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2nd March, 2020

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

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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 12th February, 2020 made by the company about the Conference Call scheduled for Investors/Analysts on Wednesday, 19th February, 2020 at 12:00 Noon 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 Q3 FY2020 Earnings Conference Call"

February 19, 2020

ANALYST: **MR. HARSHIT KAPADIA - ELARA SECURITIES INDIA PRIVATE LIMITED**

MANAGEMENT: **MR. GAUTAM SETH - JOINT MANAGING DIRECTOR - HPL ELECTRIC AND POWER LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the HPL Electric & Power Private Limited Q3 FY2020 Earnings Conference call hosted by Elara Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. The discussion today may include some forward-looking statements, and this must be reviewed or considered in conjunction with the risks associated with the industry in general and our business in the particular space. I now hand the conference over to Mr. Harshit Kapadia from Elara Securities. Thank you and over to you Sir!

Harshit Kapadia: Thanks, Aysha. Good afternoon everyone. On behalf of Elara Securities, we welcome you all for the Q3 FY2020 and 9M FY2020 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. We will begin the call with a brief overview by the management followed by Q&A session. I will now handover the call to Mr. Seth for his opening remarks. Over to you Sir!

Gautam Seth: Thank you Harshit. Good afternoon everyone, and a very warm welcome to all of you present on the call to discuss HPL's financial results for the third quarter and nine months of the financial year 2020. Our performance during the third quarter of FY2020 was marked by a growth in lighting and meters businesses along with improved overall profitability. Higher contribution from the metering business supported by cost optimization measures helped us in delivering higher EBITDA and net profit despite the decline in overall revenues. Notwithstanding, the subdued performance of the switchgear business, which was impacted by the weak demand in real estate, government, and infrastructure segments.

All of our other three segments meters, lighting, and wires performed fairly well, considering the overall slowdown in the macro economy. Meter business reported modest growth in revenue and EBIT in Q3 FY2020. Performance in the segment would have been much better, but for the delay in dispatches due to pending DIs from the utility. In a major positive boost for the sector, various state electricity boards have begun gearing themselves to replace conventional meters with prepaid smart meters. This is inline with the central government initiative of installing 25 Crores prepaid smart meters within the next 3 years.

This renewed thrust by the government is a major step in the right direction and can be a game changer for the industry as it opens up a huge cumulative opportunity size of between Rs 60,000 to Rs 90,000 Crores for prominent meter suppliers like HPL Electric. We expect to see the positive impact of this in the form of high revenues and improved realization per meters in the next 3 to 5 years starting from the second quarter of the next year onwards. The lighting segment continues to witness healthy growth momentum in Q3 FY2020, led by network expansion, offering a wide range of new products to consumers and effective branding initiatives. Given the prevailing headwinds impacting the sector, such a positive performance by this division validates the strength of our brand and the quality of the products in this category. We expect this robust performance to continue going forward.

During the Q2 FY2020 earnings call, we highlighted about increasing the prices of our products in the wires and cable segments. I am happy to say that despite lower revenues, our strategy to increase prices yielded better realization in the segment. As the ramp up happens, we expect the segment to deliver even better performance going ahead. We have been regularly launching new products to be more competitive and yield better realizations. Our R&D team has been continuously working on the new product development to address customer needs, and due to their successful efforts, we have been able to launch over 25 new products mainly in the switchgears and also in metering and lighting categories, which were demonstrated during Elecrama exhibition held recently in Delhi.

We believe that HPL is poised for its next leg of growth led by the smart meter initiative and a healthy growth in the B2C segments in the medium to long-term. Out of the current order book of Rs 370 Crores of which the meter business has an order book of over Rs 300 Crores. This healthy order book, along with the robust enquiry base of meter tenders, provides revenue visibility for the near term. In the B2C business, we aim to drive healthy growth through a combination of retailer network expansion, product innovation, and effective branding strategy. Furthermore, the Government's plan of spending over Rs 100 Lakh Crores on infrastructure and allied industries over the next 5 years, as announced in the recent budget, is expected to support demand for HPL switchgears and other products.

With this, I would now like to open the floor for Q&A.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Ketan Mehta from Alliance Advisory. Please go ahead.

Ketan Mehta: Good afternoon. Sir, in your opening remarks, you have mentioned about the smart meters, how the market is gaining pace. So just wanted to understand how things are moving on the ground, and are there any orders forthcoming from the electricity boards?

Gautam Seth: Yes, if you see the government has been actively talking about the smart meters for a couple of months now with this new initiative of installing 25 Crores prepaid smart meters in the next three years, and this has been reiterated many times now by the government in various forums. At the ground level, because I will take you back to about three, four years ago when the government was very keen on the smart meters, we found that in terms of the preparedness to come out with the smart meters and install them there was definitely a gap, which we found in the earlier time. Now, when you see the renewed effort, which has come up a couple of months back, I would say the government has made a lot of effort, there have been multiple interactions, the standards are in place, the BIS marks are there. EESL was earlier driving the complete smart meters program, you know the first three tenders what came out, there were not successful, and they did not achieve the purpose that the government was talking about and this was primarily because of certain terms and conditions, which we felt were not conducive in the long-term and that is why we also refrained from participating in certain of those tenders. But, now, just looking at then the specifications, pre-qualifications terms, the next tenders that are there with EESL and also the state level tenders, which are coming out by various utilities, I would say the preparedness and the approach is much better. So, going forward and in-line with what the government is talking about, we as HPL Electric, see a huge potential in the smart meters and just to give you the sense of certain numbers, the government themselves are projecting this to be an opportunity in the next three years of even going beyond Rs 60,000 Crores and if you take with related services that will come along with that and other things this can even go much higher. Now, may be the three-years is very ambitious, and these three years could extend even to be four, five, or a little beyond that. Still, despite that, the meter industry is set to at least double up the way we look at it.

Coming on the ground level, we are seeing a lot of enquires, and a lot of the future enquiries that are coming out are now all on the smart meters. There is a lot of talk in the utilities as well about the next tenders or the future requirements which are all going to be regarding the smart meters. So at the ground level definitely the preparedness is there and that is why in my opening remarks also I said that we would expect to see the benefit of the smart meters in terms of higher revenues coming in from the second quarter of FY21 onwards. Further, HPL is ready in terms of the technology, preparedness, and capacity to cater to the smart meter demand. As we go ahead, we see a good environment for the smart meter initiative to take-off, unlike 3-4 years ago, so we are quite hopeful going forward.

Ketan Mehta: It sounds good. Taking this question forward on the meter segment, what is our present realization in the conventional meter segment?

Gautam Seth: I do not think I can give a single figure, because within the meters segment itself there are many different types, for instance, we supply the utilities with single phase meters, three phase meters, there are already certain smart meters or even smarter meters, prepaid meters going to various utilities and then as a company at least about 10% to 15% of our meter revenue also goes into the trade where we are catering to the specific requirements of various contractors, which are dealing in typically the infra segment and then on the retail side where the sub-meter requirements come up Apart from the utility metering, we are also into panel meter solutions where again we have the single parameter and the multiple function meters. So, in short, a meter could range from about Rs.600 to Rs.700, and a single meter can also cost up to Rs.10,000 to Rs.15,000. But we have been taking Rs.900 to Rs.1000 as the average/benchmark rate, but when we are looking at smart meters, the realizations will definitely be much higher. ,

Ketan Mehta: So, talking about ahead, what can the company expect in terms of realization in smart meters going forward?

Gautam Seth: It is difficult to say because these are determined by competitive bidding, and what I am emphasizing is that the overall environment for the competitive biding is expected to be much more mature now, unlike 3-4 years ago. So, going forward with the new pre-qualification in place we would expect a much more mature competition, although it is going to be very competitive, no doubt because the volumes are very large but most likely it may be in the range of Rs 2,500 to Rs 3,500 depending again on the various specifications, which the various utilities choose to tender out. So eventually it would depend upon the final specifications, but definitely, the realizations will be much higher than the conventional meters and since the per unit realization is higher, we are likely to see better profitability as we stand to gain from better overhead or fixed cost absorption

Ketan Mehta: Last couple of questions, what is our current capacity utilization?

Gautam Seth: Current capacity utilization for the third quarter was around 65% to 70%. As we move forward, we would definitely have a lot of room to grow with the existing infrastructure that we have in meters.

Ketan Mehta: So, where can we expect the company to end up FY2021 in terms of capacity utilization as you mentioned we have a long room to grow?

Gautam Seth: I would say next year is going to be a very interesting one or rather if you go back almost two decades every 5 years there have been certain changes in technology and when a new technology comes in definitely certain things do change. When we look at next year, it is going to be very interesting as we will find the smart meters actually getting established and getting supplied and implemented. May be in the interim period when there is a shift in demand from the regular conventional electronic meters to the smart meters, we may see certain erratic volumes of business because you know when people are shifting, and we saw this in 2016 when the government was very keen to shift to the smart meters. Since there were a lot of gaps and the proper homework was not done, it disrupted the volumes to a large extent, and that year we witnessed almost the industry going down by 30% and eventually instead of the smart meters coming in there was a resumption of the conventional electronic meters.

Although, we are still having over Rs 300 Crores orders and a healthy level of order enquiries in Q4 and the Q1 of next year, but still there may be some disruption in terms of volume, but after that looking at Q2 and then going beyond that I would say we should be hitting 100% capacity utilization and then probably looking to up that based on the existing infrastructure wherein we can look at having certain non-critical parts of manufacturing being outsourced, and other such measures may be required in the second half in case we have to meet the enormous volumes as demanded by the government. So, we are just hopeful about that, but as we get more clarity on it going forward on how the tenders are coming and the speed at which they are getting finalized, that would change the entire momentum.

Ketan Mehta: Sure, that is all from my side. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Viral Shah from Prabhudas Lilladher. Please go ahead.

Viral Shah: Thank you for the opportunity. Sir, why has our inventory days been going up for so many years, so can you give me some color on that?

Gautam Seth: If you see in the short-term, our inventories have been a little higher. Even last time we spoke that we need to take certain specific steps on the trade business. So, we have taken certain steps and going forward, we will see the inventory days coming down. On the utility side, on a very short-term basis, there has been a postponement of lift-up from certain utilities, and that has impacted us, but that I would believe this is temporary and a short-term phenomenon. A couple of years back, the inventory remained high because we did not have the CNF model, and we were operating more on an offline system. But now we have our CNF in place. Also, we have significantly expanded our range of products in the last six months, we have launched a lot of new products, and the same were also recently demonstrated at Elecrama. We have expanded our range, especially in lighting and switchgear, to counter the slow down, so that has again contributed to inventory going up. Further on the metering side, we need to maintain a large amount of inventory as off late in the last couple of quarters, we have seen a lot of delays happening in getting the delivery instructions. So these are some reasons why inventory has been on the higher side. But, yes, we are aware of it, and we also believe that as a company, we need to rationalize our inventory. If you see the net working capital, that has been more or less still maintained, and our debtors on the trade have come down. But, yes, there is definitely a scope for improvement, and as a company, we are looking into that.

Viral Shah: Sir, in terms of switchgear, what do you think is the outlook for the segment going forward?

Gautam Seth: In the B2B part of the switchgear, which is typically the government orders for the infrastructure segment, we have seen a lot of drop in volumes there. Otherwise, on the trade side, if you see which typically goes into the redistribution where we are supplying through our distributors and then going through the retailers, there the volumes are still intact. In the last two years the government came up with a lot of schemes and projects especially the last mile connectivity where 4 Crores households were electrified, so a lot of our volumes on switchgear especially the MCBs and switches were absorbed into those projects, but right now we are not seeing any demand coming in for almost the last months since when the elections took place, we have not seen any volumes resume. With the recent announcement that the government has made on the Rs 100 lakh crores expected to be invested into infrastructure projects and also and I think just last week the government had formed the committee for again evaluating what the next level of distribution reform should be, so I expect that in the coming months we would again see the demand to improve. To counter this, we have expanded in the lighting segment in a bigger way in terms of channel sales and dealer, retailer network. Similarly now we are pushing the switchgear and switches into that. So, going forward, we would see the growth in those volumes, but in the immediate future, in Q4, we don't see significant improvement. Nonetheless, sequentially we have still done a little better, and from next year onwards as we are working on diversifying our customer portfolio much more as we hope to be de-risk the segment more by catering to different customer segments and once the government spending also picks up, although this will contribute may be just 20% to 30% of our switchgear sales, but that also should see a good increase going forward.

Viral Shah: In terms of distribution segment when you look at, what is the difference in terms of margin when you look at versus government or infra players getting the contracts, so that is huge or it is at par?

Gautam Seth: No, the segments in distribution would definitely have a little better than the unit margins that we have in the government segment. Although the volumes in government segments are much larger, typically if you see the switchgears, unlike meters the government does not directly tender them, so if there is a project let us say IPDS or what we had earlier in Deen Dayal Upadhyaya Grameen Kaushalya Yojana, so those kinds of projects are contracted to certain big private players, who subcontracted, and then the demand comes in from dealers.

So although they are competitive because these are repeat buyers, they have good knowledge about the competition and everything, and because of our relationship and the kind of credentials that our products have, we stand a good chance for getting orders there. Just to remind you, if you see when the Deen Dayal Upadhyaya Grameen Kaushalya Yojana and the Last Mile Connectivity were being implemented, we were the only company in the country where all the eight products required could be supplied by us because each household had a single phase meter, it had a double pole MCB, there was enclosure, switch socket, there was an angular holder for the bulb and then the LED bulb and wires, so each of these products could be supplied by us, so in such cases, the volumes were very high, but the unit margins were little less. Our aim is to reach out to various customers and maintain a balanced product mix and segment mix, to achieve healthy blended margins. So, although the volumes were lower, our EBIT margins have remained intact at around 18%, so I would say these are still good margins. As the volumes pickup, we can even go up to 19% to 20% levels.

Viral Shah: Lastly, on the liquidity front in terms of working capital and payments from clients, how are you facing, and what is the situation out there, so if you could throw some light on that?

Gautam Seth: I assume you are talking on the B2C business, the trade business?

Viral Shah: Yes, on the B2C business.

Gautam Seth: If you see the in the overall market sentiment or the liquidity position in the trade market, that has been affected due to challenging macro-environment. Nevertheless, if you see for the past couple of years and then quarter wise, we have actually improved our debtor days in the trade which stand at around 90 days now. The reasons behind this that we came up with channel financing, and then we put in a very strong internal discipline for collections, and there have been a lot of efforts on effective implementation of this in the last couple of years. So during this time we have reduced our debtor days from 120-130 days to around 90 days now despite the tough market conditions had the market not changed from let us say from an average market to a bad market, our figures would have been much better. In fact even right now actually the demand is not a problem, there is a lot of demand coming in, but we are still being selective and supplying in the channel based on the payment terms and higher expected recovery rather than taking a short-term view for just hitting higher sales and then again, spoiling our debtor days. So, there we are very conscious, and I think our process and systems are very much in place. Going forward for the next year, again, we have lined up many more dealers to come into channel financing, and we have been much more forceful with our channels regarding that, and that is something that needs to happen to bring in better financial discipline. As we see the market pickup, which probably should happen sometime next year, depending on how the government policies are implemented, I think we can bring down our debtor days in the trade market even more.

Moderator: Thank you. The next question is from the line of Anurag Patil from Roha Asset Management. Please go ahead.

Anurag Patil: Thank you for the opportunity, Sir. So, next year in the second half once this smart metering volumes kick in, what kind of margins we can expect?

Gautam Seth: At present, our margins are around 15% to 16%. Overall once the revenue from smart meters starts flowing in, we do expect the margins to really go up, yes, so I cannot probably give a figure whether it could be 18%, 20% or even going beyond that, but definitely, it is something which would go up. Now, we need to see, because the way the new tenders come out now, this I would say is the second phase of tendering, because the first phase did not actually go the way the government wanted, so I would say the moment two or three tenders are out and we see one or two quarters of the implementation happening then I think we would be in better position to give a more specific guidance. But broadly looking at the way the business is, the way the technology is much more high-end and with competition being a little more restricted, so definitely the margins will go up.

Anurag Patil: Sir, can you tell me the current total debt as of now?

Gautam Seth: On the net basis, the debt stands at Rs 496 Crores.

Anurag Patil: Thank you very much. That's it from my side.

Gautam Seth: Just to add on that, our debt equity ratio has been maintained currently at 0.76, which is almost in-line with what we had in March.

Anurag Patil: Thank you.

Moderator: Thank you. The next question is from the line of Praveen Sahay from Edelweiss. Please go ahead.

Praveen Sahay: Sir, thank you for taking my question. First, in your order book, you had mentioned in lighting you have an order book of nearly Rs 57 Crores odd, can you give some details of this order book?

Gautam Seth: Out of this Rs 57 Crores, roughly I would say about may be Rs 10 Crores to Rs 15 Crores is purely from the trade, so these include 2 project orders and a large part of this would get executed in Q4 with some spilling over in Q1 of next year. In terms of our revenue, if you see in the last couple of years, majority of the sale has been through the trade itself, so we have been refraining from doing business in EESL, so even these orders are more from the private players, not from EESL

Praveen Sahay: So, basically, these are related to some projects, but you are going to supply with trade for these projects?

Gautam Seth: Yes, I would say they are more institutional

Praveen Sahay: But, you are going to supply directly, or through trade, you are going to supply?

Gautam Seth: I get what you are saying, they are not pure government orders, so they are more on the private market.

Praveen Sahay: Lastly Sir, for the last nine months, definitely in the last question you had given once the smart meter order will come and the margin will improve with that, but in the last 9 months I can see there is some deterioration in the metering margin, so what is the reason for that?

Gautam Seth: If you see the meter margin in 9MFY19 was 14.5%, and now in 9MFY20, it is 15.1%. So, it has gone up I think you are referring to the wrong figure.

Praveen Sahay: Yes.

Gautam Seth: Just on the last quarter, it has gone up to 16%, but we expect this to even go further up even in the conventional side, and off-course, once the smart meters kick in it can go up more

Praveen Sahay: Great, Sir. Thank you. Thanks a lot for taking my question and all the best.

Moderator: Thank you. The next question is from the line of Dhruv Muchhal from HDFC Mutual Fund. Please go ahead.

Dhruv Muchhal: Sir, is it possible to split the working capital days between the utility and the non-utility sector?

Gautam Seth: Yes, surely. So, considering GST, debtors' days for utility are at 159 days, and non-utility is 95 days and on an average that comes to 131 days.

Dhruv Muchhal: And inventory?

Gautam Seth: Inventory, I think I do not have the figures right away, I will have it shared through the IR for this.

Dhruv Muchhal: Sure, but is it right to assume most of the inventory will be for meters?

Gautam Seth: Yes, we can safely assume that.

Dhruv Muchhal: And what has been the reduction due to channel financing over the last two years in non-utilities??

Gautam Seth: It has come down from 125-130 days a few years back years to around 95 days now. In fact in, December 2018, this even came down to 85 days, but roughly when we look at it, we have reached one benchmark of about 90 days on an average, and going forward, we are looking to bring it down to at least 75 days. Of course, the market during this time has not been so conducive because today, in the flow of money from the retailer to the dealer to the distributor there are definitely certain pain points, but our efforts on are on, and we are confident that going forward because we are looking at much higher enrolment of channel financing coming in even in the first quarter of next year, so that will also help us to some extent and also we can be hopeful that if the market turns around and the demand picks up, and the liquidity position also improves a little bit, which may may happen in the first or second quarter also, that will again help us to bring our debtor days down, but definitely our next target would be to get it to down closer to 75 days.

Dhruv Muchhal: So, your receivable days declined because of the channel financing, but in view of that what you provide to the dealers, I mean do you offer the product at a lower margin because you are paying upfront or is it a largely neutral exercise for us on P&L basis??

Gautam Seth: No, I will just explain to you how this model works. Typically channel financing comes with a cash discount. Now, what happens is these cash discounts are otherwise available even on open credits, so a dealer has an option that he is paying up as advance or even in 7 days or 30 days, so that is normally just a little small incentive over the normal interest rates. In channel financing, what happens is again, they get a cash discount, so he has an incentive to pay quicker, only thing is the way it is structured it brings in better discipline because between ourselves and the dealer where we do share a great relationship, a bank is involved and typically with the bank involved the whole thing becomes much more structured, so that is why if you see most of the companies on the trade side are now looking at channel financing because it is a very effective tool to do that. You must realize one thing that, eventhough we are going for channel financing, there is some percentage of recourse, which is coming in because we have just started channel financing about one and half years to two years back. The moment recourse comes in those numbers are shown in the debtors even if the money comes in, so this we have clarified even earlier also in our earlier earnings calls, as our channel financing is aging and we are becoming much better, and banks are seeing a good performance by the dealers eventually going forward the entire program would become without recourse to us because banks were seeing the kind of business even they are getting and the moment that happens a lot of debtors days gets removed from our balance sheet, so if you compare with even other people who have been following the channel financing model for much longer they probably are not giving the kind of recourse what we may be giving, so there is a certain percentage, it is not 100% recourse what we are giving, but nevertheless that percentage even if the money comes in is shown as the debtors, which adversely affects the ratios when you look at it.

Dhruv Muchhal: Sir, second question was on the smart meters, now the government has been talking a lot about meters even before the budget and after the budget. But are there any live tenders and if no then what is holding it back as per your interaction with the people on the ground, what is holding back any new tenders?

Gautam Seth: I believe the tenders are already there. There are tenders from the state utility and even the currently tenders are happening through EESL, so there are requirements, there are tenders happening. Earlier what I said was that whenever we see a change in technology, there may be an interim period where we might see certain gaps because the smart meter, unlike the other meters, is not just a purchase of an equipment, it does involve integrating it into a system, so when we see a new technology come in there would be a lot of learning experience for the utility even at their level because it is a change in the technology, change in the mindset of working, but in future operationally you will find that it is much better for the utility. From the central government's standpoint, right after the elections, they have been very clear and they have in fact openly gone on the record to say that the earlier schemes of reducing the losses were not successful and that installation of smart meters is one sure way of reducing those losses by the utilities, so definitely it is in their program. So right now, there are tenders, and there are a lot of enquiries and talks happening where they are framing up the new specifications, so we should see a lot of tenders coming out, but, yes, may be one quarter here and there, there could be interim time required, which may see certain erratic business. In the case of HPL Electric, we already have pending orders and revenue visibility for at least two quarters of meter business plus we have a large amount of trade business for meters also, which comes in, thanks to our other verticals, which are very much trade dominant. Therefore we have a very strong trade network, and that entire network has an open access to buying the meters from our meter division, so definitely at least for the next two quarters we are well covered, and in the meantime, I think that is sufficient time to see a lot of new tenders come out, a lot of learning experience for the equipment manufacturers and the utility happening and once that happens by the second quarter of next year if the tenders get decided then that can really help the industry and it can open up a whole new growth area for us in a very big way.

Dhruv Muchhal: Sure, just a quick follow up, as you mentioned, smart meters also involves integration, so if you would also be doing the integration that will be a complete package or it will be done by someone else?

Gautam Seth: No, again, it depends upon like earlier when the first 3 tenders came out by the EESL, in fact, I think they wanted the supply to be independent of the implementation, so again, it would depend upon the way utility structures it and the way the government wants it. But either way as a company we are prepared for both the scenarios, so it may involve certain kind of off-shoring or partnering with people to get the entire structure up and running, but I think from a capability point of view, the industry is pretty ready for implementation of this and so are the utilities as well, because they have had a sufficient time of three to four years, so they have also been updating themselves on how they want it.

Dhruv Muchhal: Sure, thank you so much.

Moderator: Thank you. The next question is from the line of Rishit Shah from Dhanki Securities. Please go ahead.

Rishit Shah: Good afternoon, Sir. A couple of questions, out of the current order book of Rs 300 Crores is in the metering, does it involve any orders for smart meters?

Gautam Seth: Yes, I think there are some orders, although in value terms, it is not very large, but there are orders of smart meters within this order book.

Rishit Shah: Secondly, regarding the smart meters, so basically, as we see, the current capacity of electric meters that you have is around 11 million meters per annum, right?

Gautam Seth: That is right, yes.

Rishit Shah: So, basically, is it completely fungible for smart meters as well or is there any reduction in the capacity that we would have?

Gautam Seth: No, the entire capacity that we have for the regular conventional meters can be shifted to smart meters in volume terms. In fact, this calculation is done based on when you see the entire process of meters it involves 10 to 12 different processes; you have the moldings, then you have the electronic manufacturing, different sub-stages and couple of those sub-stages have also been calculated on a singe shift or two shifts depending upon the way we have seen the progress over the last couple of years. But if the need is, let us say enormously high, the way the government is talking, then we can definitely scale up without much capex within the existing infrastructure. Further, in case of smart meters apart from the volumes, in value terms it will be much higher, so let us say for 1 lakh meters made in the conventional and 1 lakh meters made for the smart meters, more or less the effort is the same, the technologies and the kind of components and PCBs and other software used are very different, but the effort and the physical infrastructure required is pretty much the same as far as the volumes are concerned.

Rishit Shah: One more thing regarding basically the prospective orders in smart meters, so how would the mix be from EESL and state utilities, anything on that?

Gautam Seth: Probably, I am not the right person to comment on that, but if you see, the government in the last 6-8 months has been talking quite a lot on that. In the budget, they have actually allocated over Rs 20,000 Crores for the power and renewable energy sector, and I would believe a lot it is for the smart meters. Further, even separately I think certain funds have been created for the smart meters, now this I would believe will happen in two ways, one the government doing the procurement directly like in EESL what they are doing, but either way, I don't see them to be doing the entire procurement themselves and then distributing to various states because the states have already moved ahead on that, the government has also talked about certain incentives what they would get based on achieving certain parameters where they would get more funding for the smart meters. So, I think it is going to be a mix of the states coming out with their smart meter tenders funded again by the central government, and the EESL also continuing to buy that. Now, how the mix would be for that frankly we need to see how the tenders come out, and only then will we be able to comment on it.

Rishit Shah: Just a quick follow up on this, so basically is there any significant difference in the working capital, the receivable days between SEBs and EESL?

Gautam Seth: Although, we have not done much business in the last two years or so now in EESL, but I would say initially or earlier when the EESL started-off, the payments were much better, but what I believe now because we are not directly doing it, but I believe at least on the lighting part, there have been certain delays in the payments from the EESL. I still believe on the meter part, which is of course very small in EESL that the payments are still good, so we need to see how this thing is structured out, but if there is specific funding happening by the government, then I think that should be a good back up because if the government is really looking to put up the 25 Crores meters in three years or even five years, that will require a huge amount of money to be spent. So, for that, I think they will have to have a strong backing of funds, but otherwise, the project and integration would not come on the ground definitely.

Rishit Shah: Right, thank you so much, Sir.

Moderator: Thank you. The next question is from the line of Amit Khanna from AK Capital. Please go ahead.

Amit Khanna: Thanks for taking my question. So, my question is on the wires and cable segment where we have changed the strategy to increase the prices in last quarter. So, I just wanted to check how that has been played in this quarter and what do we expect in the short, medium and long term in this segment?

Gautam Seth: Amit, if you look at the wire and cables business that is still a very small business at just 6% of our overall revenues, but we have done certain corrections on the pricing, and we feel as we go on, in the short and medium term we are keen to improve our margins, we are also again looking to get into the trade segment in a bigger way, and we have seen some positive results in the last three to four months. So, going forward, I would see this segment becoming much larger; we need it to be at least 10% to 15% of the overall revenue, so for us, as HPL each of our product verticals is very important to us. We could see some very short-term pain here as we are expanding and establishing our pricing, but on a medium term basis, I believe we would see the volumes going up in the next year. So, that is something which we are focused on, and I am sure down the line in the next two to three quarters, you will see certain positive results in the wire segment.

Amit Khanna: Can you give us some margin guidance for this segment for the short and medium term?

Gautam Seth: Amit, it is a little difficult to say, our margin right now is very low, so for us definitely from may be 4% plus something, even if we go to 6% to 7%, for us that is a good improvement. But I think be next time may we will try to put in some figures for the next year on what kind of margins we can have. But definitely, we hope to see volume growth, and we are also trying to add new customers or pushing the product more aggressively to our trade channels because right now even internally what we have seen is that a lot of our existing retailers, so we have network of almost 27,000 retailers and I would say very small percentage was still using our wires, so internally also we have a large scope. Further, we are also putting in a new program starting from April, where in the next two to three years, we are looking to extend our retail network from 27,000 to almost 100,000 retailers. So I would say margins may go up from 4% to 6-7%, but I think more specifically, as the volumes grow and we are able to sustain the current realizations, then I think just as an outcome of that only you will see the margins going up.

Amit Khanna: And how much incremental revenue are you expecting by increase in the retailers from 27,000 to 100,000?

Gautam Seth: So, as discussed in the opening remarks, we are looking to grow our B2C business, and we do definitely see a big scope for that. So from a fundamental standpoint, once the program gets underway, with the growth in the number of retailers, the B2C revenue is going to go up significantly in the next 2-3 years, but I cannot quantify on that at the moment. We would see the benefit of this in all 4 of our verticals in the trade segment, and they will see higher growth. Also, as we see the network becoming larger and then with the better monitoring because we are trying to put in certain apps where we can get the entire retail network better mapped and directly connected with the company, of course, the supplies happen through our dealers and distributors, but once that happens then we will be able to monitor the secondary market in a better manner, and that will eventually help all the products whether they are wires, switches, MCBs or LED lighting, so all of them to really grow in the market.

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

Harshit Kapadia: Sir, I have few questions, first is in one of the conference calls, one of the OEMs have mentioned that they are going to do the entire range of production for lighting products for HPL Electric, are we going become asset light in the lighting business is that how management looks at this business now?

Gautam Seth: Yes, so actually we have 100s of SKUs (each individual product) in lighting, so I think about three or four of them have been outsourced, these products although little larger in volume, I would say within our range are not so critical. And so we felt that it was better to outsource them so we could focus our manufacturing infrastructure more on higher-end products, which gives us a better contribution and also better control over their quality while the lower-end products could be outsourced, so definitely, this strategy is right. Of course, but yes, we are talking about 3 to 4 SKUs only and not the entire range because the entire LED range is very large, it has 100s of SKUs.

Harshit Kapadia: When you say three to four SKUs, would they be a part of LED bulbs?

Gautam Seth: Yes, we are talking only about the LED bulbs and may be certain patterns and stuff like that but on specific ratings

Harshit Kapadia: Just continuing on the lighting segment, have we seen that the price erosion in the LED lighting segment has now been over or we are still seeing some sort of decline presently?

Gautam Seth: Over the years, we have seen a continuous decline in the pricing, and then correspondingly, the costs have also come down, and I would say last year we thought we reached the peak. But now the declines that you see are more competitive in nature, So, we have also put in our centralized procurement, and we have seen certain savings coming out, so sometimes there are competitive pressures to pass the cost savings on. Our lighting segment has been doing fairly well, and even going ahead we do see a good performance in Q4 as well.

Harshit Kapadia: Just to know more on this metering segment side, you have mentioned some of the state utilities are going for tendering in the smart meter. Could you highlight, which state utilities are very active in this smart meter tendering segment at this point in time?

Gautam Seth: You know the specific tenders I would not be able to disclose to you in terms of what the utilities have actually come up with as that is more of a competitive information. But broadly if you see almost every utility is today talking about it, or they have taken some specific actions, and they are mandated by the government to do that. So it is not like it is their choice that they are doing it or somebody is not doing it, the government has clearly mandated it, and I would say almost every state utility is on board. So, now based on their own requirements because some of them have recently given out big tenders on the conventional side, you will always find that there will be like some states that are tendering early with regards to smart meters and some would probably release tenders down the line as and when they require it. But in terms of the move to go towards smart meters, I would say it is unanimous, and you will find everybody working on it.

Harshit Kapadia: Sir, on this China thing where because of this virus lot of supply disruption is expected, so what is the portion of our imports from China, and do you see any threat to the supply chain for us?

Gautam Seth: Yes, so in terms of threat, what we have worked out is at least till the end of Q4 we do not find any immediate impact happening, and to some extent, we have been a little higher on the inventory side also as we have discussed earlier. So, somewhere at least till Q4, we do not see an immediate impact. Now, if this prolongs or goes on for a longer period, then definitely a certain impact will start coming in. In the LED business broadly we are into complete manufacturing, but a lot of components especially the electronic components and certain parts are coming in from China and even the global companies whether they are the US or Taiwan, Korean or Singapore companies even they have a lot of their manufacturing base in China, so definitely certain disruption is expected. Also earlier we we were talking on the pricing, I think it is the first time in so many years we that would be expecting the prices to go up and in fact, if you go through today's paper and even the news yesterday, the lighting manufacturer association has said that the prices from March and April would be going up almost 10%, so this is happening because one, with regards to the availability, immediately we do not find an issue, but if it prolongs then definitely from April, May onwards somewhere the supply chain would get disrupted and even if alternate suppliers come up, which most likely it would happen then the pricing may go up may be 5%, 7%, 10%. So looking at that even we are expected to increase our pricing, we have already informed our teams and dealers that they need to gear up for a price increase in March, which of course, would happen for the first time I think in the last five years. We are also evaluating this situation closely, we are in touch with our suppliers right now, and yes, the suppliers from China are not able to deliver for obvious reasons every one is aware of that, and we do hope that this issue gets sorted out soon.

Harshit Kapadia: What portion is the import content for you?

Gautam Seth: If you look at the LED segment, we do a lot of the manufacturing, but the base material eventually whether directly or indirectly ends up from China, but if you see the figures given by Elcoma, they talk about almost 50% of material the LED bulb coming directly or indirectly from China, as China is very competitive. But if you analyze it, there are alternate suppliers as well with countries like Vietnam and Korea and others that can also supply, obviously the pricing may be different. India in the last two to three years has really come up very well in the manufacturing yet the core components because India does not have electronic manufacturing, even we do not make IC, so any electronic company in India whether it is LED light or even the televisions or mobile phones the dependence on China or global manufacturers having factories in China remains quite high, so from that point of view in the first quarter one needs to see whether certain disruptions may happen or raw material price increases may come in, luckily in the trade segment, if there is any price increase happening. then with a gap of one month or so, at least that can be passed on, and we already are seeing a certain price increase to get passed on in March itself to the consumers.

Harshit Kapadia: Any other segment apart from lighting, which could be impacted because of China?

Gautam Seth: To some extent in meters because, if you look at the mechanical parts, even the plastics, polycarbonate, and everything else is locally very well available, but wherever the electronic parts are involved there, they may be an impact. Our teams have already been working on what is the possible impact or what is the alternative strategy to address these kinds of problems, so I think the efforts are on, but the issue is a very short-term one. But yes, if it prolongs, then it will, to some extent, impact the supply chain.

Harshit Kapadia: Thank you.

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

Harshit Kapadia: Thanks, Aysha. We want to thank Mr. Gautam Seth for allowing us to host this call. We also thank all the investors and the analysts for joining this call. Any last comment, Sir.

Gautam Seth: It was a great interaction we had. To conclude, I would like to reiterate that we are quite optimistic about the growth prospects, especially on the smart meters front, as we expect that to gain pace going forward. Furthermore, we also strongly believe that our B2C business will see better traction going forward led by the initiatives taken by the company and supported gradually by the economic revival. With this, we firmly believe that HPL is poised for the next leg of growth and to create sustainable value for our shareholders. I thank all of you for joining us on this call and wish you a great day ahead. Thank you.

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