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10th August, 2018

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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 1st August, 2018 made by the company about the Conference Call scheduled for Investors/Analysts on Friday, 3rd August, 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
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Vivek Kumar
Company Secretary

Encl: As above

"HPL Electric & Power Limited Q1 FY19 Earnings Conference Call hosted by PhillipCapital (India) Private Limited"

August 3, 2018

MANAGEMENT: **MR. GAUTAM SETH – JOINT MANAGING DIRECTOR, HPL ELECTRIC & POWER LIMITED**
MR. RISHI SETH – JOINT MANAGING DIRECTOR, HPL ELECTRIC & POWER LIMITED
MR. V. R. GUPTA – DIRECTOR, HPL ELECTRIC & POWER LIMITED

MODERATOR: **MR. DEEPAK AGARWAL – RESEARCH ANALYST, PHILLIP CAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Good Day Ladies and Gentlemen and a very warm welcome to the HPL Electric & Power Limited Q1 FY '19 Earnings Conference Call hosted by PhillipCapital (India) Private Limited. As a reminder, all participant lines will be in the listen-only mode. 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. I now hand the conference over to Mr. Deepak Agarwal from PhillipCapital (India) Private Limited. Thank you and over to you, Sir.

Deepak Agarwal: Good Afternoon all. On behalf of PhillipCapital, I Welcome you all to HPL Electric earnings call. From the management side, today we have with us Mr. Gautam Seth – Joint MD; Mr. Rishi Seth – Joint MD; and Mr. V. R. Gupta – Director, so without taking much time, I now hand over the floor to the management for their opening remarks post which we will take Q&A. Over to you, Sir.

Gautam Seth: Thank you, Deepak. 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 first quarter of the current year. The Financial Year '18-19 began on a very encouraging note as we recorded 18% year-on-year revenue growth in the first quarter mainly led by switchgear and the lighting businesses, which grew by 47% and 55% year-on-year, respectively backed by robust trade sales. Metering revenues remain flat with a moderate growth of 3%, however, the delivery schedule is expected to ramp up in the second and the third quarter. Wires and cables revenue grew by 10% year-on-year. Our overall gross margin remained stable as the impact of higher margin from switchgear business was offset by lower margin in the metering business due to the increased price of plastics. The price of plastics is now showing a reversing trend and we expect the prices to stabilize over next couple of months. EBITDA grew by 16% year-on-year. EBITDA margin remains stable at 10.5%. PAT grew by 7% year-on-year. The growth in PAT lags EBITDA due to higher finance cost. Our overall order book continued an upward trend to reach 502.7 crores net of taxes as on July 31, 2018, including meter orders of Rs. 456.6 crores.

Metering orders witnessed a sustained addition of new orders worth 191.4 crores between May 20th to July 31st, that is since our last reported financials. This provides us a strong visibility to record a higher double-digit revenue growth in the Financial Year 2018-19. We shall continue with our increased efforts on advertising and marketing front to maintain strong growth momentum in the trade business across all segments, while strengthening the HPL brand and the product recall in the mind of the consumer. In FY '19, we have decided to take certain corrective measures through further improving our operating and working capital efficiency. Trade receivables have reduced by 21 days driven by our channel financing initiatives. Our inventory has increased mainly due to the higher allocations of finished goods stock at the C&F location. We shall be, however, working to reduce the inventory by approximately 60 crores mainly on account of the raw material and the work in progress stocks, to reach Rs. 400 crores of inventory by end of FY '19 leading to a reduction in the inventory cycle to 120 days.

We are also setting up a centralized purchasing department to bring procurement efficiency which will lead to cost saving over the coming quarters. Hence, our key focus areas for FY '19 will be to achieve a double-digit revenue growth, in fact a higher double-digit revenue growth, maintain strict control on operating cost, and diligently work on lowering our working capital requirements leading to improved profitability and healthier balance sheet. With this, I would now like to hand over the call for the Q&A session.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Abhineet Anand from SBICAP Securities. Please go ahead.

Abhineet Anand: Firstly, what is our gross debt and some of the balance sheet numbers like receivables and debtors?

Gautam Seth: The gross borrowing is at 518 crores and the net borrowing is at 449 crores and in terms of the inventories, the inventories are at 461 crores and the receivables at 411 crores. The debtors are at 411 crores, in fact if you see as of March, the debtors were at 467 crores, which has now come down to 411 crores, this is on absolute terms, but in terms of days, it has come down by 21 days. The creditors have also gone down by about 91 crores.

Abhineet Anand: Sir, inventory at 461cr. looks significantly higher. Can you highlight the reason behind this?

Gautam Seth: Abhineet, I will just like to correct you on that, if you see even right from September '17, the inventories were almost at 458 and thereafter it was 471, so yes, the inventories are on the higher side although, they have been at those levels. Only since the last three months, we have seen the inventory increase to some extent, that is mainly by having more inventory being allocated on our C&F location, the 24 C&F locations what we have, but now we have worked out and as I just said in my opening remarks, we are looking to bring down the inventory to 400 crores by the end of the year with a double-digit increase in sales, so that would really bring about a positive change. On the debtor side, there is already a good improvement on a quarter-on-quarter basis. In fact, taken on gross sale basis, the trade debtors are already at 95 days, and on net basis, it stands at 110 days, but this has again been coming down from 140 level, which was there about one-and-a-half years back, so gradually there is an improvement on a quarter-on-quarter basis.

Abhineet Anand: Secondly, Sir, can you throw some light on the bids in pipeline for the meter division, what do you expect for the next one year, how much bid will come in the market?

Gautam Seth: Currently, the metering orders are at 456 crores, this is taken on a net of taxes basis. Earlier reporting has been done on gross basis, which comes to 538 crores for the meters, but on net it is 456. We are sitting on a very strong order book, so therefore, the focus is more on the execution front.

Abhineet Anand: What are the outstanding bids in the market?

Gautam Seth: We have bids almost of 84 lakh meters overall, so in terms of value, they would be anywhere between 850 crores to about 1100 crores.

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

Harshit Kapadia: Sir, we were expecting the meter segment to grow in high double digits in this quarter, was there any delay in terms of execution, if you can highlight why there was a muted growth of 3%?

Gautam Seth: Based on our opening order book over the last couple of quarters, yes, definitely the figures could have been better. In fact, two utilities from Andhra and UP, had certain deferred supplies. These are normal and we are looking at a strong order book. We see the second quarter and the third quarter to be much better in terms of execution and sales.

Harshit Kapadia: Sir, within your metering order book, do you have any orders from MP, Rajasthan which will be going for election this year, so do you expect there would be a slowdown in terms of execution because there will be election?

Gautam Seth: We have orders from both MP and Rajasthan and election process in these two states do not determine the execution because those are autonomous entities.

Harshit Kapadia: Would they have any impact or anything at least in terms of inflows as well, if there are more tenders that would be coming up because of election, there could be a delay there?

Gautam Seth: Right now, there is no impact because they are all bound under UDAY scheme, so their targets are fixed, right now there is no impact of any election on their performance.

Harshit Kapadia: What would be the share of MP and Rajasthan within your order book of 500 crores, Sir?

Gautam Seth: I would say that it should be less than 50 crores, just about less than 10% of the overall.

Harshit Kapadia: Okay, so it is mainly from AP and UP?

Gautam Seth: No, we are supplying to most of the states, there is Maharashtra, there are lot of other states as well.

Harshit Kapadia: Sir, next question, what is the EESL revenue in this quarter from lighting?

Gautam Seth: We do not participate in EESL tender.

Management: In the past also, we have stated that due to the margins and the payment terms, we have consciously decided to stay away from the EESL business.

Harshit Kapadia: Sir, what has led to this high-growth in switchgear business, is it because of a lower base or is there is something more to it?

Management: Since the last two quarters, we have been talking about certain internal restructuring, which we have done right from getting in senior people in the switchgear vertical, then changing things on the network penetration front. So, there are a few things attributable to that. Partially, also since the first quarter was disrupted partly because of the GST implementation, so it has a low base, but however, having 47% growth coming from switchgear is still a good growth even considering those factors, so there has been a lot of internal focus and restructuring.

Harshit Kapadia: Sir, last question from my side. Since you have guided for a high double-digit growth for FY '19, if you can highlight which two segments will be primarily driving that growth?

Gautam Seth: If you see on the trade side, the switchgear and lighting segments are expected to be the front-runners where already we are seeing decent growth. The impact of GST is now left behind, the market is pretty smooth now and we are seeing good traction in both these segments, so these are two segments where we would continue to see a good growth. In metering also there will be growth because of the 456 crores of orders at the end of first quarter, which when executed, will take us well above the last year. So we are going to witness growth across all the four product segments, but switchgear and lighting are two segments where we definitely see a lot of growth.

Moderator: Thank you. The next question is from the line of Anoop Nair from Equity Intelligence India Private Ltd. Please go ahead.

Anoop Nair: I had two questions in my mind, one was regarding the increase in employee cost, maybe that is one of the reasons behind the rating downgrade, so what is the nature of this? Our employee cost has gone up by around 30 to 35 crores, if I am right year over year, what are the increment, where has this cost gone up and what is the benefit that we are expecting out of this increased employee cost?

Management: From Q4 to the current year quarter, the employee costs have gone up by almost 1.5 crores in the first quarter and this is due to two things. One, the increments which normally happen at the beginning of the year, so that has happened, which led to an increase in the employee cost. The other reason is that the production was down in Q4, which is traditionally the largest quarter; the labor and associated costs came down. Last year, our employee costs had certainly increased in the switchgear segment. Apart from covering the various production and sales & distribution costs, the logistic cost, which also includes certain employee costs, we are looking to streamline those, so that we get in some savings from the operational cost and thereby improving our margins.

Anoop Nair: Is there a new hire in the marketing team or any other senior level hire expected?

Management: Last year we had two senior people joining only in the switchgear division; in fact we had one person who looks after the industrial switchgears, which is more concerning the circuit breakers, the control gears, and the MCCB, and the other person as the head of domestic switchgear who is spearheading the MCB distribution boards, the RCDs, and the modular switches, so that is how we had two senior people join us last year and the results are in front of you in terms of the growth witnessed in this segment over the last 3 quarters.

Anoop Nair: My other question was regarding this new centralized procurement centre that you are talking about, would there be any CAPEX involved and where would this facility be coming up, if you can throw more light on it?

Management: Currently, we have seven manufacturing units and although certain items are controlled centrally, which would be for commodities like copper and other things, but generally the procurements in the last couple of years have been happening at the local plant level. There won't be any additional Capex. We have a senior person who would be joining us and with better streamlining, we would be making all major and critical purchases centrally, so we would be eyeing for economies of large scale. We are trying to finalize on internal cost benefits that would accrue due to this. We expect our procurement cost to go down because of this, there would be better usage of modern tools where we can look at E-bidding and other types of more transparent ways of getting new vendors and even evaluating those vendors. This would also help us to achieve economies of scale in our procurement and most importantly, we would be able to control our raw material inventory. This would be based at our head office instead of the plant; so this will be done without disrupting the production. We expect this to take about six to nine months to be implemented. We do anticipate enormous savings coming through this process.

Anoop Nair: Coming to that, you are talking about 60 crore reduction in the inventory from 460 to around 400 crores. On what are we expecting this reduction? Will it be on the finished products or on the commodities?

Management: This would be across-the-board. Even scheduling our raw materials much better than also on making our certain process quicker, so there are multiple efforts. As I said, the centralized procurement would help mostly on the raw material side, but then the factories are also working on how to reduce it, so it is a combined effort by all our factories across our different product ranges and we feel that by putting in this process, by end of the year we should be able to bring our inventories down to 400 crores, also correspondingly increasing our sales.

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

Amish Patel: Sir, could you please throw some light on LOI received by Genus for supplying 5 million single phased meters to EESL, so can we expect something similar in the near-term?

Management: Specifically, I cannot comment on this, but this was a tender which came out couple of months back and there were two participants. The orders were from various utilities in UP. We did not participate due to unfavorable prices & payment terms along with lower margins. We consciously decided to distance ourselves from the bidding process. Our execution has been strong over the last nine months and the order book is also strong. There are a few smart & prepaid meter orders in the pipeline and HPL will be placing bids for the future orders.

Moderator: Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: It is more like strategic kind of a question, if we have a gross block of somewhere about 550 crores, our net working capital deployment is about 600 crores and we are making something like 10% kind of a EBITDA margin on a turnover less than one lakh, so looking at what the number you are talking suggesting 10% double digit kind of growth, similar margin, and maybe some modest kind of improvement, what it appears that to reach a decent cost return on equity something about 14%-15%, we might take three to four years from now also, so what is your thought there, when we will reach a decent return on equity which is above cost of capital at 14%-15%, which year we can think we wisll reach the ROE of 15%?

Management: In the last year in the H2 we have seen a growth of 33 % as compared to H1, then again we are seeing the sales come back on track, but the margin what you see right now is mainly depressed from the retails which has been affected by the polycarbonate prices, the price of the plastics. We are already seeing the polycarbonate trends reversing so we do see some profitability coming back from the Q3 onwards especially on the metering side and with the kind of revenue growth, the margins were also improving in especially the switchgears segment and once the meter margins also come back to 17% which normally is a very sustainable margin level, definitely the overall margin should improve, but yes, coming to your original question that, yes, looking at the inventories and that, it will take some time, so maybe it may take two years, three years, but yes that is something we are working on.

Giriraj Daga: Can you give the breakup between finished and raw material as of now?

Management: I do not have the breakup right now , but I can ask the IR to arrange it for you and give it to you offline.

Giriraj Daga: My third question is that when we look at the receivables, last quarter we also had sizeable receivables from the utility spending, last about 285 crores out of some 467, has that number gone down because overall receivables have gone down on quarter-on-quarter basis?

Management: The overall utility receivables are at 246 crores and the non-utility and the trade is 165 crores, so overall it is 411 crores, but utility on a net sale basis is at almost exactly at six months, so that has been the case for a couple of years, but it is pretty constant at that level.

Giriraj Daga: What is the Capex for the year and split between maintenance and growth capex?

Management: The current year capex is 16 crores of which 6 crores is growth capex for specialty cables machinery and around 9-10 crores of maintenance Capex.

Giriraj Daga: You mentioned that polycarbonate prices are coming down. Last quarter call you mentioned that it has gone from $ 2300 to $ 4000, where right now these levels would be?

Management: Polycarbonate prices has come down. In fact I cannot give you the exact figure at what we are buying. But generally it is even almost down by 15% - 20%. Polycarbonate being a sizeable raw material, it makes a difference on the overall product costing, so from the third quarter as I said earlier, we would start seeing the reduction. Now, how much time it takes for it to go back is something what I cannot comment, but yes, it is something that we see that maybe in the future within this year itself, it may even go down below the $ 3000 mark.

Giriraj Daga: Lastly, on the employee cost , last year Quarter-1 was about 26 crores, but for the following quarters it averaged about to 35 crores, this time Quarter-1 is about 35 crores, do we annualize this number for the full year or we will see a jump this year also?

Management: In the last year, the increments happened from the second quarter that is why it was effective. Last time we had seen a growth in employee cost, there was a jump from first quarter to the second quarter as we hired two senior people in the switchgear department plus the increment.

Giriraj Daga: Roughly 145 crores should be fair cost to assume for the employee cost this year, about 10% growth compared to last year, will that be a fair number to assume?

Management: Yeah, should be less than 10%, but it would be safe to assume that.

Moderator: Thank you. The next question is from the line of Rishi Mehrotra from Navras Enterprises. Please go ahead.

Rishi Mehrotra: Sir, I went through your CNBC interview in September 2016 wherein you proclaimed that there were some dealers and distributors in the company from the time before you were born, so you enjoy a goodwill and you would like to share the legacy forward, but surprisingly to your IPO your stock price has never touched even the IPO mark, could you comment on that please?

Management: Specifically, I cannot comment on the share price, but our growth has been for many years in the market and we definitely share a very strong legacy in terms of our business, our business model, and the kind of practices. After the IPO within the first 30 days, we had the demonetization which quite severely affected our trade business and followed by the GST implementation, so these two definitely had some impact on our sales. At that time, the meter industry was almost 52% of our revenues. More importantly we believe that we are a strong company, we came out from those problems strongly, our meter business has been growing, we have been working on each of the aspects of business and today the revenues are back. Unfortunately, the plastic prices have played a spoilsport on the metering margins which we again hope by the third quarter it would improve, so overall, we are pretty strong on our growth path. We do see ourselves growing in each of the segments, improving our margin. We have also enhanced a lot of the corporate governance we have got in Pricewaterhouse as internal auditor. There are lot of new changes happening in the company and all that has been happening since the IPO. We had spent 5.31 crores on the brand building last quarter and also tied up with RCB during that time. We have done a pan India campaign with different hoardings, with radios in 56 cities. We see ourselves definitely going forward and in the long-term definitely the company would do well, and thereafter, I am sure everybody would recognize that.

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

Abhineet Anand: What is the delivery schedule for the 456 crores order book of the meters and how much of it is scheduled this year?

Management: The majority of these orders would get completed within this year. There are almost 195 crores orders received in the last 50 to 60 days.

Abhineet Anand: Some part of the large one can be carried forward except that everything will be done this year?

Management: Yes, so it is not that everything coming henceforth will get postponed to the next year, a lot of orders also come which have a much more quicker delivery because they are using the same specifications of existing meters, so sometimes the lead times are also very short, so it may happen. This order book that we have will get executed in this year and that again gives us the confidence that the meter is definitely looking at a very good double-digit growth in the current year.

Abhineet Anand: Secondly, you have been emphasizing on EESL payment not being that great, can you just elaborate a bit more as to what is the structure that is so unfavorable in terms of payment?

Management: We are speaking of our own experience in the past business that we have done through EESL. For the smart meter order, certain payments came in the initial 60 or 90 days and then certain portion getting released almost every year for the next five years and then with a three-year guarantee happening at the last supply. We have been looking at a lot of business opportunities elsewhere so similarly on the metering side, EESL has a big potential and we also hope to work with them, but we would work where we find the terms and conditions to our choice and also where the business is not so much on a commodity, but the pricing is better and much more the technology is being desired by EESL so that is where we see ourselves getting back with them.

Abhineet Anand: Recently we saw in newspaper that some Chinese players are also participating in some EESL bids and the pricing from last smart meter was again down from Rs. 2500 to Rs. 2200, can you just clarify what is the stance of EESL in terms of smart meter supply?

Management: The first tenders of EESL were given to the public sector companies which were again re-forwarded to Chinese companies and they have not initiated any supplies and also the fact that the pricing that they have given inspite of all raw material costs going up, we felt that it is pretty unworkable under the current Indian circumstances. Regarding the facilities to be provided, EESL has already put in their document that you must have a plant, so that is up to EESL, we cannot answer on their behalf.

Abhineet Anand: Just trying to clarify whether the manufacturing facility needs to be there or initial 50% can be imported from China and then the facility should be there?

Management: EESL insisted that there should be a plant because it is under Make in India scheme.

Moderator: Thank you. The next question is from the line of Deepak Agarwal from PhillipCapital. Please go ahead.

Deepak Agarwal: Sir, what will be the mix of LED and CFL in lighting?

Management: It is 100% LED now, so there is no CFL sale in our lighting.

Deepak Agarwal: On the distribution network side, how many dealer distributor we are having currently and what is the plan for the next two to three years?

Management: If you see our total dealer strength is about 2000 out of which 500 to 700 dealers are not so active. We have been talking about upgrading our quality of dealers, putting them on channel financing because already we have become quite strict on our commercial terms, so many of these dealers we are actually discontinuing them as direct dealers and rerouting them through our existing larger dealers, so going forward, our dealer strength would probably come down to about 1500. It is basically a combination of reducing dealers who are not so effective and appointing news dealers who are A class in the market.

Deepak Agarwal: Sir, what was our advertisement spend and how we expect it to go, going forward?

Management: In fact on the last two years our advertisement expense has been going up and last year we spent a little over 15 crores on the advertising. This year we are currently at 5.31 crores in the first quarter, which has almost gone up by over 40% from the first quarter last year, but going forward we see this going up about 15% to 20% in the current year as per sales. Initially, now in the second quarter on a short-term it maybe just equal or it may even go down because a lot of spending would happen in the third quarter because festive season starts, so already our teams are working on certain advertisements plannings which would be more for the festive season including Diwali, so that is how it goes forward. Since last two years the ad spend has become much more sustained, it is a continuous spending, so it is a mix of the ATL and the BTL, which is the Above The Line and the Below The Line activity. Coupled with this, we are also expanding our network so as we go forward probably in the next year or so, we would be more concentrated, hopefully more on the ATL activities which will give us a bigger boost as an HPL brand.

Deepak Agarwal: In switchgear, what would be the mix for B2B and B2C?

Management: The entire switchgear is as B2C, so these are all orders which go through our authorized dealers and distributors, but some of them may involve certain institutions like real estate or certain institutional customers, but then again they are buying in from our authorized dealers.

Moderator: Thank you. Mr. Deepak Agarwal over to you for any closing comments.

Deepak Agarwal: Thanks a lot for participating in the call. Sir, if you have any closing comments.

Management: As I said earlier, we do see the overall business environment to be very positive now and the next 12 months runway also seems to be very good, so we are focused on the revenue growth, but at the same time we are also working on as I shared the different measures where the operating cost needs to come down and our working capital needs to get improved with a leaner balance sheet and that is how we are looking to focus ourselves, so I would like to thank everyone for and giving us a very patient hearing. Thank you.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.