



HPL Electric & Power Limited

CIN : L74899DL1992PLC048945

Corporate Office : Windsor Business Park, B-1D, Sector-10,
Noida - 201301 (U.P.) | Tel.: +91-120-4656300 | Fax. +91-120-4656333
E-mail : hpl@hplindia.com | website: www.hplindia.com

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The Manager,
Listing Department,
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"Exchange Plaza", C-1, Block G,
Bandra-Kurla Complex, Bandra (E),
Mumbai – 400 051
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BSE Limited
25th Floor, New Trading Ring,
Rotunda Building,
PhirozeJeejeebhoy Towers,
Dalal Street, Fort,
Mumbai – 400 001
Scrip Code: 540136

Subject: Transcript of Conference Call with the Investors/Analysts

Dear Sir

This is with reference to the intimation dated 4th August, 2023 made by the company about the Conference Call scheduled for Investors/Analysts on Friday, 11th August, 2023 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
Company Secretary

Encl: As above



“HPL Electric & Power Limited
Q1 FY '24 Earnings Conference Call”

August 11, 2023

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



Moderator: Ladies and gentlemen, good day, and welcome to the HPL Electric & Power Limited's Q1 FY '24 Earnings Conference Call, hosted by Elara Securities 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 star, then zero on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Rohit Harlikar from Elara Securities. Thank you, and over to you, sir.

Rohit Harlikar: Thank you. Welcome, everyone. On behalf of Elara Securities, we welcome you all for the Q1 FY '24 Earnings Conference Call of HPL Electric & Power Limited. I take this opportunity to welcome the management of HPL Electric & Power, represented by Mr. Gautam Seth, Joint Managing Director and CFO. We will begin the call with an introduction by the management followed by Q&A session.

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

Gautam Seth: Yes. Thank you, Rohit. Good afternoon, ladies and gentlemen. I'm pleased to welcome you to HPL Electric & Power Limited's Q1 FY Earning Call. Thank you for joining us today and being part of the journey we are on as we discuss our financial performance this quarter.

Our performance this quarter is led by year-on-year revenue growth of 9% with a revenue from operations at INR 321 crores, a rise from INR 296 crores from the same period last year. On the bottom line, our EBITDA stood at INR 40 crores, reflecting an uptick of 6.3% from the previous year.

Looking into our segment-wise performance. Our strategic emphasis on Smart Meter growth is yielding sustainable results. The Metering & Systems segment experienced a year-over-year revenue growth of 20% landing at INR 176 crores in Q1 from a steady base of INR 147 crores by year before. This growth not only underscores our role as a leader in smart meter segment but also signifies the growing momentum in the smart metering market in India with a good beginning for us to a long-term projected growth.

We're also pleased to share our entry into AMISP contracts with securing a substantial order valued at INR 417 crores for the deployment of an AMI project. This project is supported by World Bank and is in tandem with the WBSEDCL. This achievement not only highlights our readiness for change, but also emphasizes our preparedness to seize the opportunities in India's smart metering evolution.

When looking at our Wire & Cable segment and India's growing demand for electricity and connectivity, the potential for steady growth in high-quality wire and cable products also holds promise for us. The machine of 5G technology with our vision is geared towards revolutionizing connectivity, setting standards within the dynamic space. Within the Consumer & Industrial segment, our performance is fairly good in switchgear and wires and cables. Despite of industry-



wide value erosion driving down prices in Lighting, we have adapted to navigate this with positive growth recorded in Switchgear and Wire & Cables.

Looking ahead, our commitment to research and development, operational excellence and sustainable growth remains resolute. We are determined in fortifying our leadership position in shaping India's energy future, a journey that not only meet today's demands, but also anticipate the challenges and opening of tomorrow.

With an expansion in our network and steady growing market demand, the rise in momentum has led to a positive start to the financial year. Our order book value stands at over INR 2,000 crores. As we head into the festive season, we anticipate good growth in the order book in the Switchgears, Wire & Cables and Lighting segments alongside Smart Metering as well.

Thank you for your presence and for participating in this interactive session with us today. We can now begin with the question-and-answers.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. The first question is from the line of Murtiram, an individual investor. Please go ahead.

Murtiram: Congratulations for the nice set of numbers for the Q1. Sir, I have a simple question. For the past few days, I have been going through the news from Tamil Nadu government that they are pushing aggressively for tendering process for smart meter implementation. Sir, I know we are having good presence in North India. I wanted to know whether we are contesting for the tendering process regarding the smart meter installation in Tamil Nadu, sir?

Gautam Seth: Yes. I think if you see our presence for the past over a decade in metering and now in the smart metering, we are present across the country. So in almost every state in the past, whether it's Tamil Nadu, Andhra, Telangana, Kerala, all these states, we have been supplying meters and not once but on a regular basis. So definitely, depending on who the service providers and how the tendering process is, we will definitely be looking at all the states. And so we are present on a pan-India basis. So I'm sure our teams are focused on Tamil Nadu as well.

Murtiram: Okay, sir. Another question regarding the cables. Sir, whether we are producing underwater cables also?

Gautam Seth: No. You mean underground cables or underwater?

Murtiram: Yes. No, underwater. There are some projects which will be implemented by the government in the next one or two years.

Gautam Seth: No, I don't think, specifically on underwater, I don't think we are currently doing that range. Yes. But definitely, we will definitely look in that. If there is potential, we can probably make it then.

Murtiram: Okay. Thanks a lot for the opportunity, sir. Have a nice coming quarters, again. Thank you.

Moderator: Thank you. The next question is from the line Chandresh Malpani from Niveshaay Investment. Please go ahead.



Chandresh Malpani: Congratulations on the robust order book you have. So sir, firstly on this AMISP that you have entered into. So what is your long-term outlook on this? Basically, you were, firstly, a smart meter producer. And just to sell that, now seems you have entered into this AMISP thing. So you don't think your short-term borrowings will again pick up from here, which is already at a high level. So your outlook on this?

Gautam Seth: Yes. So our basic focus is supply of smart meter. And I think that would continue to be so. So if you look at most of the orders, what we have, we are basically for supply of smart meters to the AMISPs, which are there. Now this particular project, what we are talking about, this is not under the RDSS, though, and it is funded by the World Bank. So it is a little -- although the broad specifications and the overall scheme is as per the general guidelines followed by the RDSS, but this is the state requirement, which the state standard and which came with the funding from the World Bank. As you are aware, once the World Bank funding happened, the cash flow and the surety of funds becomes much more better.

And you can also call it a hybrid model where against the supply of meters, which would happen in the next two years, about 40% of the total amount gets paid. So in effect, the cost of meter and the certain related supplies would all get covered by that payment and then thereafter -- since the overall project is, again, for 10 years, but the majority of the funds required for the supply would get covered. So it's a little different to what the normal AMISPs is under the RDSS scheme.

And we thought it's a good opportunity for us to expand. And I think within our resources, yes, on a short-term basis, certain funds would be required to ramp-up. But being a World Bank project and looking at the way the funding is, it is manageable, and it can be done. And it also gives us -- although as HPL Electric, we are approved as an AMISP, it also gives us a performance for the future as well.

But our broad focus still remains as a supplier to the AMISPs for which right now also, as we talk, there are a lot of inquiries, a lot of orders, that we anticipate, which would come, which would be purely on supplies based to the AMISPs.

Chandresh Malpani: Okay. And sir, secondly, that you have entered in AMISP contract, so that you have the technical ability like do you have the building ability, but then after installation that -- on the EPC side, you have the resources...

Gautam Seth: Yes, very much. We have been doing different types of projects for over a decade now. And these have involved meter installations also, which have been done for even more than 10 years, plus a lot of different type of projects have been happening.

Now coming to this one, we have -- if you see this project, it involves almost covering 500,000 consumers within the area of Kolkata. And this involves, apart from the supply, creating the communication network, linking the smart meters to that and also providing the IT infrastructure, and maintaining that. So we have that capability. We've already been doing it for a leading private -- distribution company. So we've already been doing it where we have got orders of over INR 300 plus crores earlier.



But -- that was with the difference, and the payments were all in within the, let's say, the -- within that time. So the financing element as perceived in the DBFOOT was not there. So as a -- from a technical capability, we have that. What did not excite us so much to go into a regular AMISP was always the 10-year funding aspect. So that was one thing. So in both these -- the earlier ones that we have been already doing successfully and now with the new World Bank order, I think those aspects have been well taken care by us when we are quoting and when doing the agreements.

Chandresh Malpani: Okay. And sir, another thing on the capacity. So you -- like, you have 1.1 crores of meters per annum. Do you think that is quite sufficient enough to cater to this market, which is like in the next three years, government has a plan to install 25 crores of meters. So do you think you will be on short of supply or something like that?

Gautam Seth: So based on the projections, if you take in the next, let's say, 24 months, we don't see any shortage of capacity. I would say probably, the figure that government is talking about, that would probably happen in five years, but that's my personal opinion, maybe three years to five years. But in terms of capacity, what we have is sufficiently enough to look at that. And we have, in the past, having over 20% to 25% of the metering market. And even if you have to look at that kind of a similar one or even grow the, let's say, our -- because our ambition is to grow the market share, even if you look at, let's say, a 30%-plus market share, we should be good enough with that capacity, maybe a little larger.

So the certain part of capacities can be enhanced as the orders are coming in. But on a medium-term basis, looking at even at 24 months, I think we have sufficient capacity. And that should be enough to look at it. On a flexible basis, we have been also going on certain automations that we have done in our assembly lines for smart meters and the output with the same resources has been really increased. The standardizations have also gone up in terms of the meter specifications and the ask that is required for that.

So when we are looking at better productivity with a little -- maybe some enhancements and automation, that are happening, which is obviously a continuous process. So with that happening, we don't see any big issue towards the capacity when we look at the entire opportunity, which is going to be rolled out by the government.

Chandresh Malpani: Okay. Got it. Sir, and lastly, on the Consumer & Industrial segment, if you can briefly share, this segment has been a INR 150 crores kind of quarterly business and 11%, 12% EBIT margin. So where do you see this in the future? Basically, you have guided for expansion in the retail, which is very retail touch points, have been like 3x by March '25. So where do you see this segment going?

Gautam Seth: We see the Consumer & Industrial segment to be growing. In fact, in the last three years, we have seen at least two good years of growth, which was well over 20% growth, that were happening. In the current scenario, if you see the Consumer & Industrial segment comprises of various types of different products. So while we have seen the cable and wire do a good double-digit growth, the Switchgears also have been fairly good, but the Lighting segment has been a little dull, I would say. There has been in fact, we have not seen any growth in that. It's been on



the negative side. And that is mainly because of an industry-wide phenomenon where the unit prices have come down.

Now there has been a change in technology with the industry moving to a different technology in the LEDs, where the bulbs, the batten or all most of the consumer luminaire, the prices have come down. So while the selling prices have come down, even the costs have come down. So more or less, the margins are stable. But when we look at that, despite even if there is a volume growth, which we expect to happen even in the Q2, the figures will not look very exciting because the per unit values will come down.

So I think, in LEDs we have seen this happen. And if you see in the last seven years to 10 years, at least twice, we have seen these value erosions happening. So it's one of the times when value erosion is happening. And we would feel that maybe even by this Diwali, by the festive season, the prices would stabilize. So that is how the whole thing is structured.

On a long-term basis, or even on a short term, we would see definitely the overall Consumer & Industrial segment to grow. The infrastructure spending by the government is good, luckily our approvals to various projects, our compliances to all the specifications is very strong, and we would see the Switchgear, Cable and also the Lighting to grow in the near future.

Moderator: Thank you. The next question is from the line of Kaushik Mohan from Ashika Institutional Equities. Please go ahead.

Kaushik Mohan: Sir, my question is basically on understanding the cash cycle because dealing with the government, the cash flows will be like towards north and south. So how about our receivables, and how are we in control with it?

Gautam Seth: Yes. We have two types of businesses and the Metering & Systems has been traditionally supplying going to the utilities. And that is where the database are normally five months to six months. In fact, sometimes even going ahead of that. Whereas the Consumer & Industrial supplies to the -- it's a B2C segment and whether supplies are to the trade market where we have seen a constant improvement in the debtor receivable cycle.

Now coming back to the metering part, as we see the scenario is similar for the last couple of months -- a couple of years, even probably a decade or more. Now there's a new scenario coming in, where the supplies of smart meter is going to be through the AMISP. This is where we would see certain changes happening because our supplies to the AMISP would be on a fixed date letter of credit. And this, we believe, as the share of smart meters increases in the supplies, this is where we see a positive working capital cycle emerging for that.

So that, in effect, maybe in the next 12 months could be a drastic change to our debtor days going forward. Whereas in the Consumer & Industrial part, we have the penetration of channel financing going up. Our internal targets are also to have almost the entire trade covered by channel financing. There could be certain months of slowdown happening or the cash flow being a little tight in the trade market. But generally, if you see, the payments are much better there.



And as I said earlier, with the festive season coming in, we are seeing certain uptick in demand. And I think that should result in a better cash flow as well. But the metering, I believe will see a change, and these are supplies to the AMISP and this should see a positive change in the coming quarters. So maybe not immediately, but as over the 30%, 40% of smart meters are getting delivered on to the AMISPs, where we would start seeing some good results coming on the cash flow cycles.

Kaushik Mohan: Got it, sir. Sir, my second question is on the debt. So we have some borrowings on our balance sheet. Do we expect anything to be repaid on the short-term borrowings that we have it?

Gautam Seth: No, not immediately. In fact, if you see last year, we had a growth in revenue of 25% with the zero borrowing, additional borrowing. So internally, we are conscious of that, and even for this year, on the regular business of the consumer, industrial or even the regular meters, we do anticipate a good growth this year without any additional borrowing. That's how we look at it.

But when we look at the smart meters, definitely, the smart meter, the order book, generally, which was always around INR 300 crores or INR 400 crores. Today, the order book of the company is over INR 2,000 crores. And even despite the strong execution, what is going to improve on a quarter-to-quarter basis, we will still find the order book go up as we go forward.

So for those two, for us to prepare for those orders to begin the supplies and start the working capital cycle, short-term borrowings would be required. So maybe on an interim basis, the short-term borrowings would go up, but maybe by the fourth quarter, by the time the complete cycle starts kicking in for the smart meters, that is when we will see the -- maybe the borrowings leveling out. That is how we look at it.

But in terms for capex or in terms for any other general growth, we don't require any additional funds. We would do it through our internal resources.

Kaushik Mohan: And then last and final question. Sir, can I understand one single smart meter price per unit cost or unit price and the cost that we have it at for one unit production?

Gautam Seth: No, it may vary depending on the services. But generally, as a thumb rule, the industry talks about almost INR 3,000 to INR 3,500 per meter. Depending on the specs, depending on certain services, it may even go up to INR 5,000 or INR 5,500. But it really depends.

Kaushik Mohan: Got it. So in the total order book, what we have got, right, so can we assume that INR 2,000 crores odd plus the order divided by INR 3,500 and on average, that is the number of units that we have gotten out of, is my assumptions right?

Gautam Seth: No. No, I would not -- I don't think you can apply that because the order book currently what we have, we have almost, I think, about 82% is on the metering side. So there are orders of Lighting, Switchgears and even Cables in this. That is one.

Second, within the meters also, over 75% are smart meters. So there are still regular meter orders coming in from the state utilities. And we believe that still, it may take another maybe 12 months or a little beyond until the regular meter share goes down and the smart meter rollout happens.



So while the rollout of smart meters is happening, still utilities are going for the regular meters just to fill in the gaps, which could come in or the demand which would come in while the rollout is taking shape. So that is how. So you cannot, frankly, just divide the whole thing on a single quantity and do that.

Moderator: Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: I want to know what is the order on smart meters that we have as on date, just smart meters on the total order book?

Gautam Seth: Roughly, I would say it should be around INR1,300 crores or INR1,400 crores, somewhere there, yes.

Tushar Sarda: Out of the awarded orders, what is our market share, whatever tenders have been awarded so far, what is our market share in the smart meter?

Gautam Seth: Frankly, we've not calculated on them, but if you see the smart meter supplies purely because many of the orders, what you see or hear in the market are actually the AMISP orders. And AMISP orders, apart from the smart meter, also covers the infrastructure cost, the installation costs and the financing costs. So that itself is a large portion.

So purely, if you look at the smart meter value within the AMISP order. So I think we are clearly maintaining a good share. As I said earlier, almost 20% to 25% regularly has been a market share for across a couple of maybe 10 years, 15 years, we have been maintaining that kind of a market share. And I would say currently also based on the orders, that are going on, we have a fairly good share. Again, I'm clarifying, this is on the supply -- purely on the supply of smart meters.

Tushar Sarda: Yes, yes. I understand that. So I believe out of around INR 8,000, INR 9,000 price on AMISP, smart meter is around INR 3,000, INR 3,500. But since we don't get access to the data, I thought you will have the data readily available, whatever has been awarded and what percent of the market share...

Gautam Seth: I will just say, as per industry figures, which are again unconfirmed, but I think only about 1 crores of meters are currently installed. So we are talking about right now, the installation is only about 4% out of the 25 crores meters. And still, it's a little early stage. But from the early orders which have gone by, I think as a company, as HPL Electric, we are maintaining our market share. And even in the inquiries and the large AMISP orders which have gone to certain big players, we again anticipate good orders coming in to HPL.

Tushar Sarda: So, how many AMISP have you tied up with. I think, one is Tata Power. Any other AMISPs that you've tied up with?

Gautam Seth: Most of them rather. So because I would believe that there are over 20 to 25 AMISPs, which are currently approved, because one requires a pre-approval. Of course, out of that, even we are one of the AMISPs approved. But if you look at it, its because this approval process requires the pretesting and before the approval comes through.



So I think most of the majority of them have done their approvals based on HPL Electric meters. And even the government has specified more than one meter manufacturer to be tied up for the AMISPs. So definitely, I think in terms of opportunity and in terms of approvals, HPL is definitely one of the front-runner for the suppliers.

Tushar Sarda: And what is your target for smart meter order this year?

Gautam Seth: No, our target or...

Tushar Sarda: Your target. How much would HPL would win in terms of orders?

Gautam Seth: I think, its very difficult to specify the number. But you are seeing it in the last six months, our order book has really jumped up and so has our execution. So obviously, when these orders are coming in, typically, an AMISP requires six to nine months to actually get started, six months is for sure, because a lot of preparation needs to be done. So even our suppliers will get routed based on the demand and the schedules which are there.

So it will take some time. But in terms of orders, which will come in, I think we expect a lot of large orders coming in. That is for sure. And probably our -- despite the execution, the order book will probably, even in my last call, I did say that it will probably double up. And I think it should really go up. There's no doubt on that. We're well qualified, we are well...

Tushar Sarda: Pricing pressure, right, from AMISP on the meter supplier? Because I believe there are now plenty of meter suppliers for the AMISPs. So there's no pricing pressure.

Gautam Seth: So obviously, in a business, there are -- everyone has been...

Tushar Sarda: No. Normal competition will be there. I'm just saying there is no intense pressure from the AMISP, right? I mean, let me put it this way. AMISPs are winning orders at fair price and therefore, they will not pressurize you, right? Unless...

Gautam Seth: Look, everybody is in business and everybody looks at competitive pricing, despite maybe a fewer number of sellers or buyers whatever is there. But I think it's fairly competitive and the teams are working today to make sure that the right technology is there at the right price. So definitely, in any kind of business, despite the volumes, there will be certain pressures on the pricing and to make things happen. So because everything is competitively bid, whether it's an AMISP or even if it's a meter supplier, so those things will always remain.

Tushar Sarda: Okay. And my last question. If you can guide on, I don't know the exact number, but approximately what kind of revenue path the company could have this year and over next three years, four years?

Gautam Seth: I think what we look at, at least, say it, maybe a good, maybe a 40% jump in the revenue for the metering part, maybe even going up to INR850 crores is something that we look at from a INR600 crores last year. This is on the metering side.

On the Consumer & Industrial, we do see, again, a growth, probably a healthy double-digit growth, but despite the Lighting price erosion, which I talked about in my earlier answer. So that



would happen. So somewhere anywhere between INR1,500 crores-plus is something that we look at to happen this year. Next year and -- or rather than next two years, is again going to be very good. The Consumer & Industrial will see a steady growth. Our exports are seeing a good steady growth again. So these are things which will grow on its own pace based on that.

But in terms of meters, we could again see a good jump, probably a bigger jump to next year and probably the year after. So next two years, definitely, the meter can go up. So maybe, just a guess. Right now, I'm not forecasting on that. But maybe from an INR850 crores, it could be even going up INR1,100 cores, INR1,200 crores.

So as a company, the last two years, three years from an INR850 crores, we have come up to INR1,250 crores in just two years. And I think even going ahead, we would probably look at the INR2,000 crores maybe in the next two years. That is how we -- so from a growth perspective, with both these verticals and our preparedness and even the market scenario, what we talk about, I think that seems to be pretty much in place here. So for us to even focus becomes much more better.

Tushar Sarda: Okay.

Moderator: Thank you. The next question is from Milind Karmarkar from Dalal & Broacha. Please go ahead.

Milind Karmarkar: I had two questions. One is, of course, that since there is a lot of growth in -- or opportunity, let me say, in the smart meter segment. Over the next three years, so if I look at the P&L account in '26, will a significant portion come from smart metering and the other -- so will the turnover be significantly skewed towards smart metering -is what I wanted to know?

Gautam Seth: Yes, sure. The use and the implementation of smart meters is picking up. So let's say, if you have to look at 2026, I would say probably in the metering segment, it would be nearly 100% smart meters. So that is for sure. But when you look at our other business also, for us as HPL, in the next two years to three years, we would see definitely the metering revenue to rise. And by that time, even probably a lot of related services and related businesses on smart meters would also kick in.

And there are a lot of future business models which can also be implemented. So metering for sure is set to grow in the next three years in a very big way. I think we just discussed that in the previous answers as well. Even consumer and industrial, because these are more steady businesses, but with a lot of infrastructure spending, with a lot of now private spending also picking up and with the expansion of our own network, I would say that also should be set to grow in a big way.

So when we look at that, definitely, meter would be somewhere maybe around contributing 60% something of the overall revenue of the company, and the other would be around 40% or maybe it could be 55%, 45%, something like that. But yes, at two years, three years, the meter would be more dominant because of the surge in orders and a huge requirement driven by the government under the RDSS.



Milind Karmarkar: Okay. My second question would be where the previous participants left, which was on return ratios. Do you see -- or let me ask you the other way around, what would be your targeted ROCE over the next three years?

Gautam Seth: Our ROCE has improved. Earlier, it was just about, I think, 5%. And it's about, I think, 9%, about 8.5%, 9%. So we are quite conscious on this, but definitely, we would see this to go up, maybe a number I cannot just give it, but maybe even in end of this year, we expect it to hit the double digit. But our aim would be maybe looking at it in the 15% or somewhere. But I think more than that, let me just -- while next time we do, we will probably try to figure out and give out next time a specific target for that. But one thing is there, we are looking at a better utilization of our resources and other things. And we would see an improvement in that, which we are already seeing in the last three years in numbers.

Moderator: Thank you. The next question is from the line of Mukesh Astor from Moon shot Ventures. Please go ahead.

Mukesh Astor: Sir, recently, we have won an order with West Bengal. So from our understanding, we shall be making only a single-digit margin on this?

Gautam Seth: No. I think the margins would be better than a direct AMISP project for sure. So probably I don't have a figure right away, nor probably we would disclose that. But definitely, the margins where the supply plus the installation and other aspects, the complete integrated system is involved, the margins are definitely higher, much, much higher than the regular business.

Mukesh Astor: Okay, higher than the regular business?

Gautam Seth: Exactly. Yes.

Mukesh Astor: Okay. And sir, my second question is, is there any performance guarantee you provide to AMISP for meter failure and performance? And what has been the failure rate of meter installed until today?

Gautam Seth: The smart meters are just starting. But if I can give you some historical update, we are in business for over 25 years, since '96, for the meters, for the electronic meters. And so every time there are performance guarantees given for five years until now, and we have so many years been giving that. So in terms of failure rate coming in, it's normally a very minor percentage, which is normally built in and provisioned in the books.

So we would see maybe a similar kind of rates, but one thing just to clarify that under the views, the smart meters that are being currently manufactured, the technologies have changed. They are definitely the high end of technologies. Even our own manufacturing, even the use of components and the designing has now changed drastically to make sure that the meters are much better, and that they last longer. And so a lot of things have undergone change only in the last one year or two years for the smart meters.

So in terms of warranties or even these kind of costs, I don't see any, in fact, because of the new technologies we have put in and even the longer life components that are being used, maybe the



cost marginally goes up. But I think these things have been done by our team and our R&D team is working continuously to make sure that these meters actually last the 10-year period. So I think a lot of work has gone on this.

To answer your – the beginning part of your question regarding the performance guarantees. Yes, with these high-value, long-term orders, the requirements for bank guarantees and others, even the big bond guarantees have really gone up. That's why if you see in our results, in the first quarter, the finance cost has gone up. And main reason for the finance cost is actually the non-fund, the bank guarantee or the bank charges going up drastically. But these are required because initially, when we are accepting the orders or even when we are bidding for huge orders, the bank guarantee requirements go up.

But I think in the regular business, as the revenues start going up, these would be more evened out or they would become more proportionate to that.

Mukesh Astor: So sir, I'll consider we are giving a performance guarantee of five years and failure rate is around 8% to 10%?

Gautam Seth: Can you repeat it, please?

Mukesh Astor: Sir, historically, I am asking, we are giving performance guarantee of five years of a meter and the failure rate is around 8% to 10%?

Gautam Seth: No, no. The failure rates are very much lower. Very minimal.

Mukesh Astor: Very minimal. Okay. 1%, 2%.

Gautam Seth: The performance guarantee is five years, and they're not related because these are just for the -- these are as per compliance of the tender, and bank guarantees are given and then post the failure, then they are given back and then they are closed and cancelled.

Mukesh Astor: Yes. Okay. And sir, my last question is we have received an order of from West Bengal on this mode, AMISP, is around INR 417 crores. How can we see?

Gautam Seth: No, this is an order received. So it will start, the commercial revenues will take, probably it will start only from somewhere in January. So what we are trying to do is that just during Durga Puja, maybe certain testings and some meters would be installed, more symbolically, but customarily that will start. But that will take time until the entire revenue comes in. It will take time. The supply period itself is over two years.

Mukesh Astor: Yes, sir. But I'm simply asking how much is convertible to our revenue. It's 70%, 80% or whole amount, INR 417 crores after two years' time?

Gautam Seth: So eventually, the whole thing would get converted to the revenue. 100% would be converted. Yes, but it depends on the schedule of the utility and the end customer on how they want it and our supplies are all as per schedules. So that would depend, but eventually, the entire order book with whatever the time lag in the schedules are there, that would get converted to the revenues.



- Moderator:** Thank you. The next question is from the line of Hemant, an Individual Investor. Please go ahead.
- Hemant:** Sir, basically two questions from my side. Like you mentioned in your earlier comments that the order book currently stands at INR 2,000 crores-plus, right? So maybe if you can specify the exact amount, and what kind of order book are you targeting by FY '24? And what will be the time line for execution of the same?
- Gautam Seth:** Yes. So if you see the breakup of the orders, so maybe we are around INR2,100 crores something. The exact, the almost 82% of these are meters. So bulk of it is meters and because there the metering typically are long term and even in the new scenario, we would find much more longer-term orders coming in, in meters.
- The other B2C business does not have long tendencies, but certain visibility of maybe two months, six months, certain based on more B2B orders come in during that time. And most of these are to be supplied, let's say, in a two-year period. But in the new orders of smart meters, before the supply starts, there could be a three-month or a six-month gap to start off. So roughly, you can say 2.5 years will be a time when these all the meter orders would be supplied.
- The regular meters, the regular electronic meter, which is still about, let's say, over 20% of the volumes, but that is shrinking down, that is supplied in the next six months to eight months. So that is continuously happening. But as more-and-more orders are coming in, that will be all the smart meter orders.
- Hemant:** So you mean to, sir, say that 2.5 years is a general tenure for smart meters, right?
- Gautam Seth:** Yes.
- Hemant:** And what kind of order book are we targeting for FY '24?
- Gautam Seth:** I think it depends, very, very difficult to quantify, but I think we should definitely get huge orders going forward. There's no doubt in that -- it would be difficult, but we would probably double up from where we are right now. That's something that we aspire for. But eventually, the market is open and it is competitive. So one has to see what we can get.
- Hemant:** Sir, the INR 2,100 crores of the current order book is as of 30, June?
- Gautam Seth:** No, I think, it is as of on 4th of July.
- Hemant:** After that, we have received one more order of INR 417 crores from West Bengal State Electricity Board, right?
- Gautam Seth:** No. We signed an agreement. The order we have given in our listing also, that the order -- the LOI was received. But at that time, we did not disclose that this was an AMISP. Only after the agreement was signed, which was done, I think, somewhere in the last week was when we declared that. But that order was already included in that. We have given it in the listing also.



Moderator: Thank you. The next question is from the line of Ankur Agrawal from RC Wealth Solutions. Please go ahead.

Ankur Agrawal: Is there any export potential for Smart meters?

Gautam Seth: Yes. The export potential is definitely there. There are many countries right now where, which are going for smart meters or which are already in smart meters. But looking at the share volume, what the Indian government and the Indian market is going for the smart meter, I would say, this is probably the world's biggest rollout of smart meters. And so for us, I think our focus at least in the immediate two years is going to be mainly the Indian market. But our sense is very clear that once we go through the cycle of implementing and doing this maybe in the two to three years, the kind of capacity and the competence what we will build up will make us very strong for the global market.

And when a lot of other countries who are trailing behind in the metering, when they take up the smart meters, so that will give a very big advantage to the Indian manufacturers to look at the export market and then grow in a very big way. So this is just the trend what we see. But right now, our focus is mainly on the domestic market and because of the sheer size and the volumes and the ask what they have right now. But, yes, many countries are doing the smart metering internationally as well.

Ankur Agrawal: Sir, these smart meters are compatible with 4G or 5G?

Gautam Seth: No, it's probably maybe technically I won't be able to answer this, but I think many of them are on the -- frankly, it does depend. I think the earlier ones were more on the 2G or 3G. So I think it can be on both of them. As the network changes from a 4G to 5G, they would be compliant. Yes.

Ankur Agrawal: As the technology changes, 5G or 6G or 7G, these meters work on that?

Gautam Seth: Yes, I think, yes, near foreseeable future, I think that has been factored in. But in today's time, things are changing very fast. But roughly, when I think, this is just my thinking, but that once these all meters are -- the entire Indian consumer changes to the electronic meters, definitely, in the 8 years to 10 years, there will be a new set of technology, which could be very different and faster, and maybe even cheaper. I think those types of things will definitely come in the future, and I'm sure our company, which is working in core technologies, can also really exploit those, but that's a very long term and something still futurist.

Ankur Agrawal: Sir, there is a feel after seeing the industry peer that your order intake is little low, after comparing the government order and our order at present is INR 1300, INR 1400? Is there a difference or we are not that aggressive related to order intake?

Gautam Seth: There is a difference of understanding. When you look at the -- when we look at the order book, so we are -- a lot of orders, what you see in the news are from the AMISPs. And so that is covering the smart meters, but also the IT infrastructure, the communication network, the installation, even the meter reading and most importantly, the financing for 10 years. So when you compare one-on-one, only on the supply of smart meters, I think then you will come to know



the actual position. So many of the orders of AMISPs what you're seeing, they will eventually have to give the meter orders to somebody, and that is where we play a very strong and lead role to supply to them. In fact, many of them are already preapproved to take HPL meters, obviously, on competitive terms.

Ankur Agrawal: So all AMISP are not a meter manufacturer, they are already service provider, only?

Gautam Seth: No. I think other than two, HPL and one more, I don't think anybody else is currently actively doing any meters. So they are all bound to buy from somebody or the other. So when you compare the orders of AMISP to a smart meter supplier, that is a disconnect. You're not comparing one-on-one. Then you're comparing it with a different angle.

Ankur Agrawal: For example our current capacity is 1 crores meters, do you feel this current capacity tradition 100% will work or there is a need to expand in 2, 3 years?

Gautam Seth: Not immediately, but after maybe two years, but it may be certain part of capacity -- it can be done on a very -- in a flexible way, we can expand it -- without much of capex. And as I said earlier also, with better utilization of our resources with more automation, what we are already putting in, that will itself give us a better productivity.

So with the same assets, with the same manpower and resources, we can have a better output coming in. So this way, it will change, because as -- when we continuously make it, there are better ways in an industry where we can enhance that. So that's we are doing as volumes pick up. But to answer your question, immediately in the next one year to two years, we don't see any capex or anything. Small improvements are always taking place.

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

Priti Kumar: Yes, this is Priti. I'm an individual investor. I have two questions. What additional business does HPL actually anticipate from the RDSS scheme for the remainder of FY '24 and the following year?

Gautam Seth: Yes, most of the smart meter orders, what are there currently other than the one which we have taken as the AMISP, are all under the RDSS scheme. So going forward in the next seven to eight months of this year, we do anticipate most of the orders, which we will get finalized on HPL, will be under the RDSS scheme. Now apart from smart meters, we are also supplying switchgear to RDSS because that is also a back-end requirement, what comes in. And so that part is also picking up. We are also now getting into supplying cables and wires to the RDSS. These are obviously through the B2C, the contractors and other things. So that business is also picking up.

So overall, as a scheme, I think, and as HPL, we do see a lot of requirements coming in, and we are well aligned to make sure that our products are well going in these schemes.

Priti Kumar: Right. My second question is, what is the capacity utilization across your four segments? Is it upcoming tenders and expansion? Is there a need to boost your current capacity?



Gautam Seth: No, not immediately. Across all our -- both the product divisions and all the four product areas, we don't see any major capacity utilization issues right now. Obviously, as the meter sales are going up, our capacity utilizations are increasing. Similarly, for Wire & Cable, also the capacity utilizations have gone up. But still, we have a big upside right now for us to grow. So earlier also, we have said that even maybe up to INR 1,800 crores or INR 2,000 crores, the company can broadly increase its sales across all product areas without going in for any major capex.

Moderator: Thank you. The next question is from the line Shreyans from Svan Investment. Please go ahead.

Shreyans: So I'm slightly new to the industry and the company. So just wanted some basic understanding on how different is the RDSS and the AMISP scale?

Gautam Seth: RDSS and?

Shreyans: The AMISP that you recently won an order in?

Gautam Seth: No, the RDSS scheme is the broader scheme, that is given by the government. And in the RDSS scheme, there is a policy which is the DBFOOT, like that. So that is just a mechanism of how the thing would flow out. Within the RDSS scheme, there is a provision for the AMISP to be there because from a product supply, like meters was until now, last 25 years, basically a product supplier, where we were supplying to the utilities and they were installing it.

Right now, we are talking about a complete system being in place which will also do the collection of data, collection of all the billing information, doing the billing. So once you are shifting to the system, the system integrator who would be more ongoing during the period of collection of the data and there -- that is what it is. So AMISP is basically a person or an entity what the RDSS, they have provided for that. So between a meter manufacturer and a utility, there is an AMISP, which is there, who would do multiple functions, including supply of meters to the utility.

Shreyans: And secondly, sir, so this is largely, you will get orders from the state government, the respective state governments. So central government has no role to play in this scheme, right?

Gautam Seth: So central government has a role to play because the entire scheme of RDSS has been designed by the central government, plus there are incentives to the state government for going for the prepaid smart meters. So per meter, they get an incentive, I think it's probably INR 900 or something. But every meter, which the -- which is getting ordered and installed, the incentive comes from the central government if it is done under the RDSS scheme.

So the central government definitely has a role to play. And the broader vision, obviously, being that the T&C losses will come down once this happens and the manual intervention of the -- collecting the -- with the meter readers being there or even the losses happening due to the meter reading and even the billing process, that will get reduced, the time lag gets reduced. So it's a huge amount of benefit what will happen. And I believe that -- this will make the entire electrical distribution segment very robust, which can definitely help the overall industry and the housing and other main activities to flourish.



Shreyans: My next question is what we understand is, historically, that there used to be a lot of pressure on your working capital because we used to supply the meters, but whereas the release of payments from the utilities would not happen in time. So a lot of money would get stuck in your working capital book. So how is it different in the current RDSS scheme?

Gautam Seth: As per the RDSS, the basic funding will happen by the AMISP. So I think, he gets 10% from the utility when the whole system is set up and 90% is basically in 96 installments. So broadly, this is the scheme. It may vary somewhere or the other. But overall, in the eight years, they would get the payments. So basic funding right now is happening from the AMISP end. For us, as a meter supplier to the AMISP, it becomes very good that we supply material to them against bank LCs on a fixed date. So in effect, once -- as the share of smart meter picks up, we will definitely see a change in the working capital cycle. That should happen. And probably from Q4 this year or next year, this change will start looking evident.

Shreyans: So if I assume INR 2,000 crores order book, this is just for the understanding. So if I assume a INR 2,000 crores order book of a smart meter under the RDSS scheme, 10% is something that you would get upfront and the balance...

Gautam Seth: No, the AMISP would get the 10%. So he's anyway funding it. Now for us, when we are supplying to an AMISP, it is based on the order that we get irrespective of how he gets it funded. So our...

Shreyans: Sorry. I'm saying, if you get a INR500 crores order from an AMISP, when do you get your money, like a INR 500 crores order book?

Gautam Seth: That depends on when we -- how we are supplying. So it's purely on supply terms.

Shreyans: Okay, it's purely on supply. So once you supply INR 250 crores, you get INR 250 crores?

Gautam Seth: Yes, exactly. So that would happen based on that. So let's say, this INR 500 crores order comes, and these INR 500 crores are to be supplied in two years or 2.5 years. So as and when we are supplying, as and when, I guess, they are getting installed. So with -- against bank LC, we would get our payments. So maybe some could negotiate with the terms or -- because these are still with private players and they are pretty large players for that. So there could be some variation in that, but broadly, the payment would come in through the bank LCs and they would be paid to us. So how the AMISP is getting it funded and other things is, that is their purview. We are just a supplier to them.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments. Thank you, and over to you all.

Gautam Seth: Yes. So thank you all for joining us today, and for your presence alongside us in our growth journey. We look forward to capitalizing on this inflection point in our journey as we see the domestic and the global market momentum in adopting smart meters towards a more sustainable future. So if you have any questions, please reach out through Dickenson and we'll be happy to answer them. Thank you, and have a good afternoon.



*HPL Electric & Power Limited
August 11, 2023*

Moderator:

Thank you very much. On behalf of Elara Securities Private Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.