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21st August, 2021

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Listing Department,
National Stock Exchange of India Ltd.
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Mumbai – 400 051
Symbol: HPL

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Dalal Street, Fort,
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Scrip Code: 540136

Subject: Transcript of Conference Call with the Investors/Analysts

Dear Sir

This is with reference to the intimation dated 11th August, 2021 made by the company about the Conference Call scheduled for Investors/Analysts on Monday, 16th August, 2021 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
Q1 FY2022 Earnings Conference Call"

August 16, 2021

MANAGEMENT:	**MR. GAUTAM SETH - JOINT MANAGING DIRECTOR - HPL ELECTRIC & POWER LIMITED** **MR. MANOJ DUGAR – CHIEF FINANCIAL OFFICER - HPL ELECTRIC & POWER LIMITED**
ANALYST:	**MR. HARSHIT KAPADIA - ELARA SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the conference call of Q1 FY2022 results for HPL Electric & Power Limited hosted by Elara Securities India Private Limited. I would like to highlight that certain statements made or discussed on the conference call today will be forward-looking statements and a disclaimer to this effect has been included in the results presentation shared with you earlier. Results documents are available in the company's website and have been uploaded on the stock exchanges. A transcript of this call will also be made available on the investors section on the company website. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Harshit Kapadia from Elara Securities. Thank you and over to you!

Harshit Kapadia: Thank you Zaid. Good evening everyone. On behalf of Elara Securities, we welcome you all for the Q1 FY2022 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 along with him CFO, Mr. Manoj Dugar. We will begin the call with a brief overview by the management followed by Q&A session. I will now handover the call to Gautam Sir for his opening remarks. Over to you Sir!

Gautam Seth: Thank you Harshit. Good evening everyone and thank you for joining us on this earning call of HPL Electric & Power to discuss the financial and operating performance for the first quarter of FY22. At the outset, I hope all of you and your family and loved ones are healthy, safe and sound

To give you an update on our operations, post easing of the second wave of COVID-19 in July 2021, we are now witnessing healthy traction in Q2 FY22 across all our segments and are confident of delivering robust performance going ahead. Strong pickup in meter dispatches and increase in demand in the consumer segment will augur for the current financial year 2022.

Our performance for the first quarter of FY22 was heavily impacted by the lockdown and the COVID-19 led disruptions. Notwithstanding the lockdown and COVID-19 disruption revenue, EBITDA, and net profit in Q1 FY22 would have been substantially higher.

The Company's revenue for the first quarter registered a growth of 34% year-on-year to Rs. 129 Crores as compared to the corresponding quarter last year though on a lower base. EBITDA grew by 48% year-on-year to Rs.9.8 Crores during the quarter with an EBITDA margin of 7.6%. The cost reduction initiatives helped us to restrict the cash loss for the quarter below Rs.6 Crores despite facing this unprecedented disruption.

Discussing our segment wise performance, the momentum gained in metering business during Q4 FY21 was halted by the second wave of COVID restrictions and lockdown resulting in lower inspection and dispatches. The metering business registered revenue of Rs. 49 Crores in the first quarter, thereby growing at 40% year-on-year as compared to Q1 FY21. The inspection and enquiries have started gaining traction in the current quarter and we believe this momentum to continue for the entire year.

The consumer segment performance too remained muted during Q1 FY22 due to the extended nationwide lockdown. However, the revenue on a year-on-year basis grew by 34% to Rs. 87 Crores. As the economic conditions gradually improved post the easing of the lockdown, the consumer segment saw a decent uptick in Q2 FY22.

Now, to give you an outlook for the rest of the financial year 2022, at present we have a robust order book of Rs. 685 Crores which ensures strong revenue visibility for the year ahead. This is underpinned by the commencement of the execution of Rs. 372 Crores order backed for the housing project in Andhra Pradesh, for switchgear, wires, and other related accessories. Additionally, the Company has Rs. 100 Crores plus smart meter orders which are to be executed in the coming quarters. Furthermore, we are continuously evaluating and bidding for metering tenders floated or are in the pipeline and are quite optimistic in winning few orders in the near term.

We expect to benefit from the huge unfolding of the smart meter opportunity with the Central Government earmarking Rs. 225 billion towards the installation of 25 Crores smart prepaid meters pan India, under the Rs. 3 lakh Crores power distribution scheme. The Central Government tabled Electricity Bill 2021 aims to de-license power distribution. This move is expected to bring a level playing field for the private entities, thereby empowering consumers to engage their preferred choice of service provider from multiple players. This competition will enable improvement in the distribution services which is likely to benefit metering players including HPL. We are eying to tap the larger pie of the smart metering space as the industry is transforming from conventional meters to smart meters.

We have a well-defined portfolio of electrical equipment catering to various market demands. The Company is planning to enter new products in the consumer segment. We are extremely positive on the long-term perspective of the consumer business led by improving consumer sentiments due to the rapid pace of nationwide vaccination drive, the onset of festive season, continuous introduction of new products, improving business and economic activities backed by renewed government's focus towards the revival of the infrastructure sector.

Our leverage and liquidity profile continues to remain comfortable, and we continue to maintain the low capex stance as we have desired capacity for future growth. HPL is well prepared to surpass the short-term hurdles and looks forward to capitalize on the enormous potential that smart meter offers going ahead.

On the consumer business front, as well we expect to see a healthy traction over the coming months led by our diverse product portfolio, thrust on R&D, state of the art technology, capacity, and strong distribution base. On that positive note, I would request the operator to open the floor for Q&A.

Moderator: Thank you very much, Sir. We will now begin the question-and-answer session. The first question is from the line of Harish Shah from HS Investments. Please go ahead.

Harish Shah: Thanks for the opportunity. We understand that Q1FY22 was a bit disrupted because of COVID related disruptions but had these events not been there, could we replicate our Q4FY21 performance in both segments?

Gautam Seth: Thank you Harish. Had this disruption not been there, our initial target in Q1FY22 was to replicate the Q4FY21 performance. If you recall, our Q4 performance across all the segments was satisfying. The sales were at the highest level as compared to the last eight quarters and we did see good traction and dispatches to the utility. Our meter was roughly around Rs. 140 Crores but even otherwise all the consumer products had seen a good high double digit growth. Going forward from the momentum which picked up from Q2, Q3 and Q4 we finally saw some good business coming in. We were looking ahead to replicate the Q4FY21 performance. However, Q1FY22 was a tough quarter marred by lockdown when one looks at the business cycle. So, historically our Q4 is normally the highest and Q1 is a slightly weaker quarter and unfortunately, we got hit by the lockdowns. So definitely, I would say it is a one off quarter where we saw the business fall down but again starting from July and August, we have seen the tractions coming back across all the lines whether it is in the utility business as well as the consumer business.

Harish Shah: A couple of follow up questions on the same lines. So how do you see the current inspection and the dispatches momentum and how is the traction in the utility segment, Can we expect this to improve from going ahead?

Gautam Seth: Yes, the enquiries are at a very good level both for the conventional meters as well as the smart meters. We have seen smart meter tenders coming out from a lot of state utilities as well as from the central government. So, in terms of enquiry, it would approximate to more than Rs. 2,500 Crores that is at a high level. There are a lot of tenders which are now getting into the finalization stage and HPL Electric is well placed in many of them. We have passed a lot of technical evaluations and in couple of them, we are also L1. Hence, we do expect good business coming forward, also the order book is at a decent level at around Rs. 282 Crores. We can expect good revenue visibility at least in the next 4 to 5 months. The dispatches and inspection picking up from the utilities is picking up in Q2FY22. and even going forward, we expect the same momentum to continue.

Harish Shah: One last question and I will be back in the queue for follow up. Can you just guide us what would be the inspection and demand for the smart meters, how does the order book stands going forward?

Gautam Seth: Currently, if you look at the order book, it is at over Rs. 100 Crores for the smart meter component. However, an interesting development is that of the overall tenders what are there and currently in which we have also participated, I can roughly estimate the figure to be anywhere in excess of over Rs. 1,500 Crores, the tenders what we have participated in the smart meter segment. Technologies are changing at a rapid pace. The Central Government has mandated to use the prepaid smart meter, so eventually going forward we will see a lot of shift in the usage pattern of how metering is done. We will see the absorption of smart meters is going to come in a big way, so that is very encouraging for us. Apart from that, the Government has provided Rs. 22,500 Crores for the smart meter so apart from those 25 Crores meters coming in, there are midterm targets set by the government on a quantity basis. The funding is also coming through, so overall if you look at it and plus Rs. 3 lakh Crores package for Discoms. Among the three major parts where the spending needs to happen to curtail the distribution losses, smart meter is one of the big components, so overall the government's push on smart meter and the funds allocated towards the same is going to really help the smart meters in a big way. We are seeing single tenders by utilities going in excess of Rs. 200 Crores to Rs. 400 Crores, so in terms of overall business size the meter industry is definitely seeing positive momentum. During the last 6 months, if you look at the way the tenders are coming out that seems to be very positive, so the question you asked me on the share of smart meter business can be anywhere between one-third or even half of it over a period of time. However. going ahead the smart meter component will become much larger and eventually the industry is going to change. Now there are two other things, I would like to add, one in lot of installations especially in rural areas and other the government will continue with conventional metering, so even that is right now gaining good traction and for some time at least in the near future that will also continue although the smart meters will really grow at a much faster pace. You must realize the overall shift to smart meters is basically from a product driven technology to more of a solution driven. So, the smart meter entails a complete package, there is installation, software integration, etc. involved which gives us a new dimension where a lot of new streams of revenues can be generated on the additional services going ahead. It is going to be a shift in the way the revenues are going to come in the metering segment and also in terms of the margins where we would see a certain shifts happening on a positive side where a lot of additional services on maintenance and other things which would keep accruing over the years so that will also be a positive going forward.

Harish Shah: Thanks for your detailed answer. I will be back in the queue for follow up.

Moderator: The next question is from the line of Vinod Sabnis from Sabnis Investments. Please go ahead.

Vinod Sabnis: Good evening management. Hope everybody is safe from COVID. I just have two questions, the first one is can you just give some guidance on the sustainable EBITDA margin because I believe this quarter was again an aberration. So, the numbers for this quarter may not be extrapolated for the full year. As for the current business scenario, what is the visibility you have on the EBITDA front?

Gautam Seth: Thank you Vinod. On a sustainable basis, the EBITDA margin would be anywhere between 12% and 13%. Of course, this looks at the way traditionally the business has been going on. However, when we look at certain opportunities in the smart meter, it could have an incremental effect on the smart meter EBIT margins on the overall meter margins and if that were to happen the way things are in a couple of coming quarters then we would definitely see the overall EBITDA of the company go well beyond 13%.

Vinod Sabnis: Just to add here do we have any export agreements on the contract currently which may also be a bit high margin business?

Gautam Seth: In exports, we are selling currently to about 42 countries although our base is small. If you look at our export broadly from last two years, we have started seeing export growth coming in. You have to realize that when one approaches any international market, there is a lot of preparations in terms of doing local testing, complying with the individual country standards and making certain adjustments on the product because of the local requirement. Just like India needs a BIS, it needs certain preparation. So, we have spent a lot of time in the past couple of years doing the preparation to enter lot of countries and thanks to our R&D and the technology what our products have and overall with the IT standards, we are able to comply with that. Now coming back to your question, we are supplying into a lot of distribution markets across Africa, across the Middle East, South East Asia primarily so we have been seeing certain good tractions over the last quarters. Last year we have seen almost 70% growth, again on a lower base but this year also we see an equivalent amount of growth. Even our first quarter has been like this. The pending orders have been good, so they are typically long-term contracts. These are the orders which our teams are fetching for different products from various dealers and customers across the globe. Our focus is on that. We are not doing any government or utility business in overseas and it is basically focused on the private trade market which I believe would be good. So, exports have a steady margin. The working capital requirements are much lower. The payments are secured and much better so there are definitely certain advantages and this also gives a way to fill up our capacities in the market. So, on a medium or long-term basis, we see exports to be really going well. Overall, I think the momentum has picked up which we see across this year and the next year despite the COVID disruptions.

Vinod Sabnis: My next question is on the balance sheet aspects, so if you could just give us the current debt level on our books because I believe for the last few quarters that we are trying to reduce our debt and interest cost which can give a boost to the bottom line that if you could provide some more details on that?

Gautam Seth: Our current net borrowing is around Rs. 499 Crores although this still remains at a little higher level. If you look at the year-on-year basis, there has been a reduction of almost 18 Crores. In fact, if you look at in the last year, almost three quarter there has been a reduction on debt level but overall, yes we do expect the business come back in the second quarter. Although, I do not see the debt going down immediately on an absolute number at least the business is expected to grow from here on with the same amount of debt. On the consumer product and the consumer business, there of course we have been successfully able to bring down the debtor days. We do have certain targets where we should be able to bring it down further maybe streamline the operations in a better way which could result in the debt coming down.

Vinod Sabnis: Okay Sir that is all for now. Thank you so much.

Moderator: Thank you. The next question is from the line of Urmi Jain from Sequent Investments. Please go ahead.

Urmi Jain: Good evening Sir and thank you for taking my question. My first question is what is the maximum revenue capacity that we can achieve with the existing capacity for the coming two years and I believe we are not incurring any major capex and you are also planning to add new products in the lighting segment, so could you quantify the amount spent on that?

Gautam Seth: Thank you Ms. Jain. Broadly, the capex has been done including for the smart meter. In terms of the capacity, revenue wise, we can easily look at a business of easily about maybe Rs. 1,500 Crores plus in the next two, three years with the same amount of capex. We will only have the maintenance capex mainly the tools would keep continuing because these are more perishable items in industrial manufacturing but roughly, we do see a good upside on the sales front with our existing capex. Coming to the lighting, if you look at the past three to four quarters, we have been continuously launching a lot of new products mainly in the consumer segments. Even during this first quarter where the overall business was low and the lockdowns were there, our team has put in a lot of effort to come out with newer products, so that is something that we will continue to do even in the next quarters. Right now, looking at the festive season and a lot of new products are coming out which will give us an incremental sale. It may be a little difficult to define the exact revenue what can come through this because looking at the consumer pattern, looking at the way the lifestyles are a lot of new products are coming, certain old products are getting phased out as well which are being replaced. One thing for sure is that with these new products we do expect a lot of incremental revenue probably down the line sometimes we would be able to quantify this in a better manner, this is on the consumer side. Now lighting as you are aware, we are focused on a complete 360 degree of product and consumer segment. Currently, we are just almost finishing up with smart city lighting for the Jalandhar City so that has been again a very good order. We have used the latest technologies there in terms of communication of the street lights. We are already well placed to get another one or two more orders on smart city lighting so that is again a lot of new products because the earlier smart city what we did in Bhopal was sometime maybe 3 years before so the technologies are changing, our R&D is working to adapt those technologies but the past reference is becoming a good parameter for us to get into future businesses and now with two smart city done I was expecting two more orders, I think overall the new products which are coming out will really help us, so there is a lot of focus not only on the lighting even on other products but as your question pertains to lighting we are well prepared and coming out with a lot of new products especially for the festive season to gain the sales momentum for this.

Urmi Jain: Sir could you also share a broader picture of HPL's vision and strategies for the next two-three years?

Gautam Seth: If you look at our business opportunities, the way I look at it we are sitting on two very strong opportunities one is a smart meter, the other is the consumer business and I think with the kind of efforts and investments which HPL has already done including building up the relevant manpower for each of the businesses, I think we are very well poised for that so in terms of the strategy what you are asking I would say the strategy is very clear that we grow in each of these segments in a big way. I think the overall opportunity and the market would be very supportive if you look at it in the next three to five years in each of that, also our strategy is that we need to do this the complete business in a more efficient manner so we are looking to our improve our balance sheet ratio, be it the EBITDA margin or even looking at reducing our interest cost or the debts on the book so there are multiple targets what we have put in. Our teams have been further strengthened in the head office in the company and so definitely the targets are clear. As a vision, we are always looking at newer technologies so in terms of metering, lighting, or the electrical fast-moving products we are looking to be a single stop shop for all the requirements be it for residential, industrial, even government infrastructure so all the various segment we should be able to cover in that and we have been very well backward integrated. If you look at HPL Electric's profile we have each of the things what we do start from our design development up to the component manufacturing in a very well backward integrated and up to the final testing and then in the sales. We are focusing on the newer products that are coming under HPL's portfolio. It need not be into manufacturing but at least in terms of design, development, and maintaining our edge because of the technology and the consistency in quality so overall when this is mixed up we do see a great future with the products what we have and the segment what we are currently into.

Urmi Jain: Thank you so much Sir. That is it from my side.

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

Viral Shah: Thank you Sir for giving us an opportunity. Sir basically a couple of questions, one in terms of working capital on each segment so could you highlight what is the situation currently and how things are changing post lockdown or restrictions?

Gautam Seth: On the net working capital basis, if you look at on Y-O-Y basis there has been a reduction of about 30 days on a quarter-on-quarter basis the net working capital has come down by 17 days so overall we have seen definitely an improvement in the debtor position on a year-on-year basis. Also on a quarter-on-quarter basis, there are certain improvements although the first quarter is not very indicative, it is not the best reference you can take out of this because of the low sales due to the lockdown but overall if you look at the March and then let us say the end of the second quarter we should again back on a much better sales and also on a better net working capital.

Viral Shah: Secondly, in terms of the segment you did highlight on the opportunity could you give some more highlight on the management bandwidth and strategies what we are building in to build a team to achieve the goals which we have set for maybe 3 years or 5 years down the line?

Gautam Seth: If you look at these two businesses like if you look at the metering business and the consumer business ultimately, there we have very senior professionals across all functions whether it is R&D, sales, manufacturing even the support functions on IT, HR, everything so as a company we do have very senior people across all the functions and in terms of these two businesses most specifically the skill sets are very different, so the manpower what we have on the metering side are normally all either from big metering companies or even people who have been working with us with special focus on meters. Even if you look at the other products on the consumer products, if you look at the wire and cable industry like people what we have or lighting and switchgear, we are again very different skill set in terms of sales and the manufacturing so each of the manpower what we have, senior people are all from the relevant industries. So, in terms of management bandwidth, I would say on an operational level the teams are very well set. In fact, in the last 2 years, we have reviewed the teams especially on the consumer side, we have seen the results post the first lockdown where a good double-digit growth has been coming quarter-on-quarter so even going forward the targets what we have for the next 2 to 3 years where we can look at least sales of Rs. 1400 to 1500 Crores happening. I think the teams are fully well set on that. We do have a lot of younger people who have joined the team, a lot of professionals who have joined in and they are continuously looking at opportunities and reviewing our own strengths and resources for that.

Viral Shah: Finally, Sir I missed a number on the cash balance for the quarter and the debt level?

Gautam Seth: The cash balance is Rs. 72 Crores and the net borrowing is Rs. 499 Crores.

Viral Shah: In terms of when you look at the steep prices in commodity prices so do we have legacy orders which are fixed price pending in the order book and what will be that quantum be. That is my last question? Thank you.

Gautam Seth: Normally, if you look other than the meters, the orders are normally taken on a month on month basis with visibility of normally 3 to 4 weeks. So, I would say if you look at our price increases, if you were to go from mid 2020 where wire and cables have seen maybe almost 7 to 10 times the prices would have gone up based on the movement of copper so again whatever the orders are coming typically they are passed on to the customer maybe with a lag of 30 days similarly, we had two increases in the switchgear business so I would say most of the cost which has been there had been fairly covered up. Lighting has seen a very different stance because normally we have seen on the metals and other things other than the plastic which is not so much used but still we have seen two increases happen in the LED prices so I do not see any major lag. In meter yes certain parts have gone up or something but overall the newer tender which we have put in the second half of 2020 there was definitely an indication of the prices going up, so some things we have to build in more on anticipation as well, so I do not see any major impact in margins based on the prices going up because whatever increases have been happening they have been continuously passed on here.

Viral Shah: Thank you so much Sir. All the best for the future.

Moderator: Thank you. The next question is from the line of Kamaljeet, an individual investor. Please go ahead.

Kamaljeet: Thank you for taking the call. I have a couple of questions; one question is what is the plant utilization during Q1FY22?.

Gautam Seth: As I said earlier, the first quarter is not indicative of the normal working so probably it could be at 30% 40% utilization because you must realize that although the markets were closed for almost half of April and then almost entire May, the factories were still functioning to some extent so knowing that we did not want to other than feeling up the shortages of some very urgent orders but normal manufacturing was not happening because there was a shortage of labor even the supply chain had broken down in many of the factories so the capacity was pretty at a lower level so roughly it can be somewhere around 30 % to 40%.

Kamaljeet: Did it improved in July 2021?

Gautam Seth: We have seen an improvement in July, I would say roughly around 70% plus that is all we have seen and in fact, August 2021 seems to be a little more promising, so overall as I said in my opening remarks, the second quarter we will see the business come back. So, our effort is definitely that we really come back to the pre-COVID levels or the Q4 volumes and that is what our endeavor is.

Kamaljeet: Sir my second question is related to your working capital days and inventory level so at what level management will feel comfortable about it?

Gautam Seth: As I said earlier, we are looking at an increase in sales with the current net working capital levels. If the sales go up quite substantially in the near term with the same working capital, I think that should make things a little more comfortable for us, although, in longer terms, we are putting in plans on certain parts of business more on the consumer side that how we can reduce our working capital requirements and eventually reduce our debt. So, these are certain longer term plans which we are putting in now but on a short term basis, I would say at least the revenue goes up substantially on the same level of net working capital.

Kamaljeet: Any plan for R&D expenditure?

Gautam Seth: We have a large R&D team, in fact, the success of metering and certain other products including switchgears and lighting, the backbone is actually the R&D. HPL's R&D has been a continuous process. We see the R&D expense and the efforts to continue, so we do not see an incremental expense immediately going up on a quarter-on-quarter basis, but whatever expenses have been going on that would continue to happen and our investment back into R&D will happen. Now you must realize in today's time when everyone has been talking about smart meters, a lot of efforts in the last three to four years has gone by the team on the smart meter working, so I would say a bulk of expenditure has been done. Now, we are seeing the results of that happen but still, there will be certain new updations happening, newer models coming out, so that would continue to happen, so a lot of expenses are on the manpower because we do have a very strong R&D team now so that we are able to work on direct technologies of product like meters, switchgears and others We are working on newer technologies of communication, software integration, working on artificial intelligence or even cloud based technology. The technologies are changing even though electrical systems are changing and any company to be relevant in the future will have to keep updating on that. So, our R&D is a continuous expense and it will continue to happen.

Kamaljeet: Sir you just mentioned about you are using new technology IoT and all, 4G and 5G what will be the opportunity size and what will be the overall revenue percentage, profit percentage of the IoT?

Gautam Seth: It is very difficult to say because if you look at smart meters it is already a working technology today so has the governments themselves are saying the market size is to change 25 Crores of meters in the next maybe 5-10 years so that is a huge opportunity. We as a company are looking to maintain our share in fact with the change in technology, we are looking to grow our share maybe at 20% to 25% is something what we look at but when the technologies are changing like if we look at switchgears where we have MCCBs or air circuit breakers and other industrial products even they are now communicable to the networks so sitting in the office one can get the data from these products which are fitted in the panel so a lot of new technologies are coming in. We have meters for every application not only for the billing but the utility a lot of private people are doing. Since you mentioned on 4G, and 5G we do a lot of specialty cables which are going further 4G network basically almost I can say a majority of the procurement by Reliance Jio is done and manufactured by HPL Electric right now so that is also a very good business we have been doing. We have also conducted a lot of IC trials on specialty cables, so there are a lot of opportunities which are coming across our product lines that is something what we are looking to do that and if you look at even the global requirements for the coming year they are also focused on these type of newer technologies which are coming in like solar is a big business. We have also invested quite heavily on the solar side, so a lot of new components, switchgear cables, etc. An entire basket of products has been developed by our R&D teams over the past few years.

Kamaljeet: Are you participating in the PLI scheme or any benefit of it?

Gautam Seth: No. We have evaluated it. I think there is still some time until September 2021 by the time we can participate. I would say nothing concrete as of now but yes, we need to take a final call on the cost and benefits of that. So right now, nothing which I can confirm to you but yes we have been evaluating that.

Kamaljeet: Thank you, Sir.

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

Harshit Kapadia: Thank you and I have a couple of questions. It would be very kind of you if you can explain even the business model for the smart meter tendering which is going to come about. Who will be the execution agency, will it be the central government through EESL or will it be given to state discom or it would be some kind of joint venture between state discom and EESL?

Gautam Seth: Currently, to the best of my knowledge the state governments are independently going for the smart meters as well as on a parallel side the central government through EESL are going in for the smart meters, so it is a mixed model. There is no specific thing what is happening. In fact, if you go through the government incentive what they are giving the state for Rs. 303,000 Crores, which is more performance based, I think approximately Rs.900 per meter is being funded by the central government and the balance would be on the state government side. Of course, all the benefit comes to the state government once it is implemented. So, it is a mixed model and also the models have been based on the capex and opex models but right now more operationally and personally, I would feel is getting more popular is more on the capex model where it is mainly on the supply and the payments are done by the utilities to the equipment manufacturers and thereafter there are separate provision for the installations and thereafter a lot of revenue in terms of maintenance and integration. There are lots of ongoing revenue and ongoing expenses which would continue in the near future for that. So right now, if you look at it there are a couple of business models what are being worked on by the government and I feel the way things are evolving each time becoming more positive for the industry. We have seen the working what was happening about 3 years back when the government or all the stakeholders were really trying to figure out what is happening but now the momentum in terms of the tender, in terms of even the orders and certain execution has now started and the clarity in terms of the tendering and the terms I would say much more practical and much more user friendly for everybody, they seem to be coming up. So, things looked to be better and let us all again hope that going forward we would see much more business happening on a more practical basis.

Harshit Kapadia: Thank you for that answer but when you look at the numbers which you have highlighted Rs. 2,500 Crores worth of pipelines orders is there. This number has been more or less similar like last time also it was Rs. 2,000 Crores when do you expect this number to substantially jump because the government has given a deadline of December 2021 to install 10 Crores smart meters and we have not seen any aggression either from EESL or state discom to come out with a lot of tenders so what is giving you the confidence if you can highlight is there anything in the pipeline where discom are working or EESL are working.

Gautam Seth: The figure of Rs. 2,500 Crores is just estimation, so it does not, of course, restrict the true value for the obvious reason we can just give you an estimate but if you look at the sheer quantity value, the number of tenders. During Q4FY21, we said it is almost at all time high. I can easily say that the June ending is much higher than that. There are big tenders as I said earlier also on one of the answers that there are single tenders of 200 Crores, 400 Crores coming by single utility, also there are single tender of over 2 million pieces coming out, so in terms of business what is coming out is very strong, no doubt. Smart meter, if you look at the overall order enquiry and various stages of tenders, I would say over 50% value is of smart meter already, so whenever there is a change from an existing one to the new one definitely it does require certain switchover time. I think the switchover is happening and it is happening fast because these are technologies which have to be absorbed very well. The success of the initial tenders, their execution is going to determine the next phase of reforms and how it happens so I would say the pace is pretty fast although the industry including HPL Electric, we are well geared up to handle that quantity as well as installations and anything. Overall, my confidence comes in from the fact that what we are seeing on the ground by real numbers so it is not something we wish or what somebody says but if you look at the sheer amount of work what is happening even lot of new tenders have come in which has come in last month which are very large even certain new tenders are due which have to be released, if you look at the quantities what is there are over 2 million pieces but they are still under the evaluation stage in terms of what specification needs to come on that, so overall I would say the next few years are going to be high and the government is very clear on their immediate target of 10 Crores meters, the interim target what they have put. I do not see any way that would be missed so that is what I said earlier also that we have seen what was happening three years back and what is happening today, I think with the standards being in place, the BIS certification in place and everything, a lot of learning process has gone by all the stakeholders, so the thing seemed to be much better. As HPL Electric, we are pretty much well placed in all the parameters so definitely, we should see something good happening.

Harshit Kapadia: As you mentioned that in capex the model with HPL would refer, so if HPL enters into opex model will it be having a partner for the AMI infrastructure or HPL does have its own AMI software and installation and everything else how does HPL rule would be let us say in capex as well as opex model if you can?

Gautam Seth: Harshit, I would like to correct you it is not what I am preferring because we have seen a lot of tenders come out for both the models but somehow due to letting us say not having sufficient financing or agencies happening, a few of the opex model tenders have been scrapped so it is something what we are seeing a general preference happening by the utilities because they have realized that eventually they will have to put in the funds and then the central government has also come forward to offer the fund so it is not my preference is it is what the general trend what we are seeing. Right now, both the models are there in the market but let us see how the overall business progress because eventually, the aim is to have the smart meter in place that is something what one will look at.

Harshit Kapadia: That was very helpful. Sir do you expect let us say revenue from the meter segment which was around Rs. 500 odd Crores in FY20, can it go to like say Rs. 2,000 Crores by FY24 you said something that you visualize when you were building your revenue model Sir?

Gautam Seth: For me to say yes would be talking too optimistically. However, if you look at the way the tenders are it has an upside which is possible definitely, so right now in terms of revenue guidance you would say something of a good healthy growth going forward but even if one or two big tenders gets decided in our favor definitely there would be a quantum jump on the revenues that is for sure but again as I said just to give a guidance on that number may not be proper at this stage but the way I look at it personally in the next 3 years there is going to be a big quantum jump on the metering side. The overall industry size is set to grow drastically there is no doubt in that. Even in the competitive scenario, one looks at. In the middle, we have seen a lot of Chinese companies come in. We have seen so many others trying to do this but again it comes down to the more established players who seem to be right now better place to exploit that, so some how I feel it is a good time for the government who are also pushing in and all the other companies also ready to exploit it, so definitely, I think there would be a quantum jump now whether that happens in the next few quarters or in the next one year or two years, definitely we will see a big jump up in the revenue for sure.

Harshit Kapadia: Final question on the metering part. In relation to that do you also anticipate the prices of meters to also decline sharply as more tenders of Rs. 200 Crores or Rs. 400 Crores comes to the market?

Gautam Seth: I would say right now the tenders, which are happening, are already quite competitive in the pricing because there is a proper bidding process which is happening. In terms of the pricing that is competitive, but the only thing is the technology has a price so definitely we see the unit realization of the single phase and three phased meters seeing a multiple folds. It is like two to three times much higher so that is already happening but right now you might also read about certain shortages of ICEs globally so although we go for a very high forward planning but still until the supply chain improves I do not see the pricing really coming down but on a competitive basis when we do see maybe the next volumes really jump up, so definitely on the economies of scale the price corrections will be there and whatever the saving comes in will definitely get passed onto the consumers but that is a normal process in every industry so that will happen once the smart meters really takes a big shape in that.

Harshit Kapadia:

Harshit Kapadia: Your other expenses have increased by close to around 60% in this quarter on Y-O-Y basis, is this kind of a run rate growth we can anticipate going forward as well as we are moving towards normalized levels?

Gautam Seth: If you see this lockdown, the manufacturing was open, the factories were open although the markets were shut so we have seen certain expenses rise mainly into three or four items, so there has been an increase in the power and fuel, there has been certain freight outward increases, certain R&D expenses, and other things. On a full quarter, the run rate will be a little higher than this. It is currently at Rs. 16 Crores but this one was a quarter where the revenues came down, a lot of other expenses continued to happen because of the factories working, although they were working on a lower capacity and I think that is how the lockdown was structured, so it did not go too favorably with the company but I think on a full quarter with the revenues I am sure our overall ratios of other expenses would be under control and well to give us a good EBITDA margin and the overall PAT.

Harshit Kapadia: Sure Sir and wishing you all the best.

Moderator: Next question is a follow up from the line of Harish Shah from HS Investments. Please go ahead.

Harish Shah: Thanks for the opportunity once again. As you have guided a strong outlook for the consumer segment and you have mentioned that you are seeing positive traction in this current quarter are you planning to have a brand ambassador on board so that it may help to move our consumer segment or penetrate our product in a better way?

Gautam Seth: Not something that immediately we look at but if you look at the way the consumer business is going, we are already looking to resume back our advertising and sales expenses so that we have a better brand building efforts what are going on. Post the COVID lockdown that is something we had reduced them or restricted them to some levels but as we go forward into the festive season the spending would go up. Now whether we have a brand ambassador or that is of course more of a marketing strategy but that is something not we have immediately in our mind but we are looking to expand the product, have a bigger reach, invest more in advertising so that is a different call of the marketing but right now I do not think we have anything in the mind but if the product requires and if we feel the brand ambassador could actually give us better visibility and a better return on our investment definitely I think we can look at it. The suggestion is taken so we can definitely do that.

Harish Shah: Just one more follow up to the previous participant's question you have mentioned that you are planning to add new products so can we know which segment that is would be and what is the industry growth in that segment? How is the overall competition in that arena?

Gautam Seth: Right now yes, we are looking very actively on newer products within the same verticals and also looking at certain other verticals, so the works are going on but I think as we are ready to launch them and as we have more information definitely I think we will share with you and come back and do that but whatever is there, the products what we are looking at will be more complimentary, looking at our existing range and what can enhance our overall product basket and also what can go well with our existing network because that is how we can exploit get a better loyalty from our existing channels so that is what it is. In the near future, you should be seeing more products coming out, more verticals getting added on the consumer path and I think that will help us overall in enhancing our business.

Harish Shah: Sir one last question from my side. What is the expected meter and the consumer meter mix of our topline. How can we see these two ratios in the coming years?

Gautam Seth: As I said earlier, we are quite upbeat on both the businesses, although the meter on a standalone basis is said to grow quite substantially, it just depends on when it will grow in the sense that the pace of implementation of the smart meter program will actually determine the growth but independently, we would see good growth coming from here. On the other side, all the products whether they are switchgears, lighting, wire, and cable are also seeing good traction and that will also continue to happen. I would say just to answer your question we do see both of them grow on a good scale, currently based on the last year it is almost like 40% to 60% ratio between meter to the consumer and almost same kind of a breakup would be there in the near future, but you must realize that there are lot of large tenders which we have already participated in and even if a couple of them gets finalized then definitely the ratio would get changed and meter could see a big upside going forward.

Harish Shah: Gautam Ji thanks for the detailed answer. I wish the team all the best.

Moderator: Thank you. As there are no further questions I now handover the conference to Mr. Harshit Kapadia for closing remarks. Over to you!

Harshit Kapadia: Thank you Zaid. We would like to thank the management of HPL Electric & Power, Mr. Gautam Seth, Joint Managing Director and Mr. Manoj Dugar, CFO for giving us an opportunity to host this call. Sir any closing remarks which you want to share with investors.

Gautam Seth: I just like to add that while it is difficult to predict the trajectory that the pandemic is taking but we believe that the worse is behind us and we are confident of emerging stronger out of this challenging phase and creating sustainable value for our shareholders. I thank all of you for joining us on the call. So please reach out to Dickenson World or to us directly should you have any further queries. I wish you all a great evening. Stay safe. We can now close the call. Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Elara Securities Private Limited that concludes this conference. Thank you all for joining us. You may now disconnect your lines.