



“HPL Electric and Power Limited Q3 FY17
Results Conference Call”

February 07, 2017



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HPL Electric and Power Limited
February 07, 2017

Moderator: Ladies and gentlemen good day and welcome to HPL Electric and Power Limited Q3 FY17 Results and Business Outlook Conference Call, hosted by Dolat Capital Markets. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rabindra Nayak from Dolat Capital Markets. Thank you and over to you Sir!

Rabindra Nayak: Good afternoon ladies and gentlemen. On behalf of Dolat Capital, we welcome you all to the conference call with management of HPL Electric and Power Limited to discuss the Q3 FY17 financial performance and business outlook. Representing the management of HPL Electric and Power are Mr. Rishi Seth - Joint Managing Director, Mr. Gautam Seth - Joint Managing Director and Mr. V.R. Gupta, Director-Finance CFO. We will now hand over the conference call to Mr. Gautam Seth for initial comments, after which we would move to the question and answer session. Over to you Sir.

Gautam Seth: Thank you. Good afternoon everyone. On behalf of the Board of Directors and the Management of the company we extend a very warm welcome to all of you to this maiden conference call of HPL Electric to discuss the financial results for the Q3 and the first nine months of the financial year 2016-17. We have successfully completed our IPO in September 2016 and we take this opportunity to once again sincerely thank all of you for your support and we shall remain committed to a long-term business growth and adding to the shareholders' wealth. Before we discuss our financial performance, I would briefly like to give an introduction about ourselves. HPL Electric as many of you might know is one of the leading electric equipment manufactures in the country into four product verticals and we are into this business for more than 40 years. We are the market leaders in electronic energy meters with a 20% market share, on-load changeover switches over 50% market share, fifth largest LED manufacturer, 5% market share in the low-voltage switch gears. Today HPL is a one-stop shop for the low-voltage electrical requirements ranging from the metering solutions, switch gears, lighting, and wires and cables. We have seven state-of-the-art manufacturing facilities which have a very strong capability across in terms of design, product development, component designing, tool making, and the commercial production. Further, we have a very large distribution network, which is spread, across the country consisting of 90 plus branch offices, over 2700 dealers and distributors, and over 20,000 retailers. We lay strong thrust on continuous R&D to launch and market new innovative products loaded with improved features, energy efficiency, automation and communication. Our strong R&D capabilities have helped us to evolve from a product



HPL Electric and Power Limited
February 07, 2017

supplier to an integrated solutions provider. Many of you might have heard about the first order that we have taken in the Smart City Lighting in Bhopal that is with a consortium with Bharti Infratel and Ericsson and that is one example of our R&D. HPL in that order is providing the smart lighting solutions with automation which can be monitored through a centralised server. Our end consumers include the power utilities, public and private enterprises, industrial, commercial and residential users, so it is again a very large and very diversified customer portfolio what we have. Our established relationships with all these consumers and a strong prequalification credentials coupled with the extensive pan-India dealer network what we have gives us a very competitive edge in retaining as well as growing our businesses.

Coming to the third quarter performance, we witnessed certain positive business scenario driven by our metering business which gained some momentum with an improved phase of tendering after a slow take-off of orders in the first-half of the financial year. Further, our switch gears and wires and cables also saw sales growth during the quarter on a sequential basis partially off-set by the lower lighting sales which were impacted by the phase out of CFL. As you know CFL is now a dying technology and LEDs are coming in a much bigger way. The company voluntarily took decision to stay away from the low-margin business of certain large government procurement programs like the EESL, which again impacted the lighting sales to go down. We now have a very strong order book in the company of 342 Crores which gives us a good revenue visibility over the coming year. Further, various government initiatives like UDAY scheme, Smart Cities Mission, Housing for All, IPDS, and the Deen Dayal Upadhyaya Gram Jyoti Yojana, so these are very strong growth drivers for the electric equipment industry in the coming years. Again, the opportunity under the Housing for All initiative has got further impetus from the industry infrastructure status which has been accorded in the recent budget, what we saw last week, so we strongly believe that HPL can effectively leverage its strong R&D and manufacturing capability, long-standing relationship with the domestic and institutional consumers, and a more visible brand to capitalise on these opportunities. With this, I would like to hand over the call to Mr. V.R. Gupta, our CFO who will briefly talk on the financial performances.

V.R. Gupta:

Good evening to all of you. Company achieved turnover of Rs.227.49 Crores during the Q3 FY17 as against Rs.213.94 Crores during the Q2 FY17. However, the turnover during the Q3 FY16 was higher at Rs.274.82 Crores. EBITDA was stable on Q-o-Q basis in Q3 FY17 it was Rs.29.89 Crores as against Rs.30.22 Crores in Q2 FY17. EBITDA recorded during Q3 FY16 was Rs.38.44 Crores. There was slight decline in EBITDA margin during Q3 FY17 as against Q3 FY16 and Q2 FY17. EBITDA margin declined to 13.14% in Q3 FY17 from 13.99% in Q3 FY16 and 14.12% in Q2 FY17. The decline was primarily due to decline in margin in metering and lighting segment. Company reduced its debt by Rs.320.5



HPL Electric and Power Limited
February 07, 2017

Crores during Q3 FY17. There was improvement in PAT in Q3 FY17, company recorded PAT of Rs.9.57 Crores as against PAT of Rs.4.03 Crores in Q2 FY17 and of Rs.9.19 Crores in Q3 FY16. These are the broad financials of the company. Now I hand over the call for question and answer. Thank you.

Moderator:

Thank you very much. We will now begin with the question and answer session. Anyone who wishes to ask a question may press “*” then “1” on your touchtone telephone. If you wish to remove yourself from the question queue, you may press “*” then “2”. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. To ask a question you may press “*” then “1”. We take the first question from the line of Deepak Agarwal from Elara Capital. Please go ahead.

Deepak Agarwal:

Good afternoon gentlemen. Can you share some colour on the impact you have seen due to demonetization in this quarter, in the industry and specifically in your business per se?

Gautam Seth:

Initially due to demonetization, if you see the way the dealer network and retail network are structured, that is very much the way you have across the industry, so definitely there was an immediate impact more in terms of disruption or non-availability of cash in the market. We did see some impact initially in the first 7-10 days where people were just trying to get their act together, but in terms of sales if you see and in terms of movement of goods, the primary sales we have not seen them getting affected, but yes the secondary and tertiary sales down the line on the retail may have been impacted, but December was still a better month from that point of view, in the sense that movements had started in the market, of materials coming up. So, in terms of long-term demand we do not see any issue especially when it concerns our industry, but in terms of the business, yes there was a temporary disruption, which now I believe, is much better. Going forward, the way we see the economy overall and our industry, we should see things moving on in a better manner, the demand is coming back. There is also focus on or at least our awareness levels are very high, there have been efforts by the trade also to move towards getting into digital payments and this is not between the company and the dealers because that was already on the cheque payments and through the digital payments; we are talking about what the retailers have been paying the dealers, so there has been some shift. How long that shift is going to remain or when the cash comes back into the economy, whether this kind of thing develops into habit and stays on for longer is something what we need to see, but there has been a shift or a big awareness coming through where we see people changing. So, in terms of demand it was probably a temporary thing which I think would come back. Overall, I would say it is something in the long term we see the demonetization to be a much better step for the industry, more so because if you see the unorganized brands and unorganized sector, that is



HPL Electric and Power Limited
February 07, 2017

something which would face certain difficulties and the market would eventually move to branded players like us and we would stand to benefit from there.

Deepak Agarwal: Is the drop in the sales is attributed only to the dip in November figures?

Gautam Seth: No. If you see the drop in the sales, you need to analyze these, if you recall in the first half of this year, we have not seen many tenders from the utilities, that's in the metering.

Deepak Agarwal: I am talking of Y-o-Y and not the sequential.

Gautam Seth: If you see the drop, the same reasoning is that last year in Q3 the metering was about 146 Crores which has now come down to 115 and this is mainly due to the tenders which have not come out in the six months, which were not finalized by the utility and we saw some movements in September where the tenders started coming out. So, there was a drop in the orders overall in the industry and as with power company as well. From September, we have seen a lot of new tenders which have come out, in fact just to share some light on that, there are almost 10 million pieces of meters, in terms of quantity, the tenders in which the company has participated, are yet to be finalized. There are under 9.5 million meters, the tenders have come out which are again due for participation by the company. So, in terms of the tender process resuming and the business coming out, we do see that movement has started there and as these tenders get finalized we would again see the business coming back to the levels we had in the year 2016. Although demonetization had an impact on the secondary markets on the trade side, if you see the level in the business, there have been certain secondary drops but not to the level we might have probably expected. One more thing you need to keep in mind when you read the results is that last year we have done decent business on the project lighting which was also to the government EESL and this year due to the falling prices and very low margins the business offered, we have voluntarily stayed away from many of these orders the company could take, so there has been a drop in Q2 and Q3 on the lighting orders. If you see the trade lighting, normally which goes to the dealers and distributors in terms of LED sales, that has grown on a Y-o-Y and on a Q-o-Q basis.

Deepak Agarwal: Okay. Just some colour on the 1 Crore tender and this is also floated by EESL I guess. What is the modality like? Will this be given to a single party or there is some maximum threshold that is kept for each player and what would be the approximate value and timeline for these to be supplied?

Gautam Seth: I just need to clarify. The 1 Crore tender we are talking about was for the meters.



HPL Electric and Power Limited
February 07, 2017

- Deepak Agarwal:** Yes, I am talking about meter tenders.
- Gautam Seth:** That is not EESL. These are tenders which have come out, there are about I think 24 to 25 tenders which have come out, which are from various utilities and they are under various stages of evaluation, so it is not one single tender what has come out. Just to put in perspective, in the first six months there were lesser tenders, then the tenders have started coming out, so they are from different utilities and once they get finalized, which would be done at a state level, the business would come back to the previous level.
- Deepak Agarwal:** Would you attribute any approximate value to a tender of this size?
- Gautam Seth:** Anywhere between 700 to 800 Crores of tenders which are already out. These pertain to different specifications, some are single phase and some are three phases. Three phases have much higher unit values. If we are to talk on a figure, somewhere let us say about 800 Crores.
- Deepak Agarwal:** Okay. Thank you and all the best.
- Moderator:** Thank you. We will take the next question from the line of Abhineet Anand from SBI Capital Securities. Please go ahead.
- Abhineet Anand:** Just on the lighting part we understand that we have not participated in EESL this time, typically it is understood that EESL has a lower margin; you would have a better margin compared to last year since you have not participated in EESL. Why the margin in lighting is still not say, up to last year numbers?
- Gautam Seth:** Lighting business this year has been impacted by three things, one is CFL getting phased out because that is of course an industry phenomena where the figures have been going down. Almost I would say about 40% Y-o-Y. Second is the continuous slide in price; the exiting pricing of LED and which is evident when you see the prices which have come in EESL, but similar, though not such a sharp drop is also seen in the prices operating in the markets for various LED products, be it fixtures or indoors, street lights covering the entire baskets, so there has been a drop in the pricing and the CFL business is going down. The third is our decision to consciously stay away from the business of EESL, so that again impacted the margin. With the pricing coming down, the margins obviously get affected. What makes us stand out in our effort to counter that each time is that we have our own R&D and we are backward integrated into manufacturing of the LED drivers and the PCBs. In terms of margin, when there is a drop in the pricing, our teams are working continuously



HPL Electric and Power Limited
February 07, 2017

trying to get back and retain the margins even on the lower realization values. This is the trend we are seeing and it may for last one-and-a-half to two years.

Abhineet Anand: Okay. Within lighting what is the proportion of LED and CFL presently and what was it last year?

Gautam Seth: CFL is now very less, we just gathered some figures. In terms of our total sales, if you see from the company figures, it is now almost less than 5%. The CFL has been drastically going down.

Abhineet Anand: 5% of company sales is CFL you said.

Gautam Seth: Yes, the total company's sales to CFL is about 5%.

Abhineet Anand: Okay. I think we are working on channel financing. How is the progress on that end and our ad strategy that we had planned?

Gautam Seth: Sure, in terms of channel financing we now have confirmations from 159 dealers. Our initial strategy was to get in the top 200 to 300 dealers because the top dealers obviously constitute the maximum sales in terms of values. We have had a good response. Our teams have really been reaching out to our dealers and with the help from the bankers; we have been educating our dealers. We have added 159 dealers who have signed up for that. The documentation and the processes and due diligence, all of which are happening from the bankers' side. The bankers are evaluating it; we already have some confirmation coming from them. In Q4, the whole process of channel financing would start and by end of March we expect over 200 dealers to sign in and the process of channel financing to begin. We would start seeing the results by end of March and by end of first quarter, because we do expect over 300 dealers to come on board by then. You must realize one thing that although the banks have been working and our teams have been working, due to demonetization even the bankers have been preoccupied with a lot of other work; but still we are witnessing good progress. Our strategy to implement this across our dealer network seems very real. We do see that it is a very doable thing for our company and once we have these 200 to 300 dealers signed in completely, the balance would not be a problem.

Coming to your next question on the advertising part, we have already been evaluating various leading agencies for the creative side on the media buying on how HPL needs to come up with a very aggressive strategy for a sustained brand building and that is what we are looking at. As the demonetization came, it was felt internally that instead of coming out with a mass media campaign, we would initially first focus more on what is called below



HPL Electric and Power Limited
February 07, 2017

the line (BTL) activity and in terms of our BTL activity, we have been focusing on the point of sales publicity, campaigning at the ground level, at the retail and the dealer level, so that we enhance our activities by four to five times. There is lot of effort going on to bring in visibility at the point of sale level. We hope to do a lot of it by March and by early next year, we would like to leverage the mass media and by the time we do hope markets would pick up and it would be much more fruitful for us to come out with that. We have also felt internally that we need to spread ourselves much more on the dealer and the retail network, so there has been a lot of effort by the team to add in more channels and wherever we have more unrepresented areas, we have been expanding, so that when we commence our publicity campaigns, we will exploit it in a better manner, so that's the current strategy.

Moderator: Thank you. We take the next question from the line of Kunal Sheth from Prabhudas Lilladher. Please go ahead.

Kunal Sheth: Good afternoon Sir. I wanted to know how much price hike we have taken in wires?

Gautam Seth: From November, the prices have been increasing and we have increased our pricing by about 15% in the market. In fact, it was done in three phases; somewhere in November then in December and then towards the end of December, due to increase in the Copper prices we have increased our prices by 15%. If you see our wire business this year, the first seven months were impacted by low commodity prices, where the prices were about 15% lower than the last year prices and then we had a spurt in November when the copper prices went up and accordingly the increase has been passed on and implemented by our teams, to the consumers.

Moderator: The line from Mr. Sheth has dropped. We take the next question from the line of Vijay Gaur from Latin Manharlal Securities. Please go ahead.

Vijay Gaur: Good evening Sir. As I am listening to this con-call, you discussed we are going to get this revenue back in FY18, this was same in FY16, so do we think 20 to 25% growth from this level to FY2017-18?

Gautam Seth: The context in that conversation was basically on the metering side. This year we have had a very unusual thing of tenders not coming out or the ones which came out were not decided by the utilities. Because if you see in the last five years or even 10-15 years, we have been growing steadily in the metering segment. This year initially due to the introduction of smart meters, there was a lot of ambiguity within the government, within the states and centre, on how the meter procurement needs to happen, also on the specifications of the smart meters. Even till date if you see there are new higher standards, which are out



HPL Electric and Power Limited
February 07, 2017

today. There are testings going on and yet a lot of technical clarifications still need to be put on board before the whole process goes in smoothly. The positive side is that at least normal tenders or the tenders for meters which are smarter today with communications and RF and other technical features, those tenders have started coming out by the various states. In that context, by next year we do expect the business volumes in the entire industry to at least go back if not more, but at least to the level of the year FY2016.

Vijay Gaur: Okay Sir. One more thing, you discussed about marketing strategies. Is there a specific percentage of sales for advertising expenses?

Gautam Seth: As a strategy, we have been saying it earlier also that we would like to put a substantial amount in the next two years to create our brand. Initially, I guess we would be working on probably a budget, but in the long-term the positive impact what we see is that this advertising revenue should also help us to increase our realization. It should be in a way, like a self-generating thing where we can earn back the advertising through the increased revenues and the increased margins. Obviously, we would make a start somewhere, but down the line, we would like to challenge ourselves, so that we can invest that kind of money into brand building and recover that from the increased realizations.

Vijay Gaur: Sir one small question. What is the total debt as on December 31, 2016? I think we are almost debt free right now.

Gautam Seth: No. Like Mr. Gupta was saying we have paid back 320.5 Crores overall. Our debt on the books is around 260 Crores.

Vijay Gaur: Okay, thank you so much.

Moderator: Thank you. We take the next question from the line of Devang Patel from Crest Wealth. Please go ahead.

Devang Patel: Good evening Sir. You mentioned earlier you have taken 15% price hike in the wire segment. Now our revenue is down 10%. Can you break that down into volume and value?

Gautam Seth: If you see the price increase, the bulk of the 15% price hike has been done in the second half of December. So, the value increase from the price hike would be more evident from January onwards, from Q4.

Devang Patel: Sure. Could you give us the volume growth Y-o-Y in Q3 in the wiring segment?



HPL Electric and Power Limited
February 07, 2017

Gautam Seth: What we can do is we can check that up and we can connect with you offline on this to give you the detail. I do not think we have it right now immediately.

Devang Patel: Sure Sir. You were asked this question on the targets for branding spends or ad spends. Could you give us a number currently what do we spend on advertising and marketing as a percentage of sales?

Gautam Seth: If you see in the last two years, we have spent about 21 Crores. This year our ad spend overall in terms of BTL and certain other activities would be around 11 to 14 Crores. This is where I see the overall ad spending happening. Our original idea was that from Q4 we would start doing the ad spends in a bigger manner, so now that gets pushed back because of the demonetization and we were also unable to figure out the exact impact it would have on the secondary markets, so the strategy was as I said that we would go at least on the BTL side, focus ourselves on the point of sales, so there are a lot of activities that are happening on the ground. To appeal to the mass media and to the end consumers we would take it in the early next year.

Devang Patel: And when you say 21 Crores this was cumulative for two years?

Gautam Seth: That is right.

Devang Patel: This would be about 2% of our non-metering sales roughly?

Gautam Seth: Yes, it is about 1.8% to 2%.

Devang Patel: The other question I wanted to ask was on the backlog for the metering business. In the presentation, it is mentioned 227 Crores for December. Could you give the corresponding numbers a year back and for the March quarter?

Gautam Seth: Our current order book on the pending orders is 227 Crores on metering and this was about 275 to 300 Crores in March.

Devang Patel: And would you have the number for December 2015?

Gautam Seth: We can get back to you on that.

Devang Patel: And lastly the margins sequentially have come down a bit despite some pickup in revenue. Is this to do with different revenue mix in the metering business or is it raw material impact? EBIT margins from revenue.



HPL Electric and Power Limited
February 07, 2017

- Gautam Seth:** Yes, that is mainly on the revenue mix because in metering if you see our margins across the last five to six years they are around 17.5%, 18% to about 22% and this purely goes on the revenue mix because every utility in the country has different specifications, then the margins would differ again from a single-phase to a three-phase meter, it depends on whether it is with communication, without communication, so there are a lot of combinations because of the technology and that is where the margin gets determined.
- Devang Patel:** Sure. Just one more thing I wanted to clarify. You mentioned earlier there are 10 million meter tenders live and there are another 9.5 million meter tenders, so are these expected to come by March?
- Gautam Seth:** They would have their own time for finalization. If you see, the 10 million meters which are there, the bids have already been submitted. They have their own evaluation, where these are technical evaluation, then they require two to three months for testing the meter samples what we submit, and then they have their own internal process of finalizations. The other 9.5 million meters, these are tenders which are out, which have not even been submitted, but I guess the submission dates would be probably in the next one month, but again they would also have the similar process. Some of them would get finalized in March, the supplies would again start early next year and in some of them the finalization would probably go to the first quarter of the next year.
- Devang Patel:** When you said 700, 800 Crores tenders you were talking of both these 10 million plus 9.5 million meters?
- Gautam Seth:** No. We are talking only about the 10 million.
- Devang Patel:** Okay. That is all from my side, thank you.
- Moderator:** Thank you. We take the next question from the line of Shekhar Singh from Excelsyor Capital. Please go ahead.
- Shekhar Singh:** Just now you mentioned that CFL is 5% of your total company sales. I just wanted to know like LEDs, what will be the percentage of total sales?
- Gautam Seth:** I would roughly put it around 14% to 15%.
- Shekhar Singh:** And Sir this debt of 260 Crores which you now have on your book, that is net of cash or is it gross debt?
- Gautam Seth:** Net of cash.



HPL Electric and Power Limited
February 07, 2017

Shekhar Singh: Looking at your profit and loss statement over the last four to five years, the profit after tax has remained in the 30 Crores range, plus/minus 1 or 2 Crores. I am just wondering like to go to the next level of growth in the sense so that your profit after tax starts growing. I just wanted your views on that; what are the steps that the company is taking?

Gautam Seth: If you go back about four to five years, earlier the profitability was much better. After that a lot of capacity building has been going on so the debt had gone up, but in the five years preceding the last year we have invested over 300 Crores in Capex to build up new facilities and upgrade the existing ones, so a lot of Capex had been done which in turn increased the interest expenses and that reduced the PAT. The way we see for us once the sales goes up, because our debt is well aligned, we are already working on reducing our working capital, once the channel financing comes in that would again help us to reduce our debtors, so our net working capital would really come down. So, for us to have a better PAT, the sales need to go up. Unfortunately, as we said, the meter is having a onetime industry situation where the tenders have not come out, which I see would probably improve. If you look at the budget, this time there is Housing for All coming, it has been given the infrastructure status, so that is again going to lead to a very big demand for all our products, be it wires, switches, MCBs, all our lighting products, and then coupled with the government projects which are IPDS or Deendayal Upadhyaya Gram Jyoti Yojana, so these are again having a direct impact on our products. Keeping in mind the industry trends, whether it is a falling pricing scenario or whatever has been happening, our EBITDA if you see has been quite well maintained and so once the sales goes up, I guess we would come to a situation where the PAT goes up.

Shekhar Singh: Thanks a lot Sir.

Moderator: Thank you. We take the next question from the line of Krish Kohli from Edelweiss. Please go ahead.

Krish Kohli: Thank you for taking my question. You had basically mentioned about expanding your dealer network. What are the areas we are specifically looking at, where we have not penetrated yet and where we would like to expand?

Gautam Seth: We today cover the entire country in terms of major cities or the states. What we are looking at is now a deeper penetration into it. There is not a city probably I can name where we are not there, but the kind of presence what we need to have, which needs to be much more deeper and it needs to be for all our products. We might be having today a lighting being sold in Rann of Kutch area or even on the southern borders of the country, but for us our aim is to have all our products being sold in the tier-II, tier-III towns, even some of our



HPL Electric and Power Limited
February 07, 2017

products also have a good rural demand. For us, the aim now is to go much more deeper and that is where we are channelizing our efforts. We have officers across the country, we have our own sales people representation again in all the state capitals, tier-II cities. Even the dealer network and the retail network is well spread out, but our aim is to go much more deeper, spread out, and then look at the per dealer sales and that is something what we need to do to start expanding because we already have over 2700 dealers, that is quite a sizable dealer network what any company can have, but again to work on expanding our product range within these dealers and then to have much more sales per dealer, so these are the kind of targets what our teams have been working on and I am sure you would see a lot of spread during the next few months.

Krish Kohli: Okay. Sir with regards to the CCMS street lighting system, the order that you secured in Bhopal, are there any other cities where you have given a bid for any of this?

Gautam Seth: Currently the tenders for submission of Smart City Lighting are still under pipeline because they have been extended two to three times because the local Smart City Corporations are trying to figure out the best way to do that. We are present in the next four or five submissions. As the dates come, which appear to be in February end or March, we will be bidding for all of them.

Krish Kohli: Okay, and the figure that you gave for Capex in the last five years was 300 crores, right?

Gautam Seth: Yes. I think it is a little more than that, but it is in that range.

Krish Kohli: Okay. What has been the year-to-date Capex?

Gautam Seth: On a standalone basis, I think it is 16 Crores.

Krish Kohli: Okay Sir. I will get back for more questions in the queue. Thank you so much.

Moderator: Thank you. We take the next question from the line of Bhavesh Jain from Envision Capital. Please go ahead.

Bhavesh Jain: Sir can you tell us the outlook for all the four business products which we are having?

Gautam Seth: In terms of metering, smart meters have high growth potential. There is a lot of potential in the solar, on the net meters. If you see even last month we heard the minister talking about over 20 Crores of smart meters coming in, so that is a big potential for the metering. Net meter which is used in the solar applications, also on the rooftop solar, then we have prepaid meters which are now becoming very widespread, most of the developers and the



HPL Electric and Power Limited
February 07, 2017

builders are using it, plus the general meters which are to go into housing, as we are seeing a lot of industrialization, lot of automation coming in. Meters are also used very much in energy orders on monitoring the energy. They are used very widely in the commercial establishments. Overall, meters I would say it is something, which has huge growth potential, led by the smart meters, but also by all the other things. Switch gears have a very strong potential coming in from the government projects. Housing for all is again one of the key drivers, in fact that would drive all the four product verticals, but primarily the switch gear and the wires in a very big manner. LED lighting is set for a big growth. If you see the industry estimates and the numbers from a lot of research firms, from almost a 5000-Crore industry what was there one year back it is expected to go to 30,000 Crores by 2020 and that is almost a 60% CAGR growth on a Y-o-Y basis. So, in LEDs we are seeing a very strong opportunity coming in. Unfortunately, when an opportunity comes in there are also certain disruptions, certain problems, so the price falling was one of them, but I think the industry, we have been able to work on the margins, we have been really working to get our R&D in motion to get the costing better, to have a better design. There have been a lot of these kinds of challenges coming, but of late there is some amount of consolidation. We are already beginning to see in the LED industry the specifications in terms of certain orders, like what you heard about in the smart city. The competition is very thin there because the technology is not available with everyone and even the margins are much better in those kinds of businesses. As HPL, we have also realigned ourselves when we see these things happening. We have moved away from certain low-margin businesses like EESL. We have also been focusing on a lot of technology and trying to go to places where bigger opportunities are there. In terms of growth, all the four product verticals what we have independently have a huge growth potential in the next three to five years. As we see, all the smart cities coming in along with FDI, everything has a direct impact on our industry.

Bhavesh Jain:

Okay. In our presentation, I have seen that we have sufficient capacity to achieve revenue of 2500 Crores without any incremental Capex in future. Can we reach this turnover in next four to five years? Do we aspire to reach that, which will translate into a growth of around 16% to 17%?

Gautam Seth:

I would say yes. Our aspiration and our aim is to reach that figure. That is why we have put these capacities, looking at the way we see India as an emerging economy. It is a big focus area for us. We are also now focusing on exports in a bigger manner. We have now been reaching out to over 25 countries. We have been exporting to Africa, SAARC countries and the Middle East. So, there are a lot of areas where we are focusing. So, on an aspirational basis, for us to reach that figure of 2500 is something, which is possible.



HPL Electric and Power Limited
February 07, 2017

Bhavesh Jain: And just a final question on our working capital intensity. Has something changed on the metering front because I guess the working capital cycle is too high for metering segment largely because we are dealing with SEBs and utilities? Whether that will change in future?

Gautam Seth: Yes, we expect that to happen through UDAY. Already 21 states have signed up and the deadline for signing up is 31st March. Many utilities, I think the bonds have already been issued and the debt has already been taken away from the utilities. Personally, I see that after 31st March the government would give a bigger push to UDAY wherein the balance sheets and the books of these utilities and the DISCOMS will be much better and that would result in better payments from the utilities to all the component suppliers, which includes us also. UDAY also has a lot of efficiency parameters, which again entails the use of smart meters in a big way. So, in terms of demand for our product as well as the payment cycles, what UDAY can do for the DISCOMS, in both ways we would see certain benefits happening probably in the next year.

Bhavesh Jain: Thanks a lot, and all the best for the future.

Moderator: Thank you. We take the question from the line of Ketan Pandit, an individual investor. Please go ahead.

Ketan Pandit: I have two questions. The first one is in your nine-month FY17 results, compared to FY16, is it hit by 20.7%? How are we planning to garner more revenues so that FY17 results appear better? My second question is, do we have any tie-up with e-commerce portals to improve our sales?

Gautam Seth: The first question on the sales, we have been discussing over the things. If you look at Q4, normally in trade the Q4 is the best quarter where there's better sales happening from the trade, so definitely as a company we are pushing the teams accordingly and working towards achieving high growth. In the last question, we discussed on the opportunities what are there for all the four product verticals and we believe that those opportunities are going to help us to get a better market share and growth in the coming quarters. In terms of metering, the pace obviously depends upon how the tenders get finalized, but since a lot of tenders have come out, that would be beneficial for all the participants including company like us. In terms of e-commerce, we are already selling through various sellers, over I think 20 portals. A lot of our lighting bulbs and a lot of consumer-driven products are already being sold on various portals.

Moderator: Thank you. We take the next question from the line of Dhiral Shah from GEPL Capital. Please go ahead.



HPL Electric and Power Limited
February 07, 2017

Dhiral Shah: Sir my question is regarding your operational margin in the last five years and it has been in the range of 11.5 to 12.5. Any room to improve from hereon or any ballpark figure in your mind that we have targeted to achieve in the coming years?

Gautam Seth: If you see in the last five years, apart from doing our sales and growing in the market, we have been also busy in setting up our facilities. Due to that, we have been doing the Capex and taking loans against that. Going forward when you see, our focus is now on two things, one is to improve our volumes in terms of our sales growth so that is going to help us to improve our overall margin. Secondly when you see new technologies coming in like smart meters or if you see the street lighting what is there in the smart cities, even in the switchgears if you see there are newer technologies where switchgears are moving into electronics where we have the micro processor-based MCCBS, we have recently launched the new automatic transfer switch, so there are a lot of products within all the four segments which give us a better margin and if you see even wires which traditionally are of a lower margin, this year we have been able to improve our margin only because of working towards improving our product mix, focusing a lot on specialty cables. The idea is, by growing our volumes and then having the right product mix, would help us to improve our margins in the long run.

Dhiral Shah: Sir out of the four segments which segment gives you the highest margin?

Gautam Seth: The switch gear is with the maximum margin.

Dhiral Shah: And if you can tell me the range?

Gautam Seth: On the EBIT level, margin is about 22.4% this year in the first nine months and even in the last year it was 22%. So, we have been able to maintain our margin despite the fluctuations in the commodity and in-spite of the demonetization in the last two months.

Dhiral Shah: And Sir what is our capacity utilization rate right now?

Gautam Seth: It depends. We have seven factories. We have put in a lot of new Capex over the last five years, our capacity utilizations are all ranging from 65% to about 70%. There is big headroom for us to grow without doing any fresh Capex.

Dhiral Shah: Okay, and what is your asset turnover ratio?

Gautam Seth: I think we will get back to you offline on this figure.

Dhiral Shah: Okay, sure. That's it from my side. Thank you, Sir.



HPL Electric and Power Limited
February 07, 2017

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Rabindra Nayak from Dolat Capital for closing comments.

Rabindra Nayak: On behalf of Dolat Capital, we thank the management of HPL Electric and Power for taking out time for the call. We also thank all the participants and hope the call was useful to them. Sir, do you want to give any closing comment?

Gautam Seth: Yes, I would just like to thank everyone for giving us an opportunity to present ourselves and giving us a patient hearing. Thank you.

Moderator: Thank you very much. On behalf of Dolat Capital Markets that concludes this conference. Thank you for joining us and you may now disconnect your lines.