crores recording a growth of 34% year-on-year. PBIT was at 99 Crores as against 57 Crores in Q3 FY2023. The PBIT to sales was 15.3% as against 11.7% in Q3 of FY2023. Margins were higher year-on-year on account of execution of export orders with better margins, favorable product mix, and better operating leverage. Unexecuted order book as on December 31, 2023 was 55% higher year-on-year at 3574 Crores as against 2312 Crores as of December 31, 2022. Consolidated results include the performance of operating subsidiaries in Sweden, Germany and Netherlands (Drives & Automation Europe), CG Adhesive Products Ltd. (India) and other non-operating and holding subsidiaries. Aggregate sales for the quarter were higher at 1979 Crores recording a growth of 13% year-on-year. PBT was at 264 Crores in Q3 of FY2024 as against 285 Crores in Q3 of FY2023 and 303 Crores in Q2 of FY2024. Unexecuted order book of Drives & Automation, Europe as on December 31, 2023 was 4% higher year-on-year at 17.2 million Euros as against 16.5 million Euros as of December 31, 2022.

Key events in Q3- The Company has filed an application with Ministry of Electronics and Information Technology, Government of India seeking approval to set up an Outsourced Semiconductor Assembly and Test (OSAT) facility and the grant of subsidy for the said project. The estimated investment on the project for a period of five years is USD791 million and the same is expected to be funded by a combination of subsidy, equity contribution and debt as required. The application referred has been pending consideration of Government of India.

The Company signed a term sheet with M/s. K Raheja group for the joint development of the Company's property 'CG House' situated at Dr. Annie Besant Road, Worli, Mumbai. Necessary approvals from the authority are being sought for the redevelopment.

During the quarter, the Company received an order from the Hon'ble National Company Law Tribunal, Mumbai Bench sanctioning dissolution of the Company's wholly owned subsidiary CG Power Solutions Limited. The Company has given effect to the said order in the accounts and the same is reflected in profit and loss account under discontinued operation, which is yet another legacy issue that has been resolved. Between myself and my colleagues will be happy to answer the questions. See on the whole I think we had a good quarter but I must also tell you this, there has been a deferment of revenue to the tune of about 35 Crores in the Power systems business because of some inspection issues,

inspection got delayed and then on 31st we could not dispatch maybe the next day also we could dispatch actually, so anyway under the revenue recognition this could not be booked as revenue for this month and quarter of December. This had a profit implication about 16-17 Crores. Similarly, there is a one-time expenditure on account of a transformer replacement for which pending insurance claim we have booked a provision of about 10 Crores this is also one-time but for this our profit would have crossed about 300 Crores for this quarter. We are happy to answer questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ankur Sharma from HDFC Life. Please go ahead.

Ankur Sharma: Hi Sir good evening. Thanks as always for your time. Just a question starting off on some of the motors business where you kind of highlighted the demand environment and possible price so I was just trying to understand versus when we spoke last quarter where are you seeing this weakness, is it broad based, is it any specific segment which is kind of slowed down sharply, is it government driven order, just some colour there and when you think you could start seeing some pickup also on this side?

N. Srinivasan: There are two aspects to this question one is in the motor there is a large industrial motors and there is LT motors then there is FHP. The problem actually is the big demand which I had mentioned relates to LT motors, so even in the last quarter earnings call and the television interview I had mentioned that the stocking by the dealers because there is a fear of inventory getting reduced because of weak demand, etc. The dealers have been stocking less therefore this will reflect for next couple of quarters. See in this quarter what has happened because of the lesser demand and then aggressive sales by some of the small players and competition who does not want actually the sales to go down and therefore price actually took a beating and we also actually took a call. We could have remained without selling but we thought we will sell and then strategic calls we took actually on account of which the margins and the MSR actually have not been normal as it used to be in the earlier quarters, so I think I expect probably the next quarter generally is normally a good quarter where everyone wants to achieve their budget, sales, etc., better than Q3 and Q4. May be post elections, things should become completely normal.

Ankur Sharma: Just to kind of clarify the weakness is not as much on the HT motor side right which typically goes into larger cement, steel, etc., there demand is better is that correct?

N. Srinivasan: Correct.

Ankur Sharma: That is good to know and secondly on the rail side as well any updates there because I remember we are looking to tie-up on the propulsion side for the Vande Bharat trains any update there?

N. Srinivasan: So propulsion actually already we are having an arrangement for technology transfer we are already working through one company in Korea. Propulsion probably will be self-sufficient by maybe about shortly in six months' time. Other than that no other tie-up has happened.

Ankur Sharma: Got that and just one last one on the OSAT piece and congratulations on the group and your entry into this segment, anything more you can share so while we did read about the announcement on the exchanges which you plan to do, but any further details you can provide who have you tied up with or you are planning to tie up with, the location of the plant, vendor, anything more which you can help us with?

N. Srinivasan: So I think at this point of time nothing has been firmed up and all are under discussion so we are under some kind of a confidentiality clause with respect. We are talking to obviously some foreign companies which are listed which also have their own regulatory requirements so they need to get their internal approvals in place and then inform and be ready at some point of time when we will be able to share that, unfortunately today we will not be able to share much in details. Anyway we have only submitted an application, but government will have to clear the application there after only the effective steps can be taken, so the moment we have clearances from the partners with whom we are talking then we will be able to share more details.

Ankur Sharma: Great Sir. Thanks so much and all the best.

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

Nitin Arora: Hi Sir thank you for taking my question. Just continuing what Ankur was asking let us say on the power side the order intake and the order book is very strong can you touch base, also you are seeing some weakness here because of the pre-election or this is something the bidding is still very active and bidding is still very strong here that is my first question and second with respect to the strategic call and you have been highlighting this too I think on every call that pricing is something which can reverse any quarter and you also do not know which quarter it will reverse but here you think the reversion is in the base now from this quarter because the slowness might happen as you said post election things should normalize but have there been slowness just related to election or you are seeing the clients also cutting budgets, demand is a problem how one should read this that would be helpful?

N. Srinivasan: So I will answer the second question. First question I want to understand little better actually second question. We have extensive discussions with all top dealers in various locations October, November our entire team including me actually visited all the markets and then held on discussions with dealers. LT motors actually a large part of the sales takes place through dealers through retail. We do not get an impression that everybody has

slashed their budget and there is no underlying demand, etc., underlying demand is there but it is taking piecemeal. Normally dealer stocks for three months and then sales takes place immediately and that push is not there so little cautiousness is there because there is a fear of price getting lower or inventory getting stuck because of this so we believe that this may be one-off thing and probably the worst is over, even I feel realizations will be better for the next quarter.

Nitin Arora: Your inventory versus your peers or let us say in the market how one should read this LT motors inventory of yours in the market has it become lean now or is it still quite high?

N. Srinivasan: Our inventory is normal as we normally we keep at the same inventory level but peers inventory we really do not know. what is your first question?

Nitin Arora: Sir on the power side can you throw some light because this momentum has been still continuing a lot and in this quarter also order intake has been pretty strong, margins have been pretty strong, can you throw some light over the next like six to 12 months how do you see this segment panning out?

N. Srinivasan: So I think the inquiries on hand is an indication. I think the inquiries in transformer are close about 10000 Crores as I said earlier, so switchgear also there is good amount of inquiry, I think I do not see any issue with respect to demand it is a question of supply and delivery.

Nitin Arora: So that means your new capacity itself will get pre-booked in a way once it comes on stream?

N. Srinivasan: Definitely.

Nitin Arora: Got it Sir. Thank you very much. I will come back in the queue. Thanks a lot.

Moderator: Thank you. The next question is from the line of Rahul Gajare from Haitong Securities India Private Limited. Please go ahead.

Rahul Gajare: Sir my question is can you share the volume growth mainly in the industrial motor side and the power transformer that is the first question?

N. Srinivasan: The power transformers we cannot give you the volume growth we have already stated the numbers and then orders on hand. Ramesh you can tell the volume growth on industry motors.

- Ramesh Kumar:** As whatever IEEMA has declared IEEMA has declared up to October in LT motors our growth is 29% in volume growth and in HT we are growing almost 33% and fractional-horsepower motor also 19% so when compared to the total IEEMA growth it is much, much higher, example AC motors IEEMA growth is just 10.8%, HT motors is 1.3% degrowth actually what they have recorded and fractional-horsepower is -24%, so when compared to the industry growth, our growths are much, much higher actually.
- Rahul Gajare:** This is basically October data that you are sharing on the month of October?
- Ramesh Kumar:** Till month of October because generally there is about one to two months lag in declaring the data, collecting the data by IEEMA so I do not see much difference going forward also because our sales is better in November and December when compared to October.
- Rahul Gajare:** Now the reason for that question was given that we have seen limited traction and in the revenue growth in this particular quarter and as Mr. Natarajan also said that there is pressure on the pricing that is the reason why I was thinking that while the volume growth might be there, so this is the volume growth you think which is there in November and December also and can you share what is the market share that you have in the motor business right now?
- Ramesh Kumar:** LT we have 38.8% and FHP we have 37% and HT motors we are at 19%.
- Rahul Gajare:** My second question is this 550 Crores of discontinued operation gains that you have booked in this particular quarter is it fair to assume that all of this is coming from CG Power Solutions only or there is something else also and after this what will be the cash balance at the end of third quarter?
- Susheel Todi:** The entire write back is coming from CG Power Solutions; nothing is pending now CG Power Solutions. We have just close down that entity now as per the NCLT orders. So cash balance at the end of the quarter is around 1300 Crores at consolidation level.
- Rahul Gajare:** Are there more entities in the process of dissolution and if yes could there be a substantial gain that one can expect from?
- Susheel Todi:** Major issue which was there from CG Power Solutions that is where the gain has come. Now there are no major entities which are left now. You can see in that segment reporting where we are reporting separately the discontinuing operation – assets and liabilities.
- Rahul Gajare:** My last question is on the power segment we have seen an increase in the capital employed in the power segment is it possible you can break this item whatever content that you can

provide and is there any issue or delay in collections that is the last question I have got.
Thank you.

Susheel Todi: You have to look at the ROCE of the Power system so if you look at the ROCE we are better than the last quarter if you look at it.

Rahul Gajare: Yes I thought as much that this is basically the work in progress that is going on with respect to your execution. There are no delays in collection for sure?

Susheel Todi: Not at all.

Rahul Gajare: Fine. Thank you very much and all the very best.

Moderator: Thank you. The next question is from the line of Suraj Malu from Catamaran. Please go ahead.

Suraj Malu: Thank you for the opportunity. My question is on the capacity utilization so could you give a sense of what capacity utilization is across the board both on the power sector as well as on the industrial motors side?

Susheel Todi: If you look at the motor side we are selling more so we are around 80-85% and in case of the transformers the volumes are also increasing in that business as well so we are touching around 85%.

Suraj Malu: Right and the new capacity which you had announced last quarter would that come up in a phase manner or is there going to be a delay before those capacities come online?

N. Srinivasan: For the transformer and switchgear they will come except in switchgear there are number of projects but let me take transformer, transformer actually will be commissioned during this financial year maybe in the last quarter of the current financial year. In switchgear I think couple of projects will go beyond this current financial year. Motors actually we will do it in stages one in 2024-2025 and some in 2025-2026.

Suraj Malu: Understood. Thank you. That is all for my side.

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

Ravi Swaminathan: Thanks for taking my question. My question is with respect to the supply in terms of motors have you seen over the past quarter or two more number of motor manufacturer coming into the market looking at the positive demand which was there since COVID and that had

resulted in higher competition or is it that it is just the existing players who had been more aggressive in terms of pricing?

Ramesh Kumar: The new entrants have still not made a big entry into the market they are just working on it. It is the existing and especially Tier-2 small players where they have grown during the COVID time when CG was not in a good this one so their volumes have gone up, now since the market has degrown so they are trying to manage to retain their volumes so they had to drop in the price it is more of the existing players than the new players.

Ravi Swaminathan: Got it Sir and in terms of pricing of LT motors probably in the past two, three months that is October to December how much would it have dropped and was the drop was because of the competitive pricing or copper prices falling off a bit and that also leading to pricing decline?

Ramesh Kumar: It is a combination actually so exactly it will be very difficult to say how much it is dropped but combination of raw material drop as well as some additional drop because of the competition.

Ravi Swaminathan: Got it Sir and the drop would have been year-on-year something like a high single digit number or probably lesser or higher?

Ramesh Kumar: Yes it is high single digit number.

Ravi Swaminathan: Understood. Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Bhoomika Nair from DAM Capital. Please go ahead.

Bhoomika Nair: Yes good evening Sir and thanks for giving me an opportunity. Most of my questions have been answered but just you made a comment that hopefully fourth quarter is typically better and we can see an improvement in terms of both demand and also pricing as we move ahead could they leave in view of the upcoming elections a little bit of a weakness into the next two quarters and then normalizing post that?

N. Srinivasan: So that is the hope and that is the belief. I think I have been constantly in touch with my team when today morning actually they have told me that the things are looking up and what I said earlier the realization will be better next quarter is based on the feedback I received.

Bhoomika Nair: As our capacity comes up right in phases over the next two years and even the peers had kind of expanded capacity would there be that margins may not really come back to the

earlier levels that we were at could there be risk to that number as demand normalizes say down the line two, three quarters?

N. Srinivasan: So just based on one quarter one off thing I do not want to come to this conclusion. If you see a Company as a whole also YTD, if you see YTD 9 months EBITDA margins for YTD is 16.1% against 22-23 EBITDA margin of 15.4% for the Company as a whole. If you take similarly industrial so YTD margin is 15.3, last year was 16.4, year before was 12.7 then PBT to sales. EBITDA margin if you take for industrial is 15.9 compared to last year was 17.4, year before was 13.5, last year as you know was an exceptional year we got 19% margin in one quarter, etc., which may not get repeated. See probably in this quarter itself if you had held on to not to sell and then we just held on. See we are a volume player when I sell more the price will further decline but if I do not sell then my market share can go up. In a weak market I have increased my market share from 35 to 38% therefore I would think that this is just a one off thing. There are several levers available for you to keep profitability and improve margins and then keep the way that you have been performing. We will pull all the levers actually and do our best to retain margins.

Bhoomika Nair: Sure Sir this is very helpful. Sir just on railways if you can just give some colour on how the revenues are, what the backlog is looking like and what are we seeing the grow trajectory as we move ahead if you can just comment on that?

N. Srinivasan: So I will ask Mr. Chidambaram to respond I think the going has never been as good as is now in respect of order booking, etc. Mr. Chidambaram could you just answer this question?

Chidambaram B: Thank you Sir. Thank you. We are into primarily into the rotating motors which is different from the other motors. These are traction motors which they use for pulling and the control system which goes with the locomotives so to this year. Generally we were booking around 20% on motors and also on the propulsion of the total order. This year our order books would be almost 68% higher than the order books we had in April 2023.

Bhoomika Nair: So could it be possible to share the absolute number of revenues in nine months and order backlog as we stand today?

Chidambaram B: If I say we started in March 2023 with order backlog of 800 Crores we would start April 2024 with order backlog of 1400 plus Crores.

Bhoomika Nair: So that is quite an improvement.

Chidambaram B: This after completing the revenue of 1200 plus Crores so we have consumed 400 Crores and we would be carrying forward 1400 Crores.

- Bhoomika Nair:** So there is a lot of traction in terms of the activity. Any large orders which are there in the pipeline that we are bidding for and are hopeful of getting any quantum that one can define which can possibly get finalized?
- N. Srinivasan:** Bhoomika we can disclose only when we get the orders not on hopes.
- Bhoomika Nair:** Sure Sir. Great Sir. This answers my question. Thank you very much and all the best.
- Moderator:** Thank you. The next question is from the line of Amit Mahawar from UBS. Please go ahead.
- Amit Mahawar:** Good evening I just have one question on exports so 9 months how much have we done on new orders in export across motors and power systems and FY2025 if you can throw some colour on how are you looking at exports growth between the two segments? Thank you.
- N. Srinivasan:** We will come back to you with the figure actually. The exports we are taking steps especially on the motor side to increase our share of exports next year. We are in the process of appointing people, appointing dealers, stockists, etc., so I think many of the moves that we are taking now are expected to bear fruit by second half of next financial year so far we have done about 400 Crores in exports between all the three divisions.
- Amit Mahawar:** Fair so 300 Crores last year has moved to 400 YTD if I am not wrong. Second part of my question was more on the transmission side. Globally we are getting a lot of colour about capacity constraints in power transmission equipments and CG Power has a very significant cost advantage on transmission range so FY2025 what kind of growth or business can we look at and maybe power division people can help me, thank you Sir.
- N. Srinivasan:** As you know we are also expanding our capacities both in transformer and switchgear but these increased capacities will be available only by the end of the year or the last quarter of the year therefore we may not be able to get a full advantage of this. Nevertheless I think we can target about 25% minimum growth on the topline in these two lines both transformer and switchgear power as a whole.
- Amit Mahawar:** Very helpful but generally unlike motors in power the orders are relatively medium cycle so clients can always give you order if you are ready to deliver beyond 6-8 months so I was just hoping that will help us.
- N. Srinivasan:** We agree with you some of the orders we got recently bagged some big orders also so we are working hard to just see how to complete this expansion fast, we are also looking at other opportunities to expand our operations.

- Amit Mahawar:** Got it Sir. Thank you and good luck to the entire team.
- Moderator:** Thank you. The next question is from the line of Subhadip Mitra from Nuvama. Please go ahead.
- Subhadip Mitra:** Good afternoon Sir and thank you for the opportunity. So first question is with regard to the railways business where you did mention that you are looking at a tie-up with a Korean partner for the propulsion system so am I right in understanding that once this tie-up is in place you will be able to deliver the propulsion partner and you may only require a partner on the wagon side?
- N. Srinivasan:** Chidambaram can you answer this question. This is not that easy, it will be more because you also need an experience for example if you want to participate in a tender it is not enough if you know things. You must have a demonstrated track record of having built a train and having run a train like that therefore without a partner for bidding actually it will be difficult to enter the tender.
- Subhadip Mitra:** Understood so any partnerships that are being thought of on that line as well beyond the propulsion side?
- N. Srinivasan:** While there has been lot of efforts nothing has come to a stage where we will be able to say anything big so everybody is probably waiting on the wings, lot of efforts are going on.
- Subhadip Mitra:** Understood and this will be for the propulsion system both for locomotives as well as train sets.
- N. Srinivasan:** Train sets mainly.
- Subhadip Mitra:** Mainly on the train set okay.
- Chidambaram B:** Locomotive we already have the technology. If you break the technology in two parts the technology which sits on board and technology which is under slung, the technology we will have by March-April next year would be under slung. We already have the onboard technology for locomotives.
- Subhadip Mitra:** Understood and for the train sets where the TCMS is concerned that is where you would probably need a partner right?
- Chidambaram B:** We are buying the technology itself so we will be manufacturing ourselves with our so-called our own technology brought out from a Korean partner.

Subhadip Mitra: Perfect that answers my question. Secondly on the power segment now clearly this has been a lower size as compared to the industrial piece but with the way we are seeing high voltage transmission capex coming up at the macro level in India and what we hear from Power Grid, etc., is that there is 18 month waiting period for high voltage transformers and there are some players who are even ordering out their high voltage transformers in anticipation of order inflow so are you expecting then that the inquiries and the potential order wins on the high voltage transformer sites can actually start seeing a pickup even though your own capex might take some time to come?

Ajay Jain: Thanks for this opportunity. Yes we see a lot of traction in this. The projects have already started coming in and yes we have booked some orders and be splitting the expansion in the capacity for delivery beyond 12 months also so these projects are already coming now for this season.

Subhadip Mitra: In your opinion how large can this market size be on an annual basis?

Ajay Jain: We are expecting a CAGR of around 10 to 12% in this.

Subhadip Mitra: On the high voltage transformer side?

Ajay Jain: Right.

Subhadip Mitra: So my question was that while industrial has been the larger chunk of your business I think going ahead it is the power and the railways piece which are probably going to see higher growth at least based on the macro tailwinds that we are seeing so in your opinion can we see power plus railways becoming a larger chunk of your overall business let us say over the next two to three years or four years vis-à-vis let us say low voltage motor than the rest of the industry?

N. Srinivasan: If you are comparing with industrial motors means definitely motors also will grow. As you know we are doubling our capacity for motors, so once we start exporting and then operating the enhanced capacity are able to operate motors also will grow much faster than the other two businesses.

Subhadip Mitra: The expected CAGR in motors would be 20% plus?

N. Srinivasan: 20 and then power business maybe because their base is low and then we are only just growing 25% in those businesses.

Subhadip Mitra: So motors around 20 and you are saying power can be 25% or thereabout?

- N. Srinivasan:** Correct.
- Subhadip Mitra:** Largely on margins now naturally we have seen spectacular numbers in terms of margins versus peers so are we anticipating that with higher topline, better operating leverage can we go beyond this let us say 15% kind of barrier and look at higher number on margins on an overall basis?
- N. Srinivasan:** So I think this is a stable level. I think as I said earlier margins are a combination of input cost, selling price, product mix, all the three put together plus there are internal efficiencies what we try to get because of procurement efficiency, our lean manufacturing so I think from a low level we have come to about 15, 15.5 so I think 15 to 16 looks to me a stable range.
- Subhadip Mitra:** Understood Sir that answers my question. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Harshit Patel from Equirus Securities. Please go ahead.
- Harshit Patel:** Thank you very much for the opportunity Sir. I had just one question. You have highlighted about the increasing opportunities in the high voltage equipment space so have we created a roadmap to develop a 765 KV GIS solution because we see very heightened tendering activities happening in this particular space so either on our own or through a technology partner just the way you have done for this propulsion systems as you have mentioned I believe we are already working towards that 440 KV GIS, you have mentioned that you plan to commercialize that in FY2025 so is that on track and our plans on 765 KV?
- Mukul Srivastava:** For 400 KV GIS project development is on track as of now we are not targeting 765 KV because the normal lead time for a product like 765 KV can be anywhere 3 to 4 years so as of now we are not targeting that part.
- Harshit Patel:** Understood Sir. Thank you very much for answering my question.
- Moderator:** Thank you. The next question is from the line of Akash from Dalal & Broacha Stock Broking. Please go ahead.
- Akash:** Thanks for the opportunity. My question was basically in spite of our capacity utilizations staying close to our peak levels why are our margins going down especially in the power segment of the business, the industrial system we understood that we are trying to protect our market share there but any guidance on the power side?
- N. Srinivasan:** Where are margins going down?

- Akash:** On the power system side.
- Susheel Todi:** If you look at margins against the last year quarter we were at 11.7 and this quarter we are at 15.3.
- N. Srinivasan:** PBIT to sales if you see our press release so from 11.7 it is 15.3, EBITDA actually from 13.5 moved up to 16.6.
- Akash:** Quarter-on-quarter basis Sir.
- Susheel Todi:** Quarter-on-quarter only I am saying so last quarter was 17.9 to 16.6. We cannot just ideally compare, it depends on product mix, input cost, what was last year we cannot say like that. I think power actually is a very decent margin and generally I am not able to see many other companies having this kind of margin. I looked at numbers of other players also exactly we cannot. Each order will be different in a transformer or a switchgear, etc., each order pricing will be different because these are tender driven prices are common for here. I do not get an extra price because we compete on tender we get the price, how margins I get is how I efficiently manage my resources, what are my internal efficiencies, how do I procure, all these things will constitute margins here.
- Akash:** Understood Sir. Any future guidance for the coming quarters will our margin increase or will be more or less remain the same level?
- N Srinivasan:** We do not give guidance to that minute level. While we do not expect any margin to come down but generally we do not give as guidance on margins.
- Akash:** Okay Sir.
- Moderator:** Thank you. The next question is from the line of Vikas Shrivastav from RBC Financial Services. Please go ahead.
- Vikas Shrivastav:** Question was if you can throw some light on the consumer business how it is going new products whatever I know you are not in a position to share too much information but whatever you can share on the consumer products?
- Ramesh Kumar:** We are definitely working on these products and we have launched geyser, even some new products in this season also in October and we have done very well with respect to heaters. Our focus is there and even in pumps also we are launching very soon for agriculture and industrial pumps i.e. small range of industrial pumps so our focus is there. We are steadily growing on this product.

- Vikas Shrivastav:** By when do you think in the next two, three, four years it will become a material enough to be reporting separately segment wise, do you think there is a possibility there?
- N. Srinivasan:** So one thing you know three, four years looks a good time for whatever you said but if fortunately if other businesses grow bigger and then that 10% threshold which is required for separate reporting we may miss but anyhow our intention is to grow this business over the timeframe frame which you had indicated.
- Vikas Shrivastav:** Any particular regions of products which is information in the public domain which you could share with us now in terms of pan India, south, north, east, west and any products information which is already available in the public domain?
- Ramesh Kumar:** You are asking about our penetration?
- Vikas Shrivastav:** Penetration geographical as well as product in various parts.
- Ramesh Kumar:** We have taken a path for complete pan India because as a motor industry we are well known in the industry and our products were there in the market prior to 2015 because generally what happens if somebody who is newly launching the product then they take some particular region and enter and test it and all but we have not done that we have taken the complete end because it is a re-entry for us so the pan India we are penetrating for both the products.
- Vikas Shrivastav:** The route to market is fairly well established now and is there any confusion in the market with the brand name of another competitor in the market on this or what are you facing there?
- N. Srinivasan:** Sir not to our knowledge. There is no confusion to our knowledge.
- Vikas Shrivastav:** The route to market infrastructure is in place in terms do you expect any major investments going forward?
- Ramesh Kumar:** As of now fairly we are well placed but if we have to go much faster than what we are going and we will have to do that and which we are working on it.
- Vikas Shrivastav:** Alright. Thank you.
- Moderator:** Thank you. The next question is from the line of Suraj Malu from Catamaran. Please go ahead.
- Suraj Malu:** Can you please let us know the order intake segment wise for this quarter?

- N Srinivasan:** We do not provide the order intake. We have got the unexecuted order book as on the last day we have already given other than that we do not share details.
- Suraj Malu:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Mohit Kumar from ICICI Securities. Please go ahead.
- Mohit Kumar:** Thanks for the opportunity. My first question is can you participate in the 6000 HP locomotive tenders or do we need a partner to participate and are we thinking of participating?
- Chidambaram B:** Yes we need a partner because this tender particularly asks for locomotive experience. We have all the products that go into the locomotive but not the locomotive experience per se so you need a locomotive OEM to become eligible to participate in this tender.
- Mohit Kumar:** Understood Sir. My second question is Sir opportunity for power system is going to stay for much, much longer time, I think you mentioned that you are looking to increase your product portfolio, in your opinion do you think you can develop something in the medium term or tie-up with somebody to increase your opportunity basket?
- N. Srinivasan:** Opportunity basket in?
- Mohit Kumar:** In a sense you can target the new area something like developing 440 KV GIS or something which is missing in our product portfolio as of now.
- N. Srinivasan:** There are several initiatives in the offering but unless something takes shape we cannot comment.
- Mohit Kumar:** Understood Sir my last question is how do you think the OSAT capital expenditure which talking about 791 million will it be front-ended or do you think this will be mostly spared out?
- N. Srinivasan:** Expenditure incurred over a period of five years.
- Mohit Kumar:** I understood Sir. Thank you Sir. Thank you and best of luck.
- Moderator:** Thank you. The next question is from the line of Abhineet Anand from 3P Investment Managers. Please go ahead.

- Abhineet Anand:** Thanks for the opportunity. Based on the current capacity that you have for your transformers, switchgears and motors what can be the max revenue potential and the increased capacity that you are putting by 2025 let us assume what could those potentials go up by?
- N. Srinivasan:** We cannot answer this question off hand this is only an earnings call for this quarter so this I think we need some more time to when it will come up and what kind of product, again what product mix, etc., so we would not be able to answer. I do not want to give you any wrong answer.
- Abhineet Anand:** But on the current capacity if you can show throw some light?
- N. Srinivasan:** Current capacity we are currently operating, the transformer we are operating let us say 75% and then you can calculate another 25% increase. We cannot operate at 100% some repair jobs, etc., will have to be done, etc., so year-on-year I would say that we have already committed that 25% growth and this is possibly indicated. I think that you can take it as annual sales that are possible at the current level.
- Abhineet Anand:** Thanks.
- Moderator:** Thank you. As there are no further questions from the participants I now hand the conference over to Ms. Renu Baid for closing comments.
- Renu Baid Pugalia:** Thank you everyone. On behalf of IIFL Securities I would like to thank the management for the time and audience for joining. Sir any closing comments from your side?
- N. Srinivasan:** Except that as whatever I said we are working hard and we will continue to work hard to bring the best, so we hope Q4 will be better than Q3 and thank you for the interest shown by all the participants and thank you Renu also.
- Moderator:** Thank you. On behalf of IIFL Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.