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23rd November, 2022

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Listing Department,
National Stock Exchange of India Ltd.
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Symbol: HPL

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Scrip Code: 540136

Subject: Transcript of Conference Call with the Investors/Analysts

Dear Sir

This is with reference to the intimation dated 12th November, 2022 made by the company about the Conference Call scheduled for Investors/Analysts on Thursday, 17th November, 2022 at 3:00 PM IST. 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
Q2 FY 23 Earnings Conference Call"
November 17, 2022

MANAGEMENT: MR. GAUTAM SETH – JOINT MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER – HPL ELECTRIC & POWER LIMITED

MODERATOR: MR. HARSHIT KAPADIA – ELARA SECURITIES

Moderator: Good day, ladies and gentlemen, and welcome to the Q2 and H1 FY 23 Earnings Conference Call of HPL Electric & Power Limited hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in 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 star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Harshit Kapadia from Elara Securities Private Limited. Thank you. And over to you, sir.

Harshit Kapadia: Yes. Thank you, Michelle. Good afternoon, everyone. On behalf of Elara Securities, we welcome you all for the Q2 FY23 and H1 FY23 conference call of HPL Electric & Power Limited. I take this opportunity to welcome the management of HPL Electric & Power represented by Mr. Gautam Seth, Joint Managing Director and CFO.

We will begin the call with a brief overview by Gautam Sir, after which we'll start the Q&A session. I'll now hand the call over to Gautam Sir for his opening remark. Over to you, sir.

Gautam Seth: Thank you, Harshit. Good afternoon, everyone, and thank you for joining us at the HPL Electric & Power earnings call to discuss the financial and operating performance for Q2 and H1 FY23. At the outset, I hope you and your families are fine. On the financial front, both Q2 and H1 have been fairly good for the company, backed by long-term growth drivers and the festive season buying spree and business velocity.

I'm pleased to inform you that the company registered a year-on-year strong growth with revenue surging handsomely at 46.3% in the first half to INR 597.9 crores compared to INR 408 crores in the previous year. In terms of the quarterly comparisons, our revenue increased by 8% in Q2 FY '23 to INR 302 crores.

Most notably, our EBITDA grew by 79% year-on-year in the first half to reach INR 75.5 crores. The EBITDA margin expanded by 231 basis points and stood at 12.6%. Our PAT stood at INR 12.6 crores in the first half compared to the net loss of INR 15 crores in the previous year, mainly due to the COVID lockdown.

Both our Metering and Systems and our Consumer and Industrial segments delivered a strong performance in the current quarter. The growth prospects of the Metering and Systems seem very bright in the coming years and look to be promising for this business segment. The entire Metering business is evolving, and we expect to see a substantial upside in the segment in the foreseeable future.

Our Consumer and Industrial business segment is also performing well, and we expect this to continue in line with India's strong growth engine. This latent strength in demand is being borne out by increased tangible inquiries we are receiving and the day-to-day billing traction we are getting from both business segments.

In terms of our capabilities, the company is fully geared to cater to the available growth opportunity in both segments. HPL has adopted world-class technologies, invests significantly in R&D programs, enjoys a diversified product portfolio and has a sizable manufacturing capacity. With all these advantages in place, we are optimistic about converting business growth to value creation and steadily gaining market share.

A key feature of HPL Electric is that we are continually evolving with new edge technology for the future. Our smart meters are a prime example of adopting new technologies that are driving the future and as you know, HPL is very well placed in this space. There is greater attention to TLD loss reduction and time-of-day energy use for the demand side, where smart meters play a significant role.

Various state governments are rolling out significant investment plans for developing smart cities and HPL is actively taking part and contributing to such projects. Recently, for example, I'm pleased to inform you that we are already undertaking two smart city lighting projects. As you know, we have a well-diversified portfolio of electrical equipment catering to various market segments.

To bolster this further, we plan to introduce several new products within the Consumer segment. We will keep you posted on these developments as and when they occur through our various news releases and direct communications. We are highly optimistic about our long-term prospects, generally improving consumer sentiment, the steady migration to EVs, a maturing DISCOM environment for smart meters and the ongoing 5G infrastructure push. These are just some of the drivers that underscore our confidence in harboring a positive outlook for our business.

On this note, I request the operator to open the floor for Q&A. Thank you.

Moderator: We have the first question from the line of Sagar Shah, an individual investor.

Sagar Shah: We have recently received an Empanelment Certificate, can you please share how many tenders we have received post getting the Empanelment Certificate?

Gautam Seth: The government is going about the smart metering under their DBFOOT policy and also the metering which happens under the RDSS scheme, which is a Revamped Distribution Sector Scheme. Under that, the Empanelment is a must for anybody taking on system integration. So as a company, we are one of the few companies that have got Empanelment through the process, and as a AMISP, where we are capable of executing the projects of the smart meters.

So now this is a process that is still going on. I think there are about 20 to 25 companies that are already approved as the AMISPs, and these are fairly big and very large companies that have come into this field.

Now coming to your question. Although the process is still going on for certain few companies getting the Empanelment, the tenders have already started. So the current inquiry bank under this new scheme is also fairly large. But overall if you see, the meter inquiry banks are well over INR 10,000 crores and I repeat, it's over INR 10,000 crores.

So for the first time, we are seeing the overall inquiry base really increase and some orders, I think, have already started coming in. We have received a few smaller orders, But for the larger orders, because they would involve much bigger planning, more evaluations would be fairly more elaborate, that may be from the next quarter or the first quarter in the next year- that is the time when we find or we should see a maximum number of orders getting finalized.

But every week, practically, we can say that new tenders are coming out. The good thing is that the government came out with something which is equivalent to the standard bidding model, like the standard bidding document. I think that was given out earlier. There were a lot of public discussions and all the stakeholders involved were well consulted and discussed.

So the guidelines which have come out in the DBFOOT are practically being followed by different states. So what we are likely to see is a big rush of inquiries, which has already started. Since they are all following the standard bidding documents and the guidelines by the government, they would be fairly consistent.

So for us to have our strategy in place for quoting or even in terms of the pricing or the cost involved and the interest cost, whatever, that becomes pretty much standardized and I think out of our experience- people will learn from that. So the process has started. Certain orders have coming. But I think the next quarter and the quarter after that are definitely going to see very, very large orders getting finalized.

We will be having a dual advantage of being an approved Empaneled AMISP, plus being a very large supplier of smart meters, we definitely have two big opportunities within the smart meter segment.

Sagar Shah: My next question is, sir, can you throw some light on the long-term targets of the company like in terms of profitability, growth or market share?

Gautam Seth: Yes. As HPL Electric, we are in two segments. One is the Metering and Systems, which is mainly the smart meters going forward plus the related projects which are involved with that and the other is the Consumer and Industrial, which normally comprises of our sales through our dealers and distributors, which is mainly the B2C channel.

Now in a long term, I would definitely see a very positive outlook for both of them. Like we just briefly discussed the smart meters in your first question. If you look at the smart meter segment, I'll elaborate on both opportunities individually, and then I'll spell out a long-term plan.

The opportunities are pretty large. The smart meter is seeing some kind of change. The whole metering industry is seeing a change, which probably has not been seen in the last maybe 20, 25 years. The industry size is set to grow. The sheer quantum of business that is ready to flow out is very enormous.

In terms of even getting the policy in place, even this – the move by the government to have the Empanelment is, I would say, a very good decision because the participants are well chosen in a way that they are large companies, there are serious companies who will be out to really implement it. So overall, the ecosystem will be good. And that will be very healthy for everybody, including the consumers.

So that is, of course, a very well-defined opportunity, which is led by the government and the government has been defining the targets. The whole thing is going to be defined by them. On the other side, we see the consumer sentiments, the overall consumer markets are picking up post the two lockdowns that we have seen.

And even in our company, HPL Electric, in the last two years, in fact, in 8 quarters, we have seen good growth overall and in the first half of this year, we have again seen a 28% growth. So going forward, we see ourselves as much stronger in the Consumer electrical segment. We see newer products, and new verticals coming out within the segment.

Our reach has been increasing quarter-on-quarter. We see that to be fairly widespread. In terms of retail points, we have already said that the company expects the next two years to have over 100,000 retail points. So a lot of work has been going on in terms of brand, in terms of building the product portfolio, which is fairly diverse.

But being more consumer-centric, it still has to be changed because the choices are changing, and the technologies are changing. So the consumer definitely expects every season something new coming out. Our lighting is definitely a frontrunner in leading the Consumer business, but we have also seen the wires, the switch gears and other related segments also really performing pretty well.

The good thing is that the growth that we have seen is pretty consistent, it is even going forward in the next two to three years, we do see consistent growth coming in. Now on a long-term basis, these 2 segments are set to grow much bigger going forward. Plus as HPL, we are always transforming ourselves based on the way the country is transforming. So in today's time, if you look at all the new-age technologies in terms of smart meters, we are there, we are very well placed in that.

In addition, we have also been part of other smart city opportunities which came in, right from our switch gears going or even the smart street lighting systems, which we have done earlier in two cities, in Bhopal and Jalandhar, which were already handed over to the government. And currently, we are doing two more, which are under process. Also, the other opportunities of 5G, which is coming in a big way. HPL has been a good strategic supplier to one of the leading telecom players in the 4G segment. So now as the 5G is coming in, we definitely see a big opportunity going forward in some of our product lines in 5G. In the EV segment, right from the charging infrastructure or the moving vehicles, there again, the company sees a good opportunity.

In renewable energy, right from having in the solar complete product portfolio what we have. So all the new age technologies which are coming in and the way the country is transforming, HPL, thanks to its R&D and the focus that we have on the product development and the changes that we need to make, we are fairly placed on that and that will drive the technology, the preparedness and infrastructure that we have and the manpower that we carry. This is going to define the long-term execution and reaching our targets.

As a company, if you look at the next three years, five years, even longer than that, definitely, we see very, very good growth coming in and improvement in our market share for sure, and also an improvement on the margins. That is where we see the company move forward.

Sagar Shah: And sir, my last question is, like, are we planning any big capex plans in the coming years?

Gautam Seth: No, not exactly. If you see all the opportunities that I just talked about, most of our capex is already in place. However, there is some maintenance capex, which normally happens more because of the tools and dyes that the company which is more wherever they get worn out based on use. So I think the maintenance capex of about INR 30 crores odd what happens, that would continue. But overall, in terms of all the opportunities and the various business segments that we have, we still have a good capacity, which we need to increase.

And in fact, the capacity utilization in the last two quarters, especially on the meters have gone up. But still, we have a large capacity to fill up and we are definitely poised to take advantage the market is currently offering us. So no major capex right now, yes.

Moderator: We have the next question from the line of Neha Sharma, an individual investor.

Neha Sharma: I have a couple of questions. Can you throw some light on this festival season sale? And which segment has seen better traction in this festival season?

Gautam Seth: Yes. When you look at the festive season, only lighting is one segment that sees a more upside based on the festival, that is the Diwali season that comes in. Normally, the other products, be it metering or switch gears, solar, wire and cable, they are all based on the fairly well spread out in all the quarters.

Although the Q4 definitely sees a big uptick in the trade demand as well as the spending by the government on the infrastructure, because we have deadlines of closure of the budgets and other things. But when you look at the lighting, definitely, the second quarter especially, the August, September and October, these are the times when we see an uptick in the growth on the lighting. And this year also we have seen certain good growth happening specially in the lighting front during this festive season.

Neha Sharma: Sir, one more. We know that the smart meter and the metering segment are on the boom and a growth driver for the company also. But can you share the ranking of other products which will be driving the growth for the company in the coming quarters?

Gautam Seth: Yes. In fact, I did discuss some opportunities in my previous answers. But I'll just highlight that we did discuss that smart meter is, of course, going to be very big in the medium and the long-term range because the government's entire metering and, in fact, the broader power sector reforms that the government is looking through RDSS scheme, is going to be driven with the efficiency coming in through the implementation of smart meters. So definitely that comes in, in a big forefront by the government.

And also, there are specific budgets that the government is allocating for the smart meters. So that is going to be, of course, a very big growth driver for us. Then there are certain opportunities that are coming in a big way, which the company is looking at. And then I'll come to 5G the 5G implementation is happening in a big way. Many people may not know, but towards the last part of the 4G implementation, the company did good substantial business by supplying to one of the biggest telecom players.

And this included certain switchgear and cables, but mainly the cables and this time, when we are seeing the 5G implementation start off. I think 1st October was the launch date when the Honorable Prime Minister did the launching. Now we are seeing good inquiries are coming. We are already approved with both the top two telecom players. All three to four main contractors who are going to carry out the complete implementation, for which our various products are already approved.

We got our switchgear approval in one of them. So a lot of work which has been happening since the last one year, is already underway. Of course, as we go forward in this quarter and next quarter, that is when we see the orders to be coming out. As and when the orders are getting finalized and they're coming out, I'm sure at suitable times we will be informing the markets on that, because then it will become much more definable.

But that is one place where the company has been working, and now we are on the verge of seeing a certain uptick in that. We also discussed on the EV infrastructure. The EV charging infrastructure is also coming in a big way through institutionalized or private consumers who are installing it. So that is where, again, the use of electrical products becomes relevant, whether they are on AC or DC or whatever specifications they may have. So the company is, again, poised to take certain good growth coming in.

We are already seeing certain demand pick up through various panel builders or system integrators. Even on the moving vehicles, right now, we have three 2-wheeler companies to whom we are supplying on their moving stocks. So their vehicles have our breakers in them for circuit protection. So there are a lot of new things coming out in the market, and we are also adapting ourselves and trying to locate and adjust ourselves to that. But even similarly, in solar, we have seen good growth happening, the other smart cities, as I already discussed.

These are all new opportunities that are going to drive future growth apart from the smart meters. Also, the switchgear is going to play a major role. If you recall, switchgear and if you look at an individual category, they have probably one of the best margins, the EBIT margins traditionally

We are very well placed into that with a very strong infrastructure. So overall, I think it's not only that smart meters are going to drive it.

The other products in our Consumer and Industrial segment, are also going to drive it. Apart from that, we have a strong channel strategy and we are building up the brand in a consistent way. So that is where the overall opportunity would come to fruition. And we definitely hope to see good results on the board, yes.

Neha Sharma: Sir, one last question. So what is the working capital to run a B2C business? And what is the ideal working capital cycle? Could you throw some light on it?

Gautam Seth: Yes. if you look at the working capital cycle, we traditionally have two businesses: one of them especially the metering, where the supplies are to utility. There the working capital is high. The nature of business has been like this, where the debtors from the utility are definitely on a higher side.

Typically, six months is the average debtor period that we have. In terms of the inventories also, the process of getting pre-dispatch inspections, also ensuring that the price volatility is not there, so definitely, the critical items or even the warranty stocks are well stocked up. So the nature of business is that in the B2B segment where the working capital cycles are generally high. But the debtors are out of our control because that is from the government. But on the other front, definitely, there are certain actions which we are continuously taking to ensure that it is there in the limits or - that's how we look at it.

But when you look at the B2C business, this has a fairly better working capital cycle. The company has been working on reducing the debtor days, mainly by the implementation of channel financing, and also have better fiscal discipline. So I think fairly, we have been able to bring it down. The channel financing implementation has also been much better. In fact, as an internal target, up to March 2023, we do hope to see certain better improvements going forward. And I think the teams are working on that line.

So overall, as a company, both these segments have different approaches to the management of the working capital. But overall, we have been able to bring it down this time right from inventory and the overall working capital. So we have got it down in the first 6 months. And hopefully, we do see growth in our revenues in the second half of the year as well and the target is, obviously, very clear to again bring down the net working capital and the inventory days further by the time we reach March 2023 year.

Moderator: We have the next question from the line of Anmol from RJ Consultants.

Anmol: Sir, by when can we see a visible correction in the Metering segment? How are you mitigating the global supply-related chip shortages?

Gautam Seth: If you see our last two quarters, in fact, the Metering business has seen a 68% growth in the first half and starting from, I think, the second half of the first quarter and going into the second quarter, we have definitely seen a good execution of the orders despite having a good execution in the second quarter especially, we still have over INR 500 crores of orders in the Metering business. So overall, I think the execution is already getting to be much smoother and stronger.

And going forward also in the next half, we definitely expect the same momentum as in the Q2 to continue and even probably improve thereon. Now if you see since last two years, the global shortage of chips and ICs and others have been affecting us. But now I think we are well past that. So although there could be some challenges that may remain on certain models or some areas, but overall the position is much better today in terms of the supply of the global or in our procurement of the chips.

So I don't think that is now affecting our execution in any manner in the near future. The overall growth of the industry is definitely going to be very enormous. So that may post certain problems in the future. But overall, if you see the position, be it any kind of geopolitical scenario, what is existing today either in Europe or in maybe China or anywhere, I don't think the global supply chain is affecting us so much as it was doing maybe a year or two years back. So we are well past that. And I think with the orders expected and the execution which is happening, definitely, we are set for at least a good second half in the current year, yes.

Anmol: Okay, sir. And sir, my next question is, did the company take any price hike for any product to meet the rising raw material prices?

Gautam Seth: You mean in the second quarter or in the past?

Anmol: Yes, in the second quarter or maybe this half year of financial year 2023.

Gautam Seth: Yes. So if I recall, I think in the second quarter there has been no price hike as such because we have seen in the last two years, there has been multiple time price hikes. Especially in switchgear, we have seen at least three major price rises happening. In terms of wire and cable, we have seen many more price rises happening. In some months, almost practically every month, we have seen the price increase happening. If you see in the second quarter, in fact, there have been a certain reduction in the price of wire and cable. I think maybe twice, I think, it might have gone down,but no price hike as of now. Maybe at the beginning of the first quarter, I think we had a price increase for switchgear. But what one needs to understand is that, if you see our Consumer electrical business, the flexibility of passing on the prices with a time lag is definitely there and I think as a company, we are exercising that and the prices are getting passed on either way, yes.

So generally, it's been an increase that has been happening, which has been passed on. But since last four months, the prices have been fairly stable or a lot of commodity prices have, in fact come down or they have cooled off. So till September end, we've definitely seen certain prices coming down. In fact, just to recall, as of today morning because the price of copper from last week has gone up. So I think today morning, we have come out with a small price increase, which would be effective next week. But that's mainly in the wire and cable only. But I think the flexibility the market is providing, and definitely, we are using that.

Anmol: And sir, my very last question. What is the main reason for the momentum we gained in the metering segment? And is it going to sustain in the coming quarters? And what differentiates HPL from its competitors?

Gautam Seth: The metering and the smart metering comes under the purview of the government. So mainly the momentum, what you see in the last one year and then the next five to seven years, the movement what we see, is going to come in mainly from the government policy of changing all the meters, all the 25 crores meters into the prepaid smart meters. I think that vision and the policy that the government has put in, that is basically driving the growth. This growth is, of course, implemented through the DBFOOT guidelines, what they have given and the RDSS scheme. So that is how the implementation is happening.

Thereafter, all the movement and the demand coming from the various state or the central utilities, and subsequently, the demands coming in through the AMISPs is all as a result to that. So normally if you've seen the steady growth in the meter industry over the years, this is the first time where we are seeing the current working meters being replaced by the smart meters. So thereafter the demand is going to be enormous, yes. So that is where the momentum is coming from. Can you repeat the second part of the question, please?

Anmol: Yes. What will differentiate HPL from its competitors?

Gautam Seth: Yes. So if you see, there are about three to four players whom we would take as serious competition in the market with the demand being very huge. So in terms of our focus, our investments into the R&D, in terms of the manpower, the design, development, the infrastructure, which we have also put in and the readiness to exploit the opportunity, I think this is something which we have really invested into that, and that sets us apart. Now it could be the competitors are also doing that. So I cannot just comment on that. But definitely, from our side, the preemptive actions have been taken on a timely basis. Whether it's on certification or meeting the standards, I think everything is probably we have it already in place to exploit that.

So as we go forward, in the traditional meters, in the electronic meters, we have been enjoying a 22% market share across many years. I think going forward, in this, definitely, we hope to have a much larger share, maybe at least a 25% market share in the smart meter segment that would come by. As I said earlier, the opportunities will come in two ways. One -- the main part will always be that HPL Electric being a big supplier to all the AMISPs. That's where the major part of the growth is going to come from. The other being taking up projects under AMISPs. But that would happen very selectively if ever, that would happen. But majorly, as HPL Electric, we are focused on our core competence of smart meters and the demands have already started coming in and that's how we would see the near-term growth, yes.

Moderator: We have the next question from the line of Sandeep Baid, an individual investor.

Sandeep Baid: Sir, my first question is how many manufacturers of smart meters are there in India today?

Gautam Seth: There could be a couple of them. I won't have the complete information, but there could be about maybe seven, or eight of them. But mainly, I would say the market was till sometimes concentrated with about three to four people. But if you look at traditionally 10 -15 years ago, there were 40 - 50 manufacturers. Over a period, the way technology has changed and has improved- we have seen lesser players. But there are definitely three to four serious players on the smart metering side. There could be many more which have come in, who are likely to participate. But probably you can get them from the government websites, I'm sure, yes.

Sandeep Baid: And you said there are many more who can come in, but how long will it take for them to set up the subsidy for a smart meter?

Gautam Seth: No, it's very long. In terms of meeting the prequalification standards, in terms of getting the certifications, and getting the factory approvals, it's a very long time, I would say. The business comes based on prequalification, which is actually cumulative. So it's going to take a lot of time for anybody to actually come in and set up a manufacturing unit. So it's a long time I would say, yes.

Sandeep Baid: Second, sir. I wanted to understand whether the capacity that we have for traditional electronic meters and now that we are going to make more of smart meters than electronic meters are the capacities fungible? Or these capacities cannot be interchangeable? Are they inter-used?

Gautam Seth: The capacities are well interchangeable because ultimately when we talk on the smart meters, we are talking about what goes into the design, what goes into the ICs, what goes into the electronics. So definitely, the current capacity that the company has been having all throughout for the electronic meters is easily changeable or it's already changed to smart meters. In fact, now we are also working on automating a lot of the smart meter lines.

I think it's already underway, a lot of processes have happened. But let's say in the next couple of months, we will probably have much more automated and world-class assembly lines and testing lines for the smart meters. So the current capacity gets utilized. But you have to realize that when you look at the value and the sales potential, the per unit cost of smart meter with all the infrastructure is much, much higher than a traditional meter. So the same amount of sales, actually, a lesser volume needs to be done of smart meters. But the value adds are very high per meter, yes.

Sandeep Baid: Third, sir. You mentioned that your focus has been more on supply of smart meters rather than taking up turnkey projects. And if you are going to supply smart meters to people who are going to win the tenders, how will that impact your working capital, and how will it impact your receivables side going forward?

Gautam Seth: Yes, you're right. If you look at the major opportunity, like if you look at the opportunities of the AMISPs, who are going to be the system integrators and who are going to do the state-wise implementation, so order values, of course, are going to be very high, ranging from INR 500 crores to even going up to INR 2,000 crores, INR 3,000 crores, even higher than that. So the orders are going to be much larger. But all these AMISPs will need one or two and I think the government has mandated at least a minimum two smart meter manufacturers to give them. So definitely, the bigger opportunity for us is going to be the supplies of the smart meters, that is where we will be focusing. In fact, with the utilities, when traditionally they have been buying, the debtor days are typically around five months or six months.

But I think under the new scenario, we will see that to improve, because, right now, between us and the utility, there is going to be a private AMISP, who will be typically a very large private company and with good financials and others. So maybe there is a very strong possibility that on the supply side in this type of opportunity, we may see a drastic improvement in the working capital cycle, especially with the debtors coming in a fixed number of days under Bank LC.

So let's see how things are unfolding. But my personal take would be that the working capital will improve in this scenario once this happens, yes. On the other side, we have already the consumer business, which is really going to be there.I think if these two combine, definitely- maybe in one to two years once the smart meters are unfolding in a bigger way. We might see a good drastic correction in the working capital cycle of the company.

Sandeep Baid: And lastly, sir, our return on equity is in the mid-single digits. When do you see that approaching double digits?

Gautam Seth: Look, I will not be able to give you a specific time schedule on that or something. But if you see all the steps that the company is doing, we do see the growth coming in. We do see certain margin improvement. In fact, once the smart meters are in the middle of their implementation, we may see an upward correction on the margin, especially on the smart meters. The EBIT margin is set to go up. In terms of the balance sheet, where our teams have already very conscious and specifically working on improving our working capital cycle or other ratios.

So I think as we see this better capacity utilization coming in and the volumes to kick in, definitely, I think we would be able to see a better return on equity. But right now, to give a specific time,I think we have a slightly longer way to go on that. But definitely, the direction I would say is right. We are moving in that direction. But no specific schedule I could give you on that.

Sandeep Baid: Sir, for longer-term perspective, say, three to five years kind of a perspective, what kind of sustainable return on equity you think this business can achieve?

Gautam Seth: I think definitely, we do look at it. It's a double-digit return on that. But this is something which I think based on how we see the new opportunities coming in, definitely, we are conscious on the ratios and the kind of wealth creation or how the returns to the stakeholders need to come in. That is something that we are doing. But I think it will be a little early to comment, but probably in the next one or two quarters, we'll start being more specific on that, yes. But if you still have any specific thing you would like to connect with us, I think through the IR you can do that. And we'll be happy to take your questions, yes, on this.

Moderator: We have the next question from the line of Abhijit Sinha from Pi Square Investments.

Abhijit Sinha: So during the call, you mentioned quite a bit of times that we're looking to improve the margins, right? Is that by reducing our debt that we have, because it's quite substantial? Because we don't have any capex plans ahead for the time being at least, so do we reduce the debt?

Gautam Seth: Yes. If you see in terms of our net debt, almost I think 85% of it is all working capital related. So our term loan debt is pretty less and that's anyway year-on-year is getting paid. So it's not something substantial on that. The main debt is all related to the working capital. So right now if you see in the six months also, our gross debt we have at the same levels, although there's a 46% growth. Internally, what we are looking at is that at least on the same debt, we are able to maintain good growth.

So overall, as a ratio, we come down. And the major part of our business currently, especially the metering part is all to the utility. So that does involve a high working capital cycle. So right now we don't see any change in that, but I think if you would have just heard the last answer that I was giving, with the new system coming in place of the AMISPs. Definitely, in future, we may see certain long-term corrections happening on the debtors on the utility side, because the supply would be through a AMISP.

Abhijit Sinha: So our requirement will come down completely for the working capital?

Gautam Seth: On a fixed, once we are supplying to them, on a fixed date through the bank LC we are getting the funds in our bank. So that will help us. And on the consumer side, anyway, the implementation of channel financing is happening. So that will keep, we should see that improving anyway. But that will always take time, but that's happening continuously, yes. Quarter-on-quarter, we are seeing the implementation go high. Internally, we have kept a target that at least maybe 70% of our consumer electrical business we need to get under channel financing.Once those figures start kicking in, definitely, we will see drastic changes on the balance sheet, yes.

Abhijit Sinha: In terms of stability in terms of our revenue, through each and every quarter we expect a stable revenue stream, because it is a very government order-based structure that we have in terms of revenue coming in?

Gautam Seth: Well, generally, if you see, the sales have been moving based on certain trends. Right now, normally, the first quarter is a little low. But this year, we had a good quarter as a first quarter also, and I think followed by the second quarter. So there is nothing like the trade business, generally, the B2C business is much more consistent in terms of the orders and the payments coming in or even the billing happening. But then they have their highs and lows. Like the fourth quarter is definitely the strongest quarter. The first quarter is slightly the weaker quarter among the whole year. But this is how it works.

In terms of metering with the government, I don't think they follow any cycle like that. But yes, the tenders coming out and the finalizations, they have their own time lags and other things. Right now, the sheer inquiries are at a very high level, that, from now onwards at least the next 12 months to 18 months, we will see a very strong order flow coming in. And thereafter, the executions happening. But because many of these orders now which are coming are more consolidated with their requirements of at least two years to three years, even if not more. So the order booking in the industry is going to rise very high in the next one year to two years. And thereafter, we will see a much more steadier income. And certain incomes is also related on a little long-term basis on recurring income happening in a particular project. So that may also continue, yes.

Abhijit Sinha: That's quite interesting to know. As you mentioned that our Q1 numbers were quite strong. When it's supposed to be a weak quarter generally, this quarter was really strong. So then do we expect similar strength, respectively, in each every quarter? Or is it just a one-off quarter that we have seen?

Gautam Seth: No, if you look at the next half, definitely, we look at this volume of business to be repeated, plus maybe a little more growth. Hopefully, we should do it. But at least the business what we have done in the first half, like we have been talking about double-digit growth, at least a little higher double-digit growth this year. And I think anywhere between a 20% growth is something what we are looking at. I think we kept it as a target. We did give guidance for that. I think we are going as per that.

So luckily, or I think with the efforts of the team, the first half has been good The second half is also going to be much better than that. And the fourth quarter, definitely, the trade also gets a bigger upside in terms of this thing. So I think, overall, as a year, we should end up with a good 20% growth. Plus we also look at a good order book at the end of the current year, yes. So that even the outlook for the next year is going to remain equally strong for sure.

Abhijit Sinha: So this INR 300 crores mark is something that is sustainable for us, right?

Gautam Seth: Yes

Abhijit Sinha: I'm talking about exports that are supposed to be remaining at this INR 50 crores level mark only, right? It will remain at that space only?

Gautam Seth: No, currently, if you see, we are, only since the last two years, we have seen the export go up. In fact, almost from an INR 20 crores, in two years, it's gone up to INR 50 crores. Of course, the base is very low. So that's how it is. But this year, we are already seeing nearly a 20% growth. I think in the second half also we should see a similar or a little higher growth than this. So overall, we are moving up on the exports. But our penetration is currently in about 42 countries. I think that kind of a thing, we see it to continue, yes.

Abhijit Sinha: This would be what region primarily, sir?

Gautam Seth: Sorry, for?

Abhijit Sinha: What region would this, when you mentioned 42 countries, what region is where our maximum exports happen on a regular basis?

Gautam Seth: So we are supplying to a couple of countries in Africa. Then in Middle East and Gulf, again, we are present there. We are present in Southeast Asia, at least in five to seven countries over there. Then we are in, we're in the entire SAARC. And then we are doing the UK and one or two countries in Europe. Now the idea is, the way we are seeing, we are quite upbeat on the growth in exports in the international business, primarily because of the certifications and the compliance to the specifications that we have to the IET standards. So just to put it in simple words, we have been in the Indian market for very long and our products, even, selling in India, are based on international specifications.

So the moment we started going out to various countries, we have seen a very good response, and that has converted into sales coming up. But only, I would say currently what is happening is there are five, seven countries where which have seen very high, the forex ratios have really gone, turned upside down. The inflations are very high. Even good countries like Turkey or you've seen even Sri Lanka closed down, which was also market. So some of these things are now based on the economies and the geopolitical things. These are happening. But nevertheless, even keeping these aside, we still would see at least a 20% growth this year and even going forward, we definitely will see good growth in exports, yes.

Abhijit Sinha: Because, on the other hand, just like our country, right, other countries are also using the old meters and now trying to move to a more advanced electrical meter- smart meters. Last question, sir, is that, let's say, our metering business, right, even passes the INR 500 crores mark this year, we would still be behind the 2019 numbers. Sir, do we think that by '24, we will be back into those 2019 numbers or much more than that? Or what would be the route, sir?

Gautam Seth: No, I think, I don't know how you got the INR 500 crores from. But our six months current, we have done almost over INR 300 crores already. So we would see the overall figure to be over, well over INR 600 crores. That is where we see the metering business to come in. So I think that should be somewhere equal, I do not recall the year and the sales you are looking at. But I think about INR 600 crores.

Abhijit Sinha: 2019 numbers, yes.

Gautam Seth: Yes. But we are looking at a INR 600 crores plus situation on the metering front and the others also are almost equally, that should be done there, yes.

Abhijit Sinha: Exactly. So this is something, this is a product that we are very strong on, right? I think a lot of demand is coming in there. So when I'm talking about switchgears also and our wires and all, do we expect a similar growth over there, or it would grow, but less than the metering products?

Gautam Seth: No. If you look at this, like if you look and compare the specific quarter or the half, last year, with the lockdowns happening, the metering business has gone down. So there could be some, the percentage is like this. But going forward, I think we would see the growth across both of them, frankly. I said earlier also, the consumer and Industrial will see a much more steady growth across quarter-on-quarter, and that would go on.

In meters, we may see a couple of quarters being really spiked up because the order flow, even the dispatch instructions what we get from the utilities, the dispatch schedule. So it depends a lot on that. And since that is, we are dealing with the government, so those have to be respected- those kind of schedules have to be respected. But generally, both are on an upside. I think that is where, but over a period, depending on the orders, the meter may see exceptional growth maybe in the next two years to three years. Definitely, that is a big possibility, yes. But right now, I cannot quantify it or I cannot place a number on that, yes.

Abhijit Sinha: But is there any certain targets that we have in the next four, five years that this is where we want to reach?

Gautam Seth: Yes. Of course, we have that. I would sometimes, if you look at the meters- the numbers are pretty mind-boggling with what the requirements are there. So giving a number may sound too, unrealistic of us- putting a figure for that. But definitely, if you see, you can also see that the general tenders which were in the market normally had INR 800 crores or INR 1,000 crores or INR 1,500 crores, today are well over INR 10,000 crores. And I think in the next six months, if you look at the inquiries, they could even be well more than INR 15,000 crores or INR 20,000 crores.

So definitely, the upside is there. But again, as I said, it may be very difficult to predict an upside or keep a target based on that. The tenders are there, huge tenders are there. We are participating. We are well qualified. We may get it. We may not get it. There can be many factors, price being one of them.

But they could be many things. So it will be hard to predict. But yes, definitely, the company is geared up for that. We are looking at a good market share. But as and when the flow of orders are coming, we will keep revising the guidelines, our guidance to the market. But definitely, we do hope a very big upside can happen and a complete different scenario may appear in the next one year to two years, yes, especially on the meters.

Abhijit Sinha: Can you provide order book numbers?

Gautam Seth: Yes. Our order book is, I think it's about INR 830 crores plus. And out of that, about INR 504 crores, I think, are meters right now. So the meter pendencies are also at a good level, and execution is at a good level. So definitely, I think we should see some good numbers coming out there.

Abhijit Sinha: And our average execution period would be how long, sir?

Gautam Seth: Depends. If you see the current orders which have been coming out from the utilities directly, in that the executions are typically around nine months, like one month to two months of waiting, like getting preparation done and then executing in about five months to six months. For new orders, what we will see through the AMISPs, there is the period of implementation, the values will go up, but the period of implementation maybe 18 months, it could be even two years. That depends. Actually, it depends on state-to-state, on requirements. So it's very difficult to just give a general figure. I would be wrong in doing that actually.

Abhijit Sinha: But at least that would reduce our, though it will be a longer period, it will reduce our working capital requirements and everything at.

Gautam Seth: That should happen, because, as I said, that would be supplied to a private company, a large company typically, and who would in turn hand over the project to the government. So that definitely, we would see certain changes in the working capital cycle and the debtor days. So hopefully, it should be for the better. Let us expect that.

Abhijit Sinha: Sir, if we, assuming if we can sustain this growth that we are having right now, in the next four years to five years, we can easily touch the INR 2,000 crores mark, right? Is that fair enough to say? Or…

Gautam Seth: No. As a company or as metering?

Abhijit Sinha: As a company, an INR 2,000 crores company.

Gautam Seth: No, I think, I would say even if you see a good amount of growth coming in, I think that would happen well before that for the INR 2,000 crores, yes. I think there I could give guidance on, just rough guidance from my side. But that can happen much before that also. Maybe in the next two years to three years, we hope that can happen, but what I was talking about is that sometimes there could bea much more substantial increase because of the volume of orders which are coming in, for that, that will require much deeper planning the way, because that is the business would get positively changed based on the enormous demand coming in, yes. But otherwise, the way we are seeing the growth in the next three years, I think that should ideally happen, yes.

Abhijit Sinha: True, sir. Because you can see the order books increasing on a direct basis, right? So that you will have a better view of that. Sir, just a little question that I had in our shareholding pattern, right? I think people might have asked this before, where our promoter companies have the name Havells in it, right? So have you ever considered changing that name to just remove any controversy so that the institutions can start being more convinced in us as a company itself and not be like, why would they have Havells in their name and all that stuff?

Gautam Seth: No, frankly, I have not understood the whole question completely. But these promoter companies, they are our promoter companies, and I don't see any reason since, our promoter company, has been one of the promoter companies is since 1956. And I think that is where the name and our legacy of being into switchgear and into meters is coming right through from those companies. So I don't think any reason why we won't change it.

Abhijit Sinha: Sir, you don't think there is any confusion that is created.

Gautam Seth: There is, frankly, no confusion in the market for that. So we are, as HPL Group, our promoter companies are there.I don't think we would, sorry.

Abhijit Sinha: No, sir. If you're comfortable with that, then why should I have a problem?

Gautam Seth: Yes. But probably, I was just saying in a light tone that probably I will not change my father's name.

Abhijit Sinha: It has, the company has its own legacy, to be honest. But what we...

Gautam Seth: No, we have the legacy and we are well within the law and our rights to use that, yes. So there's nothing like that, right?

Abhijit Sinha: I was just wondering, because sometimes in the market there's been a lot of confusion that, oh, is that the same Havells? I think it's a really age-old question that you guys have been facing. So I mean, if there's the legacy...

Gautam Seth: I don't know. Maybe that could be a personal opinion, but we are not facing anything like that. I don't think. Anyway, probably, I will not comment on that on this forum. But yes, I don't think there's any confusion from anybody's side in that, yes.

Moderator: Thank you. As that was the last question for today, I would now like to hand the conference over to Mr. Harshit Kapadia for closing comments.

Harshit Kapadia: Thank you, Michel. We would like to thank Gautam Sir for being part of the conference and part of the call, and we'd also like all investors and analysts for part of the call. Any closing comments, Gautam Sir, that you want to share with investors?

Gautam Seth: No, I'll just, I'd like to thank everyone for coming and joining on this call. And in case of any queries or any further information, you may contact Dickenson World or us directly, and we'll be happy to answer them on that. So I wish you all a great evening. And we can now close the call here. Thank you very much.

Moderator: Thank you, sir. On behalf of Elara Securities Private Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.