"Tube Investments Conference Call Hosted by Axis Capital Limited"

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Moderator: Ladies and gentlemen good day and welcome to the Tube Investments Conference Call to discuss the acquisition of CG Power hosted by Axis Capital 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kashyap Pujara. Thank you and over to you sir.

Kashyap Pujara Good evening everyone and thank you so much for standing by. It's our great pleasure to have with us the management of Tube Investments of India to discuss the acquisition of stake in CG Power. From the management side we are represented by Mr. Vellayan, he is the Managing Director, Mr. Mahendra Kumar, who is the CFO, Mr. Srinivasan, who is the President for Metal Formed Products Division, Mr. Paul, who is the President of the Cycles Division. Mr. Vellayan, I now hand over the floor to you sir.

S. Vellayan: What I will do in terms of format is that I will go through a few salient points of the potential transaction because the transaction is not complete yet and then at the end of that I will turn it over to you for questions so that we are happy to answer questions in the limited time that we have to answer them today.

In terms of format, I will talk around four points right now. Basically, our TI's rationale for the acquisition, a quick synopsis of CG Power, the mechanics and the current status of the acquisitions and our assumptions and targets for the CG once we potentially acquire it when the transaction closes. So with that I will just jump in and broadly, as you know, in terms of the rationale for the acquisition now, TI for a while as we have articulated the three pronged strategy TI 1+TI 2+ TI 3 where we will talk about growth in our organic business, a VC style approach to medium term growth and then finally kind of an inorganic approach much akin to Danaher approach to acquiring companies and turning them around.

So, this is the first acquisition in that third track of Tier 3 or the inorganic kind of approach that we are taking to growth of the business and we believe that it fits certain criteria that we would look for in an acquisition. So, I will just go through kind of some of the broad reasons why we are acquiring CGPISL. First obviously is that it helps us de-risk from the auto business, we continue to be concerned around the cyclicality of that business and our position in that industry supply chain as a Tier 2 supplier, so this helps us de-risk from that business. The second is that it actually goes well with TI's core stability of manufacturing high-quality industrial products, so these products are quite different from the current products that TI makes. That has been our overall approach that we want to be a leading industrial player in the country and so this gels well with that approach.

Third is that we do believe that companies like CGPISL basically fit well culturally with TI. We do believe that kind of our approach of fairly prudent financial management, very strict and high corporate governance standards are something that will benefit CG in the long-term and therefore is a good complement for what we have today.

The fourth is actually it gives us kind of a fairly rare opportunity to acquire a market leader, #1 and #3 in the various segments that it is in with secular growth at fairly reasonable valuations. The fourth is that we believe that there is a fair amount of value creation opportunity through improving profitability and increasing the growth trajectory of the target. And finally, we basically see a fair amount of similarity in work culture at both organizations have history that goes pre-independence or just post-Independence I should say. Both have a combination of B2B and B2C businesses, they are both very similar in their construct as in they have multiple divisions of business units, very similar work ethic and culture from what we see in our due diligence in our initial transactions with them. Loyal employees have basically served the organization for decades and sometimes over generations and strong channel partners and vendors which we basically see, both in CG and TI as well. So that's kind of the high-level reason why we basically got into and have targeted this transaction.

With that I will just jump quickly to a quick synopsis of CGPISL, the target that we are acquiring or seeking to acquire and then I will be happy to jump into the actual transaction itself. The company actually has a presence for 82 years in India. It's one of the top 10 world's transformer manufacturers, it's a #1 motors manufacturer in India, it's #2 in transformers and switch gears in India and caters over 21 industries and has (+20) manufacturing unit. The standalone revenue on the India side was at 5620 crores in FY19 that dropped to 3169 crores in FY20 and due to the lack of working capital in the company that number will continue to contract into the '20-21 year as well. So that will hit a bottom in '20-21 and then we believe that we can resolute that number from '21-22 onwards.

Jump into the four major businesses; first is the motors business, it's broken down into LT motors, large motors and fractional horsepower motors. In LT motors they are #1 player and large motors they are #2 player and fractional horsepower they are #1 player. Obviously, some of those positions have been diminished at this point in time. Their peers are kind of competitive in the space in LT motors are ABB and Siemens, in large motors its BHEL and ABB to some extent and in fractional horsepower smaller players Marathon, Lawkim players like that. Customers for that segment are basically OEMs of pumps, compressors, gearbox and construction equipment and industries such as power, transmission, oil and gas, cement, metals and mining and in drill base. So that's the quick synopsis of kind of what the Motors business is kind of fairly strong dealer network as well for them.

The second business, the railways business, they are into a set of products, traction motors AC traction motors they are the #2 player behind BHEL again. Proportion electrics where they are #1 player, IGBT propulsion systems, loco transformers where they are the #3 player, relays, point machines and then they have carriage pans and relays and point machines they are again the #1 player. Customers in those businesses are standard, railways customers and similar to TI, integrated coach factory, ICF, CLW, DLW and DMW, so basically, it's got the large business customers.

Then the switch gears business where they make EHV, instrument transformers, (9.13) arresters, gas circuit breakers, MV, medium voltage switchgear and then GIS where they basically now got into, GIS is basically gas insulator switch gears versus the air insulated. More and more applications are now moving to gas and finally vacuum interrupters. Between #1 and #2 positions, most of them except for MV switchgear where they are the #4 player after ABB and Schneider. Competitors in those businesses tend to be a mix between some of the classic multinationals ABB and Siemens and also BHEL. Customers in that case are Power Grid Corporation of India and Nuclear Power Corporation of India, NTPC and the state level transmission and distribution Utilities and finally the transformer business in power transformers CG is #3 and distribution transformer CG is #5 and again they go up against in this case some Chinese manufacturers as well. So, the Chinese manufacturers are having a bit of a tougher time in India right now and again the customers will include the customers I named above. But in addition to that they will also have the companies like L&T and Torrent and kind of some of the other folks are there who also consume power transformer and L&T obviously will also take jobs in the distribution side. So that's a quick synopsis on the company itself in terms of its main line of business. The company also has overseas entities but most of those are either under liquidation or kind of will go through the process. So pretty much what we end up kind of acquiring is an Indian company with the potential obviously to kind of export as part of its growth opportunity.

In terms of the actual plan, the company basically had domestic debt on March 31st of 2161 crores. That we have now restructured as the term loan of 650 crores, a very-very low coupon NCD of 200 crores which is then payable 2 years out with no interest accruing for the first 2 years. 150 crores balance sheet item which is to be adjusted from sale of company property. There is also an agreement with the new lenders coming in that they will fund new SP and NSP limits to support the company's growth and finally there is an equity infusion from TI in the order of about 800 crores, just short of 800 crores. That would help basically go against the capital requirements of the company. So that's basically how we are looking at funding it through an adjustment of debt and equity infusion and we believe that should leave the company with more debt than we would slightly like but comfortable amounts of debt to basically manage to get the company back on its feet, get it to generate cash flow that will then allow the company to pay down debt. Clearly paying down the companies' debt will continue to be an important metric for us as it has been at TI and we believe that we will be able to get the company to a strong level of performance during a very short period of time.

I will then briefly explain, so as you know the shareholding we will have after subscriptions of warrants and some of the other mechanisms, we end up with about 58% of the company. Our broad belief is that over a 4 to 5 year period we should be able to get the company to a 5000 crores topline with the 500 crores PBT. We think so the motors business will end up being almost half of that, railways and switch gears will be in the range of around 1000 crores. This is again the 5000 crores top line, railways and switch gears will end up being about 1000 crores each and then the transformers business might be smaller at 500 crores. And finally, there are going to be other businesses that will help get the additional five hundred crores, so that actually totals 5500. So other new businesses that will get the in addition of 500 crores.

We see significant opportunities and we will start driving initiatives towards growth, performance efficiency, to improve the PBT to sales and capital efficiency that will help us get more capital efficient both from a working capital and a fixed asset perspective as we go forward. We see significant grow drivers such as exports, new product development and service revenues in the existing business. So, we see significant opportunity going into this once we have the chance to take over the business and once we can consummate the transaction. So that's the quick summary of where we see things playing out. But I will be happy to take pause here and turn it over to the audience for any questions that you might have with regard to the transaction.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Hardik Doshi from Whiteway Partners.

Hardik Doshi: My first question was really on the 5000 crores target with 500 crores PBT, what is the timeline for that?

S. Vellayan: It is 4 to 5 years.

Hardik Doshi: Related to this on the debt side, just to understand clearly there is the 600 crores term loan and on top of it there is another 150 crores that is the NCD, right?

S. Vellayan: 200 crores.

Hardik Doshi: So totally there will be debt of 850 crores on the balance sheet?

S. Vellayan: There is also this 150 crores item against the property, but it's basically offset by the property.

Hardik Doshi: So once of the property is sold there will be 850 crores of debt?

S. Vellayan: Yes, plus any additional debt that we need to take from our working capital perspective. This debt is for the settlement part. We will have additional debt for the company's growth requirement.

Hardik Doshi: And as part of the write-off that the banks are taking, are they in terms of getting any equity stake in the company as well or not?

S. Vellayan: No, very limited if there is any.

Hardik Doshi: Just wanted to understand in terms of how are we protecting ourselves from since we've got a majority on, effectively, the promoter, I mean how are we protecting ourselves from any possible contingent liability that could come from on the investigation that will be going on out here?

S. Vellayan: So, we have had an opportunity to talk to most of the investigating agencies and basically have had the opportunity to go through some of the due diligence reports in a fair amount of detail.

Obviously in this case there is no counterparty giving us kind of reps and warranties to give us a 100% comfort. The transaction had to be done pre NCLT because the company wouldn't have survived kind of going through the whole process. But what gives us a fair amount of comfort is that as far as we can tell there does not appear to be any intent to go after the company or its assets from an investigation perspective. The intent is to basically there is any wrongdoing by the individuals or entities versus kind of target the company's assets or basically target the company in any way.

Hardik Doshi: So, there is no kind of stop gap arrangement with the banks or anything in terms of any contingent liability to come up?

S. Vellayan: No.

Hardik Doshi: As you highlighted there are multiple products in which the company is in, I mean what part of the business are you the most excited about and why?

S. Vellayan: The motors business in our mind can bounce back the quickest and has the biggest sure term potential and we think the other businesses will take a bit longer especially because some of them are tender businesses in nature will take a bit longer to come back. But we do believe that we can kind of bounce back in those businesses as well. But we think the motors will be the quickest bounce back and has the most growth potential.

Moderator: The next question is from the line of Ankit Babel from Subhkam Ventures.

Ankit Babel: My first question is once you get the CCI approval what would be the first areas of your priority which you would be focusing on to bring the company back on track?

S. Vellayan: So broadly we will take kind of a classic PMI, post-merger integration approach to this once we get approval to get involved. So that will involve in our minds, kind of the creation or what I would think will be more than 70 project teams. There will be two streams of work, one will be the work required on the resolution of several of these challenges like Hardik had asked, basically kind of working with the investigative agencies and basically all the streams the workflow around that and then the second will be on the actual business building side. The business building side will then be broken down into what I would call, so there will be the functional side which is the finance teams, the HR teams, the IT teams and the resourcing teams and then there will be the business side which is each of the four divisions will then kind of get broken down into 18 business units and for each of the 18 business units there will be teams working on growth, on efficiency and around capital efficiency. So, the growth is obviously an effort to increase the revenue, efficiency will be to efforts to increase PBT to sales and capital efficiency is to improve net working capital and to manage CAPEXes over time. There is obviously another effort that's also going to happen in parallel which is to re-attract some of the talent that the company has lost in the last couple of years because the company has lost some talent and we need to kind of get some of those key folks back in place. So, I don't know that gives you an overall picture of what we are focused on and obviously kind of doing that will then help get some of what we see as the potential opportunity post-merger.

Ankit Babel: So, when we analyze CG Power, our thought process is that currently the company is lacking the leadership. Now first leadership is definitely from the promoter's side and then the second line of leadership which is the CEO and the CFO. So, once you take over the company, we as investors would be very confident from the Murugappa Group as the first line of leadership but the second line of leadership, would you be appointing some CFO or CEO to run the company and take care of the day-to-day activities? And also there are some concerns on the current Board of Directors, so would you be bringing the whole new kind of Board of Directors or what is the thought process in that?

S. Vellayan: In terms of the Board of Directors change, yes, we will kind of bring in a new Board. And then to your other question I think we will evaluate different options in terms of leadership constructs that we will be kind elucidate more at the end October timeframe when we think that we should have all the approvals in place to consummate the transaction.

Ankit Babel: You did give a long-term guidance of 4-5 years but in the nearterm target with a 2 year perspective where you see the company?

S. Vellayan: I think at this stage we will prefer to stick with that long-term guidance because making near term projections with this much kind of variability at the current point in time we feel more comfortable with the long-term numbers versus build up our trajectory….

Moderator: The next question is from the line of Sashi Reddy from Stewart Investors.

Sashi Reddy: Just a couple of topics, not questions really. One is are there any similarities to your Shanthi Gears in terms of the type of business like this CG Power in terms of technical capability or things like that? And two, what are the biggest cultural challenges you foresee with integrating CG Power into group?

S. Vellayan: So first in terms of similarities to Shanthi, actually yes I think there are quite a few in the sense that Shanthi has a very premium positioning in terms of its gear boxes and gears and as known to kind of produce the best quality gears in the business and that's very similar to CG's positioning in several of its businesses where they are kind of recognized to be the premium and best quality product out there. I think that's very important from a product positioning perspective because like I said again that gives you the right to kind of go after other markets like the service market or the export market as it were what also gives you a right to claim a strong position domestically within the country itself and so I do think that's a huge benefit. I think what's important to kind of stay in the lead here more than Shanthi is kind of a significant commitment to R&D which I think we will start making once we get more involved because clearly these businesses are R&D intensive businesses and I think given India's engineering capabilities it's important that we kind of dedicate more of R&D required stay in the forefront for lot of CG's businesses today.

Your second question on culture, I will say this is how we have actually been significantly encouraged by what we see in terms of the culture of fit between TI and CG. The work ethic and the general approach at the plant level tend to be very strong. So I would say actually it's a first of the similarities I see is kind of a corporate group and then each of the division and businesses, the heads of the divisions and businesses and we use all fit-out in the plants and so basically it is a very plant dominated culture from that perspective with then the marketing teams obviously kind of there is geographical locations. In general, I would say the work ethic I am quite pleased with, it does require some modification obviously and we believe that we can achieve that over time as we get in. So that's my quick synopsis….

Sashi Reddy: So, you would end up having two listed subsidiaries CG – Shanthi Gears & CG Power, how do you think about that complexity upon structure?

S. Vellayan: Unfortunately, I think kind of given the Indian construct so if I see we were stuck with the situation where in India when you acquire a listed entity it's quite tough to basically de-list it immediately. We have got the multiple norms here, so I don't know if we will have a ready answer to that. All I can say is that we will have to see how this plays out over time because there is a chance that we will have to leave two listed entities over a fairly long period of time. There is a real chance that happens. It won't have been our preferred construct Sashi but it may be the structure we end up with.

Moderator: The next question is from the line of Bhavin Vithlani from SBI Mutual Fund.

Bhavin Vithlani: Just on the debt side, if you can help me on map. So, the total debt which was bifurcated into 2100 crores domestic and 1100 crores international and you gave us the breakup of 1800 crores. It will be useful to understand what could be the outstanding debt now, what's the haircut that's been taken by the Indian lenders and there were international lenders for about 500 crores and some part of the debt was going through liquidation if you can take us through details that will be helpful.

S. Vellayan: We have not got final confirmation. Like I said we have not got final confirmation on the settlement amount with the international lenders yet and also some of that is a bit indeterminate as some of these companies go through liquidation because some of it is guarantees and the guarantees getting kicked back to India. So, a clearer picture on the debt situation is something I think we will only be able to provide at the end of December in terms of like what you're looking for I think is 100% due of all the elements of debt. That I think we should be able to provide a clearer picture only at the end of December once you get a chance to go in. But we are obviously in the process of kind of finalizing negotiations with some of the international lenders as well and that will all be done by the time the transaction closes. But like I said due to some of the insolvency proceedings as well we will be able to give you a clearer picture only by the end of December.

Bhavin Vithlani: Out of the 2100 crores of the domestic debt, 1800 crores MAT as you explained, so there is a 300 crores write-back taken by the domestic lenders, is that a fair assessment?

S. Vellayan: Maybe the numbers we shared were 650 crores of debt that will continue plus 200 in the form of an NCD plus the 150 in exchange for an asset, so that totals for 1000.

Bhavin Vithlani: So the 800 crores in fusion will go in the company and not going in the repayment?

S. Vellayan: Correct.

Bhavin Vithlani: 1100 crores is the haircut that we have got from the original debt that was there as on March 20th.

S. Vellayan: That is correct.

Bhavin Vithlani: What is the kind of capital expenditure that you believe that you could require in the journey of 5000 crores of topline because you mentioned we will need to step up on the R&D side, any color that you would have?

S. Vellayan: So Yes, R&D side is, I think that is more detail and we will be able to give right now in terms of how much CAPEX will be required. But maybe I didn't mention, our belief is in that 5 year time frame we will also make the company debt free when we get to the 500 crores PBT but we also feel in that 5 year timeframe we will make our company debt-free.

Moderator: The next question is from the line of Charanjit Singh from DSP Mutual Fund.

Charanjit Singh: CG Power had a substantial portion of entities in the international markets, so post this now which entity will remain with us, which will wind down and is there any kind of a quantification in terms of the contingent liability based on the debt that they might have? That's my first question.

S. Vellayan: Sorry can you go ahead, you have to repeat that.

Charanjit Singh: I will just repeat that. So, I am just trying to understand which international entities will remain with us after we take over the company and secondly in terms of the contingent liabilities in the international side, is there any quantifiable number which you can share what could be the number which you will be looking at?

S. Vellayan: So, I think to your second question like I just answered it in the earlier question. They are not able to kind of crystallize it at this stage; we will be able to give you a better picture at the end of December. To your first question the two entities that will continue as operating entities on the international side will be the US entity and the Swedish entity.

Charanjit Singh: On the domestic market front since the company has been facing lot of issues in terms of working capital and the other governance related issues. Now going forward does it impact our tendering business in any way in terms of our pre-qualifications or our ability to bid in terms of our balance sheet size, how we would look at that part?

S. Vellayan: Yes, so obviously one of the things that we are focused on is ensuring that the balance sheet is strong enough at the end of March 2021 to ensure that it doesn't affect the tendering business in any negative way. But we are obviously cognizant of that and we will ensure that it doesn't get affected in any negative way.

Charanjit Singh: From a Group perspective while you are now talking about synergies which might exist with Shanthi Gears but what are the more benefits which you can bring in as a group, may be sourcing or much better management of other issues within the company, on these aspects that cost rationalization which will be one of the key areas which we will be looking at in the initial timeframe?

S. Vellayan: So that's what I broadly broke out that the approach we are going to take is the post-merger integration efforts through a set of projects teams and they will be focused on each other's areas, whether it's kind of growth efficiency or working capital efficiency or fixed asset efficiency and so those teams will basically start working on deriving those benefits. So I don't know as much if I would call them synergy benefits because I just think that there are benefits that can accrue like for example if you just went out and bought something better that's not necessarily a synergy benefit. Synergy benefit would be if I bought steel and they bought steel and we both went combined our buying power and bought steel at a lower price. I don't see those kinds of situations as much but I definitely do see the opportunity from better sourcing, each of the steps yielding some benefit to the overall mix.

Moderator: The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund.

Shyam Sundar Sriram: Just one question continuing from the previous point, when you took over new business means you had outlined a set of measures tracking different perspectives from an operational improvement perspective, for example alternate sourcing within divisions for example, working capital reduction, customer rationalization etc. and so on and so forth. So are there any major low hanging fruits within divisions or within business entities that you can call out right now which you see can very much amenable to a near term turnaround efforts per se, anything that you can call out there in?

S. Vellayan: Yes definitely I think there are. First of its just like the simple kind of things of regaining customer faith and vendor faith which is basically once you get a lot of it is going out and kind of meeting all of the customers, meeting the vendors and giving them the assurance, giving them this thing that we are seeing this is a long term play and we are here to basically commit to having a very strong relationship and ensuring that some of the stuff that happened in the past does not happen again. But after that then I would say kind of there is all the opportunities that you talked about that we went after and we got TI, all the same opportunities are basically are significant opportunities here as well. So, we definitely see that lot of those fruits I don't know what you call as low hanging and medium hanging and high-hanging. I think a lot of those benefits we also see beginning to play out. Again, we're going to take a similar approach with TI which is a project-based approach with PMO that basically administers it.

Shyam Sundar Sriram: The next is on the corporate guarantee not talking about international guarantees per se but in terms of the domestic corporate guarantees what will be the quantum of that and are these better performance guarantees if you can just talk about that and any of these would devolve on Tube?

S. Vellayan: Some of them will devolve and we've got a plan on that in terms of how much we devolve, Mahendra what is our estimate of how much that will.

Mahendra Kumar: Bank guarantee not corporate guarantees. We're expecting that it could be at the max about 50-60 crores.

Shyam Sundar Sriram: And any other plans like will it be that you have seen that may go along on CG Power.

S. Vellayan: Kind of what the potential thing can be like we said if you can bear with us until December, we'll have a clearer picture on some of these items.

Shyam Sundar Sriram: Not a problem. Just one question we funded this acquisition by taking debt on Tube's book 650 crores we paid out and now will be funded by debt from Tube's books right?

S. Vellayan: No. again the 650 crores will be debt that remains as debt in CG's books.

Shyam Sundar Sriram: We have paid out lenders.

S. Vellayan: Yes that's what I'm trying to say, you pay out lenders but then you basically take debt in that company again to pay out the existing lenders. We pay out the existing lenders with a new set of lenders. Then there is an infusion of equity in the company which is separate from the payoff of debt.

Shyam Sundar Sriram: So that is the 800 crores from the Tube's book.

S. Vellayan: Correct.

Moderator: The next question is from the line of Manish Ostwal from Nirmal Bang Securities Private Limited.

Manish Ostwal: I have only one question because most of the questions have already answered. On the overseas subsidiary in the notes to account of CG Power there were potential contingent liabilities with respect those subsidiaries because of the liquidation process. So, what is our best case assessment of those liabilities if any?

S. Vellayan: That's where again I just mentioned to the previous question if you give us time till December because this is all in the process, some of them are in the process of liquidation right now, so if you give us till the end of December we'll be able to provide more colour on what is the actual amount of liquidity of liabilities that's potential going to devolve on us.

Manish Ostwal: What is the timeline to complete this transaction?

S. Vellayan: So, we are hoping that by the end of October or mid-November we should be able to.

Moderator: The next question is from the line of Sushmit Patodia from Motilal Oswal PMS.

Sushmit Patodia: I think Vellayan I had one question which is if you were to look at CG Power's performance in FY18 and FY19, they pretty much did an EBIDT of 300-400 crores and if you take away the finance cost you get the PBT of 500-600 crores right, which is the target? My worry's is the cash flow. If you look at the cash flow of the company, they've been negative for longer than earlier right? So, is there a rough as you that some corporate follows a lot of approaches? Do you think there is a systemic problem with respect to cash flows and precision of that? Is that your biggest challenge rather earnings and topline?

S. Vellayan: Yes and I think Sushmit that's a good point and that's the same articulation that we started focusing on which is where the cash flow has been much weaker than the profitability and I think that's been caused, see historically looking at some other numbers is actually not ideal because of what happened, money started getting taken out of the company right which started affecting the cash flows and this kind of dates back to the point where the cash flow started deteriorating and in a manner worse than the profitability. So, I would say that that is not actually the real situation you will get based on steady operating business, that's the first thing. So, you first got to eliminate the extremist factors in terms of what happened. Second element in terms of the existing businesses, obviously you've got motives which again similar to in TI we have our engineering business which that also I feel motives can half of overall revenues with a good cash flow cycle, with a strong cash flow cycle, a very strong cash flow cycle. Then that will then be, then if you have two businesses in the middle which are in the middle of the road kind of cash flow cycles, whenever we take distribution transformers its average and then the longest ones are the ones that deal with state electricity boards and things like that. So, I think we'll end up seeing is a split in cash flow cycles where 50% is very good, 25% is average and 25% is a longer cash flow cycle. I think that that can be managed quite effectively once we get to a steady stage working capital way of operation which the company is not at now, but I believe we'll get there. But broadly if you ask me, I think that if it might take another couple of years to stabilize but we should be able to get it to a much more stable cash flow cycle than it is today.

Sushmit Patodia: Second question, plan is for longer term perspective is this a new platform? Is that how we should think about this or is this too opportunistic and is this the beginning of a new platform for TI?

S. Vellayan: Definitely I think this is the beginning of a new platform. There must be intent also for us and I definitely think that around motives several businesses can be built. Including a non-compete in the consumer space which is now expired. So I do believe that it is the beginning of a new platform for that perspective.

Sushmit Patodia: And last question how do you plan to align incentives with your stated objectives for the employees of CG?

S. Vellayan: So that's still in the early stages of definition, it's a process we went through at TI where we basically used a balanced score card approach. That's the same process we would like to play into CG as well.

Sushmit Patodia: Okay no ESOPs?

S. Vellayan: That's again it's in very early stages of conversation I can't talk through that yet and I just think structurally the company is a very different place for ESOPs now because of the discontinuities. In my mind this not the ideal time to drive things to ESOPs.

Moderator: The next question is from the line of Mr. Alok Ranjan from L&T Mutual Fund.

Alok Ranjan: My question is if I look at the topline numbers in FY18 and 19, we had already done close to 5000 crores topline and right now we have given a target of like 4-5 years we'll be targeting close to 5000 crores. The breakup that you given us especially on the transformers side if you see, we were doing close to (+1000) crores numbers and you also guiding somewhere close to 500. So is it like when you mentioned that businesses it will be having higher working capital requirement and the conversion to the cash flow will not be great? So that business will not be preferred. So is it like we are planning to hive off some of the assets, we will be selling during these 4-5 years of journey, some of the assets?

S. Vellayan: The thing you should understand between looking at that '18-19 number and now is that the company is already exited its largest transformer asset, right. The company had three transformer manufacturing locations T1-T2 and T3. T1 was the property in Kanjurmarg that has already stopped operations and the company has exited that asset which is why we are taking more conservative numbers for transformer but our belief is that if the business does well, the intent is not to rationalize assets now. I am just talking that the reality is there is an asset that has already been rationalized before we have gotten involved.

Alok Ranjan: In other two segments like motors where you are saying the recovery can be quick where we have done like I don't think there is any asset sale there. So, from 2100, (+2000) we are targeting close to 2500. Is it like it will be difficult for us to regain the market share or is it like CG Power will again be the low-cost producer or having a distinct competitive advantage compared to players like ABB and others and thus it will be easy for us to regain the market share in this businesses, motors and switchgears?

S. Vellayan: I do believe that we will regain market share like I said that regaining can happen most quickly in motors and will take slightly longer in the other two which are tender businesses, other three which are tender businesses.

Alok Ranjan: How is the distribution like number of dealers for the distribution structure that CG was having 5 years back? Is it like quite a good number of distributions have left the system?

S. Vellayan: Yes, it's a very, these are extremely strong links with their channel partners and their dealers.

Moderator: The next question is from the line of Neelesh Dhamnaskar from Invesco Mutual Fund.

Neelesh Dhamnaskar: Just one question, will there be any requirement for giving a mandatory open offer post this acquisition because it's the listed entity?

S. Vellayan: No because it comes under the stress asset norms, so this is not a requirement of an open-open.

Neelesh Dhamnaskar: And just to clarify once again so the infusion which Tube is going to make into CG Power at whatever the initial price which you have spoken about; that money will be raised in Tube's book, right?

S. Vellayan: Correct.

Neelesh Dhamnaskar: So, what is the kind of quantum of debt that will be taken over in Tube Investments for that?

S. Vellayan: We will clarify how that is actually going to work within the next month or so. But we don't see accumulating huge amounts of debt on Tube's books. Actually the debt in that Tube's books will be fairly limited.

Neelesh Dhamnaskar: My second question was pertaining to the working capital of CG Power's standalone business. So again, I think lot of liabilities and payables are, the payables are much higher than the sustainable levels. So as of now what is the normalized level of working capital in this entity?

S. Vellayan: I would say again we have to get in before we can determinate, we have our estimate and judgment of it but perhaps we can give the best answer on that after we have gotten in and seen the operations for a while.

Moderator: The next question is from the line of Sashi Reddy from Stewart Investors.

Sashi Reddy: How does branding work given that the Crompton consumer out there and there is a CG Power who has, are there conflicts with the brand eventually?

S. Vellayan: So though CG brand Sashi is owned by CG Power and Industrial. So the CG brand and that's my understanding, though I can stand to be corrected in case you understand it differently, but the CG brand is owned by CG Power and the Crompton brand is owned by the consumer business but CG as a brand is fairly well recognized and we did a fair amount of testing on that. CG as a brand is fairly well recognized, very well recognized I would say and so we will have the opportunity to use that brand across all markets.

Sashi Reddy: It's different; it's not CG and not Crompton.

S. Vellayan: Sorry?

Sashi Reddy: It's different it's not Crompton its CG.

S. Vellayan: No this is CG.

Moderator: The next question is from the line of Vimal Gohil from Union Mutual Fund.

Vimal Gohil: I just had one clarification on your international business of CG. You said that there will be two subsidiaries that will remain operational which is the US subsidiary and the one in Sweden. Could you just give us a broad ballpark number as to how much, what is the kind of top line these subsidiaries had or what portion of the international business these entities contribute?

S. Vellayan: They are very small and the, Mahendra do you have the number? We just hope for that but they are fairly small.

Vimal Gohil: So apart from these two subsidiaries the entire acquisition will be all about the domestic business?

S. Vellayan: Correct.

Moderator: The next question is from the line of Anupam Gupta from IIFL.

Anupam Gupta: You talked about the 4-5 year of revenue margin similar what would be your targets in terms of what sort of ROCE do you look at for that business and of that revenue are you also looking at having a significant portion coming from the international business?

S. Vellayan: When you say international, do you mean exports or do you mean international?

Anupam Gupta: Yes, typically exports.

S. Vellayan: So, exports again we need to get a sense with how long it will take to build out, right. So the motors business which is largest business has virtually no exports and are very limited and so we think that's a good opportunity but they will take us time to build out. So I don't want to put in kind of exports targets till we have a better sense of assessing what their numbers going to be and even with ROCE like I said we need at least till December to get a better sense of how much capital is this company going to take, right and so we don't want to give out ROCE nor do we want to set targets till we have a better sense of that. So, we need to develop before you guys develop your models first, we need to develop our model.

Anupam Gupta: Absolutely right. Just so because you mentioned, and you had clarified or tried to clarify multiple times that don't have that number yet, but the last quarter reported by CG Power had 940 crores sort of contingent liabilities. Even though obviously you cannot crystallize it right now, but can you see a meaningful sort of fund requirement for favoring all those things in the first couple of years?

S. Vellayan: Like I said that's why we want to determine when are those going to crystallize, are those going to crystallize, we have to associate probabilities with the event occurring and timing of the event and so till we do that we can't build out a decent cash flow model for ourselves. We have one model which we base the acquisition, but we need to refine that model before we come out and kind of stage any of the stuff in public?

Anupam Gupta: And just last one question on the railway business because your railway and the CG Power's railway have similar customers, so what sort of synergies or capabilities can you transform from one to other and gain scale that?

S. Vellayan: Certainly, its synergy as much as in an initial basically we are starting out developing much stronger relationships for the railways which we think is important in the long term. We are able to offer them more now and I think that, that will benefit and so I think previously we were much more focused on the coaches, they were much more focused on the axle engines and now we need to think of how can we become over time a more full-service provider to the railways.

K. Mahendra Kumar: The earlier question it was about €40 million.

Moderator: The next question is from the line of Niket Shah from Motilal Oswal Asset Management.

Niket Shah: Just one question from my side, given the size that there will be a lot of accumulated losses, safe to assume that there will be no tax outgo for few years?

S. Vellayan: Again, it's something we are trying to determine because in some cases our losses are not related to the business and so whether that creates a tax loss carry forward or not is something we are obviously getting in some cases, right. So, some of the losses will be applicable but the extent to which the losses kind of will drive the tax loss carry forwards are going to be determined by how much we can convert, how much is business related versus non.

Niket Shah: On the debt part of it which is about 1000 crores odd which comes in and you are kind of infused about 800 crores odd, safe to assume that 800 crores odd will be sufficient to run the business on a regular basis or you would require incremental?

S. Vellayan: Like I said, I want to clarify that is the amount that's required to settle the current debt holders. In addition to that we need capital to run the business. How much that capital is we will have a better sense of by December this year.

Niket Shah: Our stake in the company would be 58% plus the warrant that we would have issued at the shares?

S. Vellayan: We have to issue the warrant, so we don't have 58 now, 58 will include the warrants.

Moderator: The next question is from the line of Hasmukh Gala from Finvest Advisors.

Hasmukh Gala: I was just drawing a parallel between what happened between Satyam Computer and Tech Mahindra. In your initial remark etc., you said that you have had a dialogue with all the investigating agencies and all that. Even in June 2020 result of Tech Mahindra, you will see three to four disturbing notes on the Satyam Computer. So, what is your outlook because what is happening, you rightly said that you will have two teams one will be working with the investigating agencies and another will be doing on the business front but in terms of the devolvement of any future liabilities do you see anything serious can happen going ahead?

S. Vellayan: Our assessment is that is there risk to your point, absolutely there is risk. I am not questioning that fact and it is the nature, the only thing like I said, the only comfort we can get is based on the conversations we have had, due diligence we have done, the conclusion that we have arrived at. Is there a possibility? Absolutely, so there is a possibility but like I said the early comfort we have got is between these three things.

Hasmukh Gala: You said in the remark that the non-compete clause with the Crompton will be over. So, you may be looking at getting into the consumer side of the business also? Can that happen over a period of next 1 or 2 years like in your 5000 crores revenue target have you factored in something?

S. Vellayan: Yes, it is possible.

Hasmukh Gala: What kind of EBITDA margin we can look? Right now, of course this is not very, you can't comment on that whether this is a correct EBITDA margin or not but what kind of margin could be sustainable? You said 500 crores PBT but there will be interest and depreciation also?

S. Vellayan: We predominantly look at PBT; we don't look at EBITDA as much just from a frame. Even in TI it's been the same thing; we don't discuss EBITDA as much we just focus on PBT.

Hasmukh Gala: In these 800 crores that you will be raising you will have to immediately give 550 crores or so. Now how much of the debt in Tube Investment book you will take? You said that it will not be much but just ballpark number?

S. Vellayan: We have said within a month we will give you a more deterministic number on that.

Moderator: Thank you. That was the last question. Due to time constraint I now hand over the conference to Mr. Kashyap Pujara for any closing comments.

Kashyap Pujara: Thank you so much and apologies to have not been able to take all the questions but please do write to me or Aditya and I will whatever answers we have at hand based on the commentary given by management we assure to revert to you on the same. Mr. Vellayan and the team at Tube, thank you so much for being here to answer all the questions related to CG Power.

S. Vellayan: Thank you, thanks Kashyap and thanks to all the folks at Axis and thanks all of you for participating. Thank you.

Moderator: Thank you. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.