HPL Electric & Power Limited

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31st May, 2022

The Manager, Listing Department, **National Stock Exchange of India Ltd.** "Exchange Plaza", C-1, Block G, Bandra-Kurla Complex, Bandra (E), Mumbai – 400 051 **Symbol: HPL**	**BSE Limited** 25th Floor, New Trading Ring, Rotunda Building, PhirozeJeejeebhoy 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 25th May, 2022 made by the company about the Conference Call scheduled for Investors/Analysts on Friday, 27th May, 2022 at 4:00 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
Q4 FY 22 Earnings Conference Call"

27th May, 2022

Management:	**Mr. Gautam Seth – Joint Managing Director and CFO, HPL Electric Power Limited**
Moderator:	**Mr. Harshit Kapadia – Elara Securities Private Limited**

Moderator

Ladies and gentlemen, good day, and welcome you all to the Q4 FY22 Earnings Conference Call of HPL Electric & Power Limited, hosted by Elara Securities Private Limited.

As a reminder, all participant lines will be on listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch phone. Please note that this conference is being recorded.

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

Harshit Kapadia

Yes. Thank you, Jacob. Very good evening to everyone. On behalf of Elara Securities, we welcome you all to the Q4 and FY22 conference call of HPL Electric & Power Ltd. I take this opportunity to welcome the Management of HPL Electric & Power, represented by Mr. Gautam Seth, Joint Managing Director and CFO of the company. We will begin the call with a brief overview by the management, followed by a Q&A session.

I'll now hand over the call to Mr. Seth for his opening remarks. Over to you, Gautam, sir.

Gautam Seth

Thank you, Harshit. Good evening, everyone, and thank you for joining us for this earnings call of HPL Electric & Power to discuss the financial and operating performance for the financial year 21-22. At the outset, I hope all of you, your family and your loved ones are healthy, safe and sound.

To update you on our financial performance for the year 2021-22was better for the economy and the company. The economy is recovering quite well and moving towards the pre-COVID normal level, reflecting well on our business progress. I'm pleased to inform you that despite the COVID-led disruptions, global supply chain challenges, raw material inflation and other macro geopolitical factors causing both energy and put security crises globally during the year, HPL was still able to grow its revenue by 16% year-on-year to reach INR1,014 crore for the financial year 2021-22.

The company experienced good traction in all its business segments, causing our EBITDA to grow by 5% year-on-year for 2021-22 to reach INR125 crore. Despite this, our profit after tax declined marginally, mainly due to a tax increase due to changes in regulations. Consequently, our EBITDA margin contracted by 90 basis points, while our PAT margin contracted by 12 basis points.

Let's now look at our segment-wise performance. I am pleased to say that we experienced secular growth across all our business categories. The high performer for the year was our Wire and Cable segment, with solid revenue and volume growth by 72% year-on-year to reach INR 143 crore, though partially aided by a favourable commodity price. The performance of our Switchgear and Meter business also showed commendable characteristics. The Switchgear business grew by 28%, and the Meter business grew by about 7% in FY '22.

The business to customer, the B2C segment, also witnessed good traction for the fiscal period under review compared to the financial year 2021-22. Revenues from the B2C segment stood at INR672.6 crore in FY 22 compared to INR 549 crore in the previous year, registering an overall growth of 23%. Our export business also performed well and surged by 63% in Q4 and 48% in the complete year.

Regarding our near and long-term outlook for our business, we have a solid order book position at present, which gives us clear visibility for the near term. All our business segments are enjoying strong demand, and we are hopeful that the same will continue through FY 2022-23 as we get accustomed to a more normalized post-COVID era.

As a tool for the much-needed demand-side management and proper energy billing across our economy, smart meters are the lead runners within our portfolio for solid growth, with the government of India promoting such meters within DISCOMs with bigger through various support initiatives. As a key player in the smart meter segment, HPL expects to receive a fair share of this surge in demand from the public and private sectors.

With the buoyant economy of a vast aspiring middle-class population, the consumer segment will likely continue its growth in the coming quarters with prudent marketing strategies and an enhanced dealer and retail network. HPL is well-positioned to feed off this unstoppable growth. Given the better working capital cycle and margins in the consumer electrical business, we expect our overall working capital cycle and margins to improve as the consumer segment shares increases within our overall revenue.

We also enjoy a well-diversified portfolio of electrical equipment catering to various market segments. Adding to this segment, we plan to introduce more new products for the consumer segments. Naturally, we are highly optimistic about the long-term perspective of the consumer business, thereby improving consumer sentiment and a positive demand outlook.

I would request the Moderator to open the floor for Q&A on that positive note. Thank you.

Moderator The first question is from the line of Swati Jhunjhunwala with VT Capital.

Swati Jhunjhunwala Yes. Good afternoon, sir. I would like to ask you, out of the INR1,500 crore tenders for meters that we are expecting, how much do we expect to capture out of it? And secondly, can you give the CAPEX number for FY22, if possible, the bifurcation into the Metering and Switchgear and Lighting and Wire and Cable segment.

Gautam Seth Thank you, Swati. Yes, if you see the tenders which are currently being floated by the various state and the national DISCOMs, the size is roughly anywhere in excess of over INR1,500 crore. However, there is no formal market share analysis right now. Thus the overall smart meters are in a very nascent stage until the market segmentation or the market share can be determined, I would say historically if you look at HPL Electric has been enjoying over 20% to 25% market share in meters for many years now.

So, of course, we would look to take the maximum share as a company. But roughly going by the past, I think anything in excess of over 20% or 25% market share is something we should be looking at to come our way. We have, of course, participated in many tenders in the past and won a lot of them. And also, there are many which are under evaluation right now. So definitely, I think one can safely assume that we would continue to maintain our market share and then eventually grow it.

Now looking at the CAPEX, the overall Capex is about INR 30.72 crore in FY22.out of which INR 23 crore is for the Metering segment and the balance is for the other consumer electrical segments.

Swati Jhunjhunwala Okay. And the last question, sir, out of the INR 1,500 crore of tenders, can you give a bifurcation of smart meters with a conventional meter, if possible. Just a rough estimate?

Gautam Seth Yes. I could just give you a sense of it, that I would say almost you can say more than maybe 70% of them or even higher could be on the smart meters. So one has to understand that there have been a lot of tenders and inquiries which have been floating on the smart meters. But then the government, I think it's somewhere in the month of Feb and March, came out with certain guidelines, which are the DBFOT guidelines. And I think now they have been notified. But based on that, the evaluation process for the system integrators is currently underway.

Although the process is still ongoing at each of the utilities, the whole process would await the final evaluation of all the system integrators, which is happening through the REC under the RDSS scheme. In future, the majority of work is going to be on the smart meters for sure.

But just when we are seeing new certain regulations or certain new frameworks or policies coming out. So, they are obviously for the better, betterment to see that such a huge smart metering program is well rolled out. So that is what is happening.

So while this process is underway, there are times when old traditional meters tenders are coming out, which has even happened even in the last month, or certain orders are being given. So that would continue for some time until the complete process of change is undertaken and implemented at the ground level.

Swati Jhunjhunwala: Okay. Fine. Sir, just one last thing I wanted to clarify. We will only be working on supplying the smart meter, right? Like, we will not work on system integration. Is that assumption correct?

Gautam Seth: Yes. I would say, yes, that would be the way we will look forward and work on that. So, we would be primarily focused on the smart meters and the supply of smart meters and all the essential items even in some places on the IT infrastructure or the communications and others, which go along with the smart meters. So that's where our focus would be going forward.

Moderator: The next question is from the line of Rahul with R Consultancy.

Rahul: Sir, can you just throw some light on like the revenue guidance for the financial year 2022-23 and the financial year 2023-24?

Gautam Seth: Yes, sure. In the past seven quarters, we have seen good traction happening in the consumer electrical business. And almost every quarter, we have seen the growth coming in on a year-on-year basis. So going forward in the next two years, we do see the demand for our consumer electricals which is mainly the switchgear, the LED lighting, and wires. In these products, we continue to see the growth coming in. Specifically, in FY23, we do expect a much higher double-digit growth coming in from this segment.

The meters, of course, when you look at the opportunity, that is a far bigger opportunity. As I said earlier, the processes are still being reviewed by the government and being implemented. So maybe we see, in the very short-term, certain gaps coming in. But in the longer term, and especially when we look at the second half of the current year for FY23, we do expect the metering segment also to really pick up.

So, on the whole, if I have to give revenue guidance, I would say the scenario looks pretty positive. We expect good double-digit growth in the next year for the entire company. The consumer segment, I feel, will probably grow at a little faster pace. But eventually, when the rollout becomes much faster than smart meters, so at that time, the growth rates in the metering segment could be much, much higher. But overall, the scenario post the COVID is at a much better level.

Our sales in the last quarter, in Q4FY22, are probably the highest sales in the last eight quarters. So, I think we are well past the COVID times. Things are much better now. Of course, the market is always competitive, and the challenges, as I said earlier, are for the supply chain or chip shortages, especially whenever we look at any electronic manufacturing. So there are certain challenges which will, at least in the near term, will continue. Then there are also the other situations of, let's say, the war happening or other things. But keeping these aside or rather living with these things, we still see good growth coming in the current year for FY23. And I think overall, the next two years for entire of our business, including the meters, the overall growth, I would really believe that, would continue going ahead also.

Rahul: Okay, sir. Got a good idea of the forecast. Sir, my second question is like, how is the demand trajectory for smart meters going forward? Like can we expect a rising order or tender to be posted by the government for DISCOMs?

Gautam Seth: Yes. Yes, the demand trajectory, in fact, would be very high. When you look at it, especially if you look for a period on a medium-term, at least, let's say, the next three to five years, the demand would be very, very high, for sure. The way the government has gone about pushing the smart meters, I think every utility is more or less mandated today to go for smart meters in future. They are incentivized for that. Even the budget allocations, which have been happening for the entire process, are in place. The guidelines came a little late, but they have now been notified. Currently, the process of the empanelment and evaluation of the system integrators is underway. And once that is complete, I think the road is all clear for the implementation of the smart meter program under the new policy. So that would, in a way, lead to a huge demand coming in.

Even currently, when we look at the tender inquiries which are coming in terms of value, in terms of even the number of units to be put in, the demands are pretty great. So this is, I would say, as in there for a meter industry, it is something of a very unique and, I would say, like a golden time coming in future where, rather than just having a replacement happening for the meters, the government is now considering the complete revamp of the metering as such. So, every kind of meter which is currently under operation would eventually get changed, and that is how the government is envisaging. Although it will take time, it will take a lot of effort and a lot of money as well being put in by the government. But at least once, the process is already underway, and I think a lot of action is already visible on the field.

More time is taken to finalize these solutions because it's no more a product which the government is buying. It's more of a solution which needs to be implemented by the utilities. Once that happens, the time taken would be a little higher, but the values and in terms of the work to be done are going to be much, much larger. And I would expect that in the second half of the year, we definitely will see a much bigger action and much more tenders getting finalized and the demand coming in, in the market.

We are currently sitting on almost INR 337 crore of orders for meters alone. In the near future, while the bigger requirements are getting finalized, already the company has orders which can be supplied. This is only subject to one thing, and that is the chip shortages which is, in some way challenge, although the teams are working to ensure what best we can do to ensure the execution of these orders.

Rahul, So I've got an idea. Sir, the follow-up question is like, what is the expected size of the tender? If you can give some highlights on that.

Gautam Seth Okay, Yes. So, as I said earlier, also in totality, the values are going to be very large. We can say about INR1,500 crore or INR2,000 crore. That's still a very conservative estimate because there are single tenders coming out. Of course, they are with not only the smart meters but with the IT infrastructure with a complete installation, communication, and all the related services along with that. The values are very high as compared to that. But if you look at purely the smart meter component, the total orders, I would say in the near future, what is right now visible is definitely well above INR 1,500 crore or INR 2,000 crore. So safely, one can assume that right now.

Rahul Okay, sir. The last question from my side. Do we have any plans to increase the capacity for catering to the market demand? Or like do we feel that our current capacity would be enough?

Gautam Seth , For the meters or are we talking about all the products?

Unknown Analyst For all these products, actually, and particularly meter.

Gautam Seth Yes. But on the whole, I'll start with meters and then take up the other products. If you look at the overall capacity, it has already been added up, and we have sufficient capacity to take care of all the projections, what the government is talking about and internally what HPL Electric also has. We have been continuously just updating ourselves in terms of technology and in terms of our processes for manufacturing. And I think that holds quite similar, very true with even the other product verticals.

On a broader note, we are about 70% to 75% capacity utilization. And as I said earlier, also our performance in the Q4 was at the highest level in the last eight quarters. So at least, we are moving up the ladder in terms of our capacity utilization. But going forward, even if you look at the FY23 projections, what we are doing. So, I don't see any major capacity enhancements.

But in our entire product range, there is a lot of tooling required or certain maintenance CAPEX, which is always required to ensure that all the components and the other parts of it. So that will continue to happen. But as such, no major CAPEX, and we are fully ready to exploit the market expansion.

Moderator The next question is from the line of Vishal Kedia, an individual investor.

Vishal Kedia **,** Congratulations on the optimistic set of numbers that you all have posted. My question was in regards to cash flows, actually. So, if we see the money that is tied up in inventories and debtors, it is roughly INR 487 crore and INR 460 crore on a sale base of INR1,000 crore-odd. So we can roughly say it's 180 days each. Don't you think the numbers are a bit high? And is there any possibility of obsolete inventories or uncollectible receivables in that?

Gautam Seth Yes. So if you look at our debtor days, our debtor days have, in fact, come down by almost 31 days in the current year as compared to last year. And from 183 days, it's come down to about 152 days. So there has been something. So certain efforts have gone in to reduce the debtor days. While calculating on the debtor days, you must realize that the debtor amount does consider even the GST, which is included in that. So, in terms of that, we have seen a little improvement well above more than a month of debtor days coming down. In terms of inventory, it's just a marginal decrease of about six days of inventory, which has come down, although the turnover has gone up by 16%.

Now yes, as a company, we are aware of this, and we are working to reduce these to bring them to a much better level. Although if you see the net working capital has only gone up very marginally, only about 3% as compared to that, the turnover increase. This is how we look at the way our working capital management is. But overall, if you look at the debt-equity ratio is on, they're very comfortable at 0.75%.

Vishal Kedia Okay. But just like on the question of uncollectible receivables or obsolete inventories.

Gautam Seth They are well provided for. On a year-to-year basis, any obsolete inventory or even the debtors are well provided for in the books.

Vishal Kedia Okay, sir. And like, do we, in the future, see them coming down or is it a norm in the industry to maintain about 160 days of inventory? Is it a norm?

Gautam Seth In Certain parts of our business, especially the utility business, the debtor periods are high because the utilities have a much longer period of payments. So, there's a difference between the utility debtors and the consumer electric. So obviously, the consumer electricity is one area where we see a very good improvement in terms of the debtors. The utilities, we have said in the past also that they do have almost six months of debtor period cycle, and this is something because there are a lot of inspections, which happen even after the supplies go through before the payments are finally released. So that is the nature of business

If you look at the inventory, there are certain mismatches which we have been looking to bridge, mainly because of the supply chain constraints on the chips and the electronic items. So that there could be, at some period, certain unbalanced quantities. But as the chip supplies are coming in, the materials are getting produced and getting dispatched. So yes, these are, I would say, more of a temporary problem. But on a long-term basis, if you look at the last year, there has been a marked improvement, especially on the debtor days, and slightly on the inventory days. And we continue to look at certain improvements going forward in the current year as well.

Vishal Kedia Sure, Sir, this is a related question regarding cash flows themselves. So, as I can see, the cash flows from operating activities this year have been INR 93 crore and to the previous of INR 73 crore. And if I just try to do an analysis of where the cash goes away in the business, the majority of it, I see, has been eaten up by interest payments itself, which is INR 63 crore and INR 59 crore, respectively, for the two years. So, sir, do you think it is sustainable? If I look from the point of view of free cash flow for the equity shareholders, do you think it was sustainable to have INR 30 crore this year versus INR15 crore last year? Because you mentioned that there's a requirement for operation CAPEX in Q3, you might have other CAPEX. So, do you think it is sustainable? Or is the future guidance better?

Gautam Seth No, the future, you must realize that the last two years, the first quarter in each of the years was a one-off quarter where we had lockdowns. And if you look at the whole working for the first quarter and the nine months, so there is a marked difference between them. So, when the results, what you have, are comprising of the cumulative 12 months, there, of course, both the years, what you see in the results have those unusual quarters with them. But this year, we see much better work. COVID seems to be well behind us. So definitely, we would see an improvement happening in that.

Vishal Kedia Okay, sir. And just my last question. What is the weighted average cost of borrowing as a whole for the company on an average basis?

Gautam Seth No, I think it's a little below 10%. Our business, especially the utility business, has a lot of BGs and related costs. So the bank expenses also. Any charges also go into the interest calculation. So that's how they appear to be on a slightly higher side.

Vishal Kedia Is it a rough ballpark? Because there seems to be around INR 60 odd crore of interest expense on INR 500 crore borrowing base. It roughly, I think, comes up to 12%.

Gautam Seth That's what I said. That includes even the expenses like you have the charges and the BG charges because Our business involves a lot of non-fund limit utilization as well. So those costs also get into the interest, which is not based on the fund borrowing.

Moderator The next question is from the line of Swati Jhunjhunwala with VT Capital.

Swati Jhunjhunwala Yes. I just had one small question. What is the average realization from the smart meters that we get? And what EBITDA margin are we targeting?

Gautam Seth Yes. The average realization depends upon the specification of the smart meter and the scope of work. So it's probably very difficult to give a single figure in terms of what that would be. But if you look at the traditional meter, what was there, and the current smart meters, definitely it's on the higher side. So, there are smart meters which are going well above 3,000-4,000. Even some unit realizations clubbed with the IT infrastructure or the communication or even with the services can even go up to 5.5 or even 7,000. So, it depends. It's very difficult to give a single figure which would be relatable. But with the more value-added items which are added along with the smart meters, the unit rate would definitely differ.

And it also depends upon how the financing would be or what is the term of the entire implementation. So these are the factors which will determine the unit cost.

Swati Jhunjhunwala Okay, sir. And what EBITDA margin do we target in smart meters?

Gautam Seth I would say somewhere on the higher side. Right now, the meter is around anywhere between 16% to 19%. But I think when the entire smart meters come in, it should be definitely higher. Right now, what is playing on the cost is definitely the cost of the electronics because the procurement is still a minor challenge on that. Then the chip shortages are there, which again entails a little higher cost. I believe we should be much better now as we go forward in the next couple of months. But overall, if the current EBITDA is, let's say, around maybe 15% to 17%, going forward, we definitely would see a rise in the thing. It could be anywhere between 18% to 20%. I would say that is a sense looking at the current cost as well.

Moderator The next question is from the line of Monica Arora with Galaxy Investment.

Monica Arora So I wanted to know about your current tender status. And what all are you targeting? Are there any new states in the coming years, or can you throw some light on that?

Gautam Seth Yes. Currently, the tenders are in a pretty healthy situation. I would say, practically, every state is currently working on the smart meter tenders. Now there could be some which are already out or some which could be due to come out. That is it. Overall, the flow is at a good level and with some minor gaps, what is happening. We definitely would see the tenders coming out in a much bigger way, and even the finalization is happening post the evaluation of the system integrators that is currently underway. So that will be one thing.

But in terms of reaching out to the geographies, as HPL Electric, for the last almost two decades, we have been supplying to practically every state in the country. And so I think our business model and the way we are well spread, we would continue to look at the Pan-India requirements, including the central government agencies, to supply our smart meters.

Monica Arora Yes. So, in addition to that question, how do you see your export business potential? And do you think that your R&D is aiding you in the, especially when I talk about this, the export market?

Gautam Seth Yes. Our export market has seen good growth in the year. In fact, in the fourth quarter, we have seen almost 60% growth. On the whole, in the current year, we have seen a 48% growth. But this growth has been happening for the past two years now. And this is despite the COVID, which has affected many of our countries or many of even our dealers who have been operating in the overseas markets.

Right now, we see this trend continue. There has been a strong demand and a strong inquiry base coming in. There are, I would say, many customers across the globe who are looking at India as a favourable destination to source their requirements for switchgear and other related products. So our focus at HPL Electric also is to give a big focus on the export market. Now to achieve this, we have, in the last two years, taken multiple steps.

Thanks to the strong R&D, what we have, our products, and what we were operating in the Indian market are readily acceptable in the export market. So that has been a big startup for us and a very positive thing. But we have also worked a lot on the certifications. Many certifications in terms of our MCB, RCCBs are already done in terms of QIMA, and the CB certification, which probably gives us access to over 53 countries. But even a lot of other products are right now underway.

So this is, of course, going to be a more ongoing exercise. But as and when this is happening, this will give us much more leverage we can get in the export market with respect to exports of our products. So, this is where our focus is. And we have also, after two and a half years, in fact, participated in our first exhibition in March in Dubai. And I think the response was pretty good.

In fact, probably one of the best responses in the last five to seven years, what we have got. And from tomorrow, our teams are going to Hanover, Germany, where again, from Monday onwards, there is a fair. So as a company, our focus definitely is going to be on export, and we feel that that's a market which till now we probably didn't focus on so much, but since the last two years, we have been focusing and the numbers are also showing here.

Moderator The next question is from the line of Anshul Shah with Alpha Plus.

Anshul Shah My question was regarding your margins, as they are under pressure. I think that's largely due to raw material cost increase. So, I want to understand the recent disruption in China and supply chains. So, what components get affected for you?

Gautam Seth We've seen the commodity prices almost rising continuously for the last, at least, 18 months. They have been on an upward trend, and that would cover copper, which is, of course, an important ingredient in switchgear and wires and other items. All the metals have been going higher, including industrial plastic, polycarbonate, and packing materials. Practically everything has been increasing f the past some time. Now only in the last three weeks, we have seen certain stabilization or certain products coming down, but that could maybe be on a temporary basis because of the shutdown and what China has done to the two major cities and the ports. But overall, there has been a disruption in terms of the supply chain. As I said earlier also, the chip shortage has been playing out. To some extent, the electronic components have been like that.

So there has been definitely an increase. If you look at our business, almost 65% of our business is today the non-utility business. So in some way or the other, with a lag, we have been able to pass on at least a major part of the increases that are happening. But due to the lag of certain parts, which probably cannot get passed on because of the competitive scenario or we also need to see how the prices of competitors are also on how they are operating in the market. So that has probably resulted in the gross margin or the EBITDA coming down to some level. As I said, in the last three to four weeks, we have seen certain cooling down of the metals and the industry plastics also. So, I just hope that maybe this continues for maybe at least one or two months on a short way. So that would probably help us to balance out the margin in some way. So that is how it is.

But needless to say, of course, these were something which is global phenomena. So, it's not specific to India, but it's across the globe. What our teams have been working on is we have worked out a lot of alternative sourcing during these times. We have also worked on the meters or even in certain other products, quick changes in the design based on the availability or the cost of the components because that can be done when one has a strong R&D. So that is what we have done on that. So, whatever we could do to mitigate the cost going up, we have done that. As a strategy also, we have gone in for a lot of change in the product mix while we are pushing in the market. So that also has been done, keeping in view the overall margins or the unit margins and how they would affect the cumulative margins.

So, of course, the challenges are there on a global basis. But I think as a company, we have fairly done well just to ensure that, in some way, the margins are not so much depth or somewhere we are maintaining those margins going forward. And I'm sure beyond some time. We may see the commodities cool off. So, if that happens, then definitely, I think we have passed the worst challenges and probably would be over from now. That's how we look at it.

Anshul Shah

That's helpful. I also wanted to understand, since 35% of our business is with utilities, do we have any price escalation built-in into the contracts? Or do we have to take all the hits on things that we have taken the orders for?

Gautam Seth

No, there is no price escalation as far as the tenders of the government are concerned. So that does not happen, I believe, for almost all the products that the governments are tendering out. But what we do is that the prices have been going up steadily over the last 18 months. So much of our tender visibility is normally at three to four months. So roughly when the costs have been going up, the subsequent quoting for the similar products. And in fact, even getting the orders for the similar products over the last 18 months, there are already certain changes which are happening. So as and when the costs have been going up, the future tenders, what have been coming, have been coming at a much higher price. So that's how it is.

And then based on the global trends and the certain studies, what we are access to, we definitely, even while we are tendering, we also look at what the future cost would be if the tender would be opened in maybe in the two or three months time. So certain evaluations, we do like that. So, it's not that everything is at an old rate, and the tenders are coming out. So gradually, over the last 18 months or two years, the prices being quoted have increased, and I would say, substantially in certain of the products.

And now, as I was saying, with certain -- most of the commodities cooling off in the last one month. So, these are certain sweet spots which come out, which can help us probably enhance our margin on a short basis. If this continues for maybe even just two to three months, that can really help us. But that's, again, it's something we are not sure of, but that's how the scenario is.

Anshul Shah

So can we assume margin guidance of what we are doing currently in the quarter, say, approximately 14% going forward for FY23?

Gautam Seth We are still living in very uncertain times. If you have to predict the EBITDA margin for the next 12 months, I would say if I have to give a particular figure, it would be a little lower than 14% for sure. Although, as a company, we definitely will look to see the maximum EBITDA and what we can achieve. But anywhere between, I think, 12.5% to 13.5% is somewhere safer. It depends on the product mix. Right now, on a consistent basis, the non-utility business has been outperforming, and it's almost at 60% to 65%. In fact, Q4 was probably around. I would say, around 69%, the non-utility. So that has been growing. I think if a similar trend remains, yes, then maybe we could see the EBITDA margins go up.

But you also have to realize that even with the cooling off in the last month, the exchange has also moved up in an unfavourable manner. So that again has a direct impact on the commodities because most of the commodities you get in India in terms of even copper or even polycarbonate or industrial plastics, more or less the key components are pegged on a dollar basis. So, I would say that's something for the entire industry. That cost has to be borne by them. So these are the things. But overall, I would say, please assume somewhere between 12.5% to 13.5% as a long-term EBITDA for the year.

Anshul Shah So, amongst our segments, I think the maximum margins would be from the Switchgear segment?

Gautam Seth Yes, that's right.

Anshul Shah So, can you give us some light on what kind of growth are we expecting in that particular segment? And does that also have like the retail? I mean, the B2C switchgear that is doing well? Or are the larger switchgear that goes for larger projects that are doing well? Or do those have higher margins?

Gautam Seth Yes. So I'll give you a sense of that. Broadly, the switchgear is going through the trade. So, I would say almost the entire sales are happening through the trade normally, and only very few customers, which are all very big groups or something, maybe some of them could be taken directly. Now we classify this entire business as a more B2C business. And here, we have been able to pass on the costs which have gone up. In fact, I think, on 1st June, we have an implementation of newer costs going up across our switchgear division. So somewhere, the margins, despite the raw material input costs going up, we have still been able to maintain the margins decently. But as a category, overall, switchgear has a good margin, and we would hope to even probably improve our margins as we go forward.

Anshul Shah If I can squeeze in one more question. If we see our trade receivables and inventory, they are close to about INR 1,000 crore, which is what our top line is. So I wanted to understand, even for the B2C segment, do we have to keep these high inventories? And why is our collection efficiency not improving for the B2C segment, which is like 65% of our revenues?

Gautam Seth No. I would say that if you look at the collections of the B2C business, that has seen a marked growth in the last couple of years. In terms of the number of days, there has been a reduction. And now we are well below 100 days of collection. I would say, even our channel financing has not picked up at a much better speed.

So I think within this year, we are looking at a much higher turnover coming in all through the channel financing. And as that happens much more, definitely, these days will come down much further. So internally, although you see the combined figure, internally, when you look at it, since the last two years, we have seen the numbers in terms of the B2C business showing a marked improvement in collections here.

And I would just like to add that by the end of March 2023, by that time, we would get at least in that business. We are looking to come to almost what the industry standards are. We hope to reach those levels this year as well.

Anshul Shah Correct, sir. So if I may ask, then if our days are approximately 140 days or 150 days and 100 days are for the B2C segment, which is like 65% of your business. So, for the B2B business, which is the utilities, that means that days are above 200 days?

Gautam Seth Yes. I need to work out the maths. I don't have the figure right now, but I'm aware of one thing, overall, we are around 153 days, and the non-utility is well below 100, yes, at least the consumer electrical part. So I can just -- what I can do, I can just ask them to gather up the figures and probably share with you the actual numbers.

Anshul Shah Sure, On the inventories, if you could shed some light. I mean, as we have many SKUs, do we have to keep higher inventories for the B2B?

Gautam Seth Yes. We have a large range of products for sure. We do keep a certain amount of inventories close to the point of sales. So, we could just come on the last part bit again, please?

Anshul Shah Yes. So, my question was on the inventories. Why do we have to keep higher inventories?

Gautam Seth If you see our inventories, more than 60% is for the utilities. That's more on the meters. But the balances cover the entire segment of wires, switchgear and the lighting. We have inventories across the country just to give a ready delivery in terms of the CNF operations we have. So that is how we are maintaining. But in terms of the business, what we have, probably it's about maybe INR180 crore to INR 200 crore of inventory. What could be there for the non-utility of a business of almost over INR 800 crore, which is on the gross level, yes?

Anshul Shah Correct, sir. So, as I can understand, I think our non-utility business is doing quite well. But I think the metering business is kind of a drag in terms of receivable days, in terms of inventory, as well as on the margin front.

Gautam Seth No, I would not fully agree with that. The margins in the utility business are pretty good, and they are set to improve in terms once the smart meters are coming in a big way. Now the only thing currently is in terms of the orders. Our execution could have been much stronger had the electronics and the chip shortage not been around. So there, we would have seen a much better execution. And once that happens, that has a direct bearing on the margins because at least the fixed costs and other things are already covered in the ongoing process. So that is how it is. So, I think both businesses have their own positives and certain challenges, which are always there in that. So yes, we have seen certain improvements happening in the consumer business, and I think by this year itself, we hope with the growth coming in, much better balance sheet ratios would definitely come out there.

As I said earlier, the opportunities are very large, and with the new business models coming in, the terms of suppliers to system integrators, there again, we would be seeing a complete revamp in terms of the payment cycle. And I think that will prove to be a very big positive for HPL Electric in the short future.

Anshul Shah Yes. I think that is one point which could improve the situation. Sir, might I ask, you said that there are about INR 1,500 crore worth of tenders, and we have a market share of approximately 25%. So, our opportunity size of that would be approximately INR 400 crore for the next year? Prima facie.

Gautam Seth So obviously, I think since the last decade, we have been maintaining a market share of over 20% to 25%, somewhere in between. But although I said there are no formal studies, we do have a sense of how the market is going and what kind of orders we are getting. So, we definitely would look to take the market share like that. When you look at the tenders which are coming out, there are tenders from single utilities, but this is, again, with the complete system integration and others. So values are well over INR 1,500 crore, even from a single utility. So overall, the market, what we are talking about, the addressable market for the entire smart meters and the system integration is, as the government is putting it, is over INR1 lakh crore. So, it's going to be a huge upside with stronger system integrators coming in place.

As I said sometime back, the payment mechanism is also going to change, and that will be, again, something of a big game-changer for the company in terms of even the working capital and the cash flow. And we do hope as things get better off the ground, things will definitely improve.

Moderator: The next question is from the line of Neha Sharma, an individual investor.

Neha Sharma: Yes. Sir, congratulations on a good set of numbers. I just had a few questions. The first one is, what is the advertisement and marketing percentage to sales?

Gautam Seth: Yes. Yes. In terms of almost, I would say, in the last two years, it is about anywhere between 2% to 2.5% of the turnover. So last year, we have probably done almost INR 26 crore of advertising and business promotion. So, it comes up to be about 2.5%. But even the last year was almost about 2%. It's somewhere in that band.

Neha Sharma: Okay. Okay. And sir, one more. Did the company take any price hikes for any products to mitigate the rising raw material prices?

Gautam Seth: Yes, we have taken that. It depends on the product category. Like in wires, I would say, in the last 12 to 14 months, there could have been almost 8 to 10 increases. In fact, some months, we have seen almost a monthly increase happening, and maybe a 3% to 5% increase is happening. So definitely, there have been a lot of increases which have been happening, and they've been getting passed on as well.

If you look at switchgear, I think in the last 14 to 15 months, we have seen three increases happening. But LED, we have not seen much increase happening, and that's, I would say, other than a few products getting increased. That is mainly because of the competitive scenario. The way it is, I think the entire industry is not really passing on those costs there. But there, we have different strategies. Our focus on changing the product mix has been very strong, and so our push on Consumer Luminous has really gained momentum.

In the last year, we have seen a big revamp in the product mix. And again, this year also, we have larger plans for that. So, the products which are very little less than low on margins, we are currently not being pushed so much, although that might be necessary to maintain in the product basket.

So, there have been opportunities in the consumer electrical business to push the pass on the pricing wherever required. As I said earlier also, there is always a time lag between the costs going up and the prices getting passed on. So that has definitely resulted in the margins coming low. And many times, maybe based on the competitive index, it's not easier to just pass on the whole cost. So certain cost gets passed on, and certain ones get absorbed by us.

And then because we are very well backward integrated, we have our R&D. We have our manufacturing processes. So, we are also looking at how we can change the certain design, going for much more economical models. So, there has been a continuous product development changing on that, just to make sure that the costs are not hitting us. So that's in meters. On the pending models, the costs do not get passed on immediately. But future tenders, the new tenders will come out, and those costs are built-in the future quarter.

But you must also understand that despite the cost going up, many times when the orders come in, the critical components are all booked and fixed with the suppliers. So even if the implementation of that order may take, let's say, eight months or one year, certain critical components are booked at the rate at which when the orders came in. So that also saves us from the hikes happening subsequently.

So, I would say, looking at the performance, we have been able to maintain the EBITDA and the cash PAT at the levels the earlier levels despite a very volatile commodity scenario. Of course, it took a 16% increase in the revenues to do that. But overall, I would say satisfactorily, we have been able to maintain that, in fact, grow certain of our ratios.

Neha Sharma: Do we have any plans to engage with the brand ambassador for higher visibility and penetration?

Gautam Seth No, not immediately. Although we have a much stronger strategy now since post-Covid, we are seeing the markets really open up. So, we will be looking to engage in the brand building in a bigger way, not through a brand ambassador. We would do it through the various activities in the market or even certain more visible advertising to focus on our products and the future. So that's how we look at it. But it's not for any brand ambassador for the brand.

Neha Sharma Okay. Okay. And one more, sir. What is the delivery time for the smart meters post getting orders which are in the pipeline?

Gautam Seth Delivery time would depend upon the various models and the scope of work. Because if we are giving complete supplies that entail the IT infrastructure or the communication, the software and everything, then the supply could be at a much faster time. But many times, we need to integrate with the software of the utilities or other things. So that may take much longer time.

But generally, there will be two factors which need to be done. One, what I just discussed. The other is also the procurement of the components, which in today's time are a challenge which one has to take in time, the lead time and even the supply situation, what is there. But roughly, I would say at least it takes three months to really get started off on any order. And even from the utility because one has to do a certain part of integration and testing before the rollout can happen.

Neha Sharma Okay. And sir, one last question. Can you give us a fair idea about your debt and equity structure? So, are we planning to raise any debt in the coming years?

Gautam Seth No. I think even if you look at the past year, despite the 16% growth, 0Our working capital debt has not gone up. So, I don't see any debt going up. In fact, we are looking at a good double-digit growth in the current year as well. And with almost a similar debt or down the line, we will look to even try to reduce that as we have a much more efficient way of working or is it more business coming in from the consumer electrical business. So that's how we look at it.

Moderator The last question is from the line of Rahul with R Consultancy.

Rahul So my question is, can you state the current market share in the Smart Meter segment? And as a company, what measures we are taking to increase its market share in the coming years?

Gautam Seth Yes. As I said, there is no formal analysis of the market share done right now. Plus, since only it's effectively just about one or one and a half years where the smart meters are gaining up. So, to do a study right now would be a little futile because right now, the business is growing, and the market shares are as well. As and when business would happen, that's when the market shares will get settled. But roughly, as I said earlier also, our market share has been traditionally anywhere between 20% to 25%. And that is how we anticipate keeping that and growing the market share area.

In terms of increasing it, yes, I think our preparedness can help in improving our market share. We have the entire product range of smart meters, which are ready, which are well tested. In fact, we are already executing certain large orders in the market with certain utilities and prestigious private customers. So that readiness in terms of our manpower, R&D production lines, everything is ready. With the government also now giving a very big focus on smart meters, I think overall, it should add up to a very good scenario for the smart meters, and as a company, we are fully ready to exploit it.

Now there are very limited players right now who are able to compete at that level because smart meters are a play of high technology again, coupled with the execution skills, what are there. So definitely, we are there among the top 2, 3 companies to exploit that. So our endeavour definitely will be to enhance our market share as we go forward.

Unknown Analyst Okay. And my second question is, sir, like how you're mitigating the global supply-related chip shortages.

Gautam Seth We have entered into a very long-term procurement for the chips. We are already sitting on orders, which have a visibility of the next, let's say, six to nine months of sales, so that we are booking on that. We are also aware of the various tenders which are there and what specifications are currently underway. So, our contracts for the chips are on a long-term basis, some even covered with advance payments and other things.

Now, based on what the global shortages are, there have been delays in shipments, and these are, again, very large multinational companies who are doing it. But overall, we are looking to cover our requirements well in advance. But as we see the capacities, which are set to go up globally post the second half of the current year, that is where we will see the supply side being much larger and then the overall to meet the demand. That is how that should help us in better execution in the second half of the year.

Unknown Analyst Okay, sir. And my final question, what is the main reason for the momentum we gained in the B2C segment? And is it going to sustain like in the coming quarters also?

Gautam Seth Well, mainly, I would say, renewed focus, what we have given on the channel development that has been a major factor. We have also been working on a better mapping of the secondary sales. So today, we have a separate set of the sales force, which works on a beat plan where we are able to use technology, we are able to monitor the complete movement of secondary goods, what is happening from our dealers and distributors.

So in a way, it has been a different way of working. Our focus has also been on focusing on a renewed product mix under each of our product verticals. So overall, the brand building, the dealer incentives, whatever we have done so, that has really helped us. –Since April, again this year, we have put in a strong plan for the current year, and we do hope to see good growth across all the product lines in the current year.

Moderator As there are no further questions, I would now like to hand the conference over to Mr. Harshit Kapadia from Elara Securities for closing comments.

Harshit Kapadia Yes. Thank you, Jacob. We would like to thank Mr Gautam Seth for giving us an opportunity to host this call. We also like to thank all investors and analysts for joining this call.

Any closing remarks, Gautam, sir, you would want to share with investors?

Gautam Seth Yes, I'd just like to say that at HPL Electric, we are determined to be a progressive company that will pursue growth by making sound decisions and choices that positively impact all stakeholders. And we are constantly working towards a more transparent and sustainable business and intend to create more wealth for the stakeholders.

So, I thank you all for joining us on this call. Please reach out to Dickenson or us directly should you have any further queries. So, I wish you all a great evening. Please stay safe, and thank you very much. We can now close the call here. Thank you.

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