



“Schneider Electric Infrastructure Limited  
Q1 FY2021 Earnings Conference Call”  
August 21, 2020

**ANALYST: MR. KUNAL SHETH - BATLIVALA & KARANI  
SECURITIES PRIVATE LIMITED**

**MANAGEMENT: MR. BRUNO DERCLE – MANAGING DIRECTOR -  
SCHNEIDER ELECTRIC INFRASTRUCTURE LIMITED  
MR. ARNAB ROY – CHIEF FINANCIAL OFFICER -  
SCHNEIDER ELECTRIC INFRASTRUCTURE LIMITED  
MR. VINEET JAIN – HEAD INVESTOR RELATIONS -  
SCHNEIDER ELECTRIC INFRASTRUCTURE LIMITED**

*Batlivala & Karani Securities India Private Limited*  
*August 21, 2020*

**Moderator:** Ladies and gentlemen, Good Afternoon and welcome to the Schneider Electric Infrastructure Ltd Q1 FY '21 earning call organised by Batlivala & Karani Securities India Pvt. Ltd. At this moment, all participants are in a listen-only mode, later we will conduct the question and answer session. At that time if you have a question please press “\*” and “1”. I would now like to turn the conference over to Mr. Kunal S, over to you sir.

**Kunal:** I would like to welcome the management of Schneider Electric Infrastructure Ltd on the call, I would like to thank them for giving us the opportunity. From the management we have Mr. Bruno Dercle Managing Director, Mr. Arnab Roy Chief Financial Officer and Mr. Vineet Jain Head Investor Relation. I would request the management to give us some opening remark post which we will open the floor for Q n A. Over to you sir.

**Bruno Dercle:** Good afternoon everybody, I am Bruno Dercle Managing Director of Schneider Electric Infrastructure Ltd. I am pleased to connect with you to share and update the progress of our company. Today we present you some slides on the marketing trends and since we have a limited time we will try to mention on each slide the need to be. So let's go to the presentation and we will go straight to slide number 3 of the presentation.

So I'm on slide number 3. I would like to have your attention on the left bottom corners which are the most critical indicator macro-economic indicator for our activity on our company. So you see NCET growth that suffered a big dip in April and May. No surprise for that, this follows infact the economic activity or the industry activity of the country and we have got the see recovery but June was still negative in terms of economic electricity consumption. July month, it has shown some growth in some states and some de-growth in other states depending on the impact of the COVID 19 depending in the states. But no voice [00:07:48]. The two main KPI for us in terms of industry KPI of macroeconomic are the bottom left one manufacturing growth and electricity growth. Electricity because we are of course we are manufacturing company and manufacturing because lots of our sales are being done in segments which are industrial segments and we are also in transformers and switchgears. So you can see the two indicator where heavily negative in quarter 2 whereas the figures hold April and May, the situation of June was recovering but still not positive still a negative trend on the two, manufacturing and electricity indicators. So this gives a global macro economy by month, the other important KPI that we have serving is that of the GDP of the nation and as you know the GDP of the nation is now expected to the negative during at least 2 quarter if not 3 quarters and this is the one that you see on the top right side of the screen. So difficult environment to get it short in terms of micro economic situation. We will go to next slide on the market trend and I would start with the segments on the top right corner. We have distorted segments trend depending on the different segments. You know that we are most present in tools of power and grid what we call the utility and distribution company segment, this is what our job most of our activities are there, give it the approximately. Then the other two segments which are important to us are mobility the transportation segment, airport and metro to be the main contributor and oil and gas and metal mining methods segments. With acquisition of 2 main segments and we would see this when we will communicate about the other intake power distribution, metro and airports sector have shown very strong resistance in resilience in terms of other intake. Some projects have been delayed, we will see this when we see the sales of the quarter that's finished. But in terms of order intake these 2 segments are very resilient and you would see this when we talk about other in the near term. Contrarily metal and mining segments is very negatively impacted mining method and we have cement industry we have steel industry in this segment. It is extremely negatively impacted in the quarter we just finished. Both in terms of other intake and also in terms of sales. The project have been delayed and we don't see a recovery before at least 2 quarter in this specific segment. Oil and gas is in the mean very between situation as refinery industry is chipping with momentum even though project coming delayed but not that much and upstream part of oil and gas segment has almost completely vanished. So we have a bit disconnect between upstream and downstream refineries here in India as seen from the energy supplier position. The other segments is mainly hotels and healthcare dynamic, hotel is most of it is standstill, residential is very disturbed. So what we call this is an disturbed market for our company is hit by the crisis not as much as frequent mining method and we have by chance strong positioning on some resilient segments over power utility and mobility market share. That is cause trend in the on this past I want to insist on technology past because I have somehow covered the investment when I was talking about the segment so I

*Batlivala & Karani Securities India Private Limited*  
*August 21, 2020*

will arrange part of this slide. I insist now may not specific to this slide in terms of technology. The lockdown that we all experienced in month of March, April and May has opened the eye of lots of partner and of stakeholders, customers, consultants about the importance of the remote services importance of the smart components of any kind of network and it is a strong push towards smart components distribution in 5 main utility. And also the smart access the remote access to equipment in order to do some maintenance and your company has quite good position for that. Most of the project being delivered, being connected to remote connected in order to do some remote maintenance or remote access. SO that is very strong push that has been observed and people have understood also the importance of being able to do remote factory acceptance test. We have been very-very disturbed in March and early April. Our customer could not come to do factory test that is from April and more and more around the of May and June our customer has taken confidence into remote factory acceptance test because we have already we have invested in the past in the right tools to do high definition camera in order to do some remote factory acceptance test. This has allowed us to rebound in June and July as you will see when we will talk about the figures. So the fact that now our customers have also understood the importance of remote access, including factory acceptance test has been a great help for rebound of this year after the mid dip of March and April. I continue on the executive summary I am on slide number 5. Very strong momentum on order intake as I was mentioning regarding the segment our positioning in resilient segment have allowed us to have very strong order intake in mid of the crisis in April, May and June. So our sales was heavily disturbed this now is recovering the sales but we have very strong backlog thanks to very strong order intake. Good thing is that our order intake come from various segments. So as I was mentioning here you have subset of 5 orders which are higher than 1.5 million Euro each. So as you can see transformer for solar renewable generation ABB is the GIS in Oil and Gas downstream segment. Reliance is in competition with utility segment titagarh is the loco locomotive transportation segment and is also in medium voltage for refinery mainly oil and gas downstream. So you see a good dispatch of major order for the COVID activity GIS loco all this is medium voltage transformer and equipment and product. Good achievement or so we have used the period of lockdown to get quickly on the licensee partner. So we have qualified and finalized 2 medium voltage AIS licensee partner and 2 high renew secondary switchgear licensee partner. So 4 of them have been finalized meaning gone to market may quote again, being at they can quote on the market and so they are to deliver as come to the market in the last day of the quarter of June. Our issues are same, we have a strong backlog and we have plenty of difficulties to deliver the backlog because of the lockdown and the consequence of the lockdown. Projects are being delayed and it is heavily impacting our sales of quarter 1 fiscal and we have a recovery plan, we had lot of discussions with our customers in order that they that they take goods that we are manufactured for them as per the plan. We have been hit by the lockdown like everybody in April and May. We have very quickly started our operations starting from second half of May and June, July as well. So we have very quickly put back our operation in order. I will mention at some stage that few things of COVID 19 among our team with not an epidemic we have been very quickly able to identify the few cases whenever that happened that in July and we could identify contact and tracing the contact and leave it spread of the cases that we are in the Baroda and Kolkata. So speaking we are up and running but our customer takes our goods, this is the issue that we are hurt now and recovery gets picked up by September to capture the different sales which have been delayed in the first observed lockdown. Which is the second major part of this screen, we continue to have discrepancy till now we are not yet out of the consequence of the lockdown to go to Nepal, to go to Assam, to go to different states which are sometimes in lockdown, sometimes not like Bihar 2-3 week ago. Still we have lot of consequences and high uncertainty and this is basically a message but we also have recovery plan to capture the 18 million Euro of sales which got delayed in April and May. We are catching up we got to having a good order intake, priorities is also to master our cost inside this environment. We have heavy plan of cost reduction including manpower, including those on the industrial side and in the commercial side we need to maintain competitively and is priority that you can see or so in this certain circumstance is to secure cash and to get our cash from our customer. In the March and April a lot of customer had stopped paying on the different more or less good reasons and we are catching up all these delayed payment as a since cash collection was good until March but April was awful and we are still catching up and asking the customer for the cash. Last point is also important among the priorities. I want to stress on that, we are taking some conscious call that we want to maximize our manufacturing capacity to get shaped on the delayed sales. So this is not

really a nice time for quarter 1 this year but this is definitely a nice time for quarter 2 and quarter 3 this year. We are right now manufacturing goods that we will know that we will not be able to ship them in August but we will be able to ship them in September. But we want to capture as much as possible of our manufacturing capacity in order to capture the 18 million Euro of the sale that we have made. Okay so we have to do sometimes trade-off between inventory and capacity utilization, we give priority this month to capacity utilization and we will pay the price somehow at the end of August is high inventory that we will try to decrease by September. But this is not for quarter 1 it is for quarter 2 mainly. And I go to the next slide, Arnab will take it from slide number 7.

**Arnab:**

Just to update on the financials as Bruno said the momentum in the market primarily due to the segments where we are mainly present which is power and grid, oil and gas so due to this resilience the order booking performance for the company is good. So overall if you see for the quarter in spite of the lockdown we had a double digit order growth. So we had an 11.1% order growth in the quarter and we can book mix of order both from end users as well as EPC's. Moving on to the sales, as we covered in the executive summary so we had a 150 crores which we could not ship because of the lockdown as you know the country was on a complete shutdown since March 27th but the supply chain effect of it that was straight from mid-February. So as a result of this the overall impact for the quarter was about 150 crores what we could not ship in the quarter and that primarily impacted the performance. Moving on to the PNL and before I move into the PNL I think we need to contextualize the PNL little bit. So we can see compared to the last quarter this quarter we had a 150 crore losses, now mechanically if one has to do the volume impact of the 150 crores with a kind of 30% gross margin it should have translated into translated into a 45 crore loss but what we have reported is 27 crore before the exceptional item which means there has been some good news in the PNL and that is mainly coming from two or three buckets. The first bucket of good news came from the gross margin, so if you see the gross margin compared to the comparable quarter last year has improved by about 6.6%. A part of it was due to the mix because this quarter we could not ship out some of the equipment's whereas some of the full products got shipped more. So the reason effect of that so approximately 2% is the effect of the mix of the favourable mix and the fact that I'm highlighting this is because that's not a sustainable thing and hence we should discount that 2% and look at the whole thing. But even if you discount the 2% and look on a sustainable basis still you see a very significant improvement, still we are hovering in that 31%-31.5% mark and this is thanks to all the communication which we have been doing in the last 2 quarter on our go to market having a very segment focus kind of an approach, looking to eradicate or reduce the under absorption in the plant, combination of all of those. So that has shown a result in this quarter in terms of the gross margin effect. As the effect of COVID was spreading so we did a complete re look at our cost structure, so we could see a lot of reflection of that in the quarter in the PNL and we will see more reflection of that in the coming quarters. So the way we are approaching the entire fixed cost is that we have segmented it into 2 parts, set of tactical actions which we are doing during COVID to break ourselves for the lower volume in COVID which means some tough call on employee payout, some restrictions in salaries, lot of restriction from travels because we are in an almost zero travel situation and there are some structural actions which is happening on the overall kind of footprint which we have across the country, the kind of manpower we have and we are re looking at each and every aspect of cost. So there is a very significant work which is happening there, some effect of it is relevant in the quarter as you will see that the employ cost is lower, other expenses is lower and so on and so forth. Cash remains a focus and this quarter was stretched although as Bruno said April was very bad with a complete lockdown, May was slightly better, June was better than May, July was better than June. So the graph is positive but we are still I mean in a tough market situation as far as the cash is concerned. There is some reflection of that as you see the interest cost in the PNL but yes it's an area where we are focused and we are trying to recover it. So net-net if you would see, other than the volume impact I think it has been most of the lines there is positive but volume impact is what it is because of the lockdown and we expect to catch it up in the coming 2 quarters, it will not be an immediate recovery in the next quarter there will be partly covered in the next quarter and then we will be partly recovering it in the October-December quarter. So that is in a nutshell the overall PNL picture and I will stop here and open the call for questions now.

- Moderator:** Ladies and gentlemen we will now begin the question and answer session. If you have a question please press “\*” and “1” on your phone and await your turn to ask the question and when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request you may do so by pressing “\*” and “1” again. Participants are requested to press “\*” and “1” to ask a question. We have a question from Mr. Jigar Shriif from Financial Research. Please go ahead sir.
- Jigar:** Thank you for taking my question. I had a couple of questions one is how does the Euro appreciation affect us? And what would be the net debt position? And what would be the utilization level across our factories at this point of time? These are the first 3 question and then I will continue after that please.
- Arnab:** Okay let's go one by one, on your first question on the Euro appreciation, yes it does affect us to the extent we have the imported products and as you know we have 2 products in our portfolio which is mainly imported. One is the Gas Insulated Switchgear and the second is the portion of relays which we have. So these two product lines more of appreciation impacts us but having said that having communicated in earlier we do a hedging that you know our hedging is always not a perfect hedging so there will be some timing gap but principally we do hedging and we cover it. So that's on your first question that's about having 15% of our portfolio.
- Jigar:** Is it a pass through or something?
- Arnab:** See most of our products are in engineer to order product so when you are quoting for a project you usually take it to the pricing and you pass it through. But if the project is little delayed for some reason and you would have already quoted in the project earlier that is where it will impact you for that particular project. But principally it is a pass through because you are taking the current costing and your costing for the project. Now to you question on the net debt, I mean see in the June quarter we don't circulate the balance sheet so I think it's not prudent on my part to call out a number. But yeas there was some impact of it definitely on debt but we were able to manage it over the overall volume limit. But I will not give you a number because we don't publish a balance sheet in the June quarter. For your third question, the utilization of factory see April the factory was completely shut, so May is when we started getting the approvals and we started opening the factories. So May we were about 20%-25%, June we came back to the range of about 70%-75% and July has been better than June so July we have about 90%-95% range.
- Jigar:** So July-August at this point about 90%-95%?
- Arnab:** That's right, there are still some supply chain dependencies because of the factories are operational fully but there are some supply chain dependencies still as different parts of India are under different stages of COVID. So we have some dependencies on Maharashtra and all which is still recovering I would say.
- Jigar:** I believe for FY '20 the mix of sales from fiscal was about 74% I believe, so what is the targeted mix that we are looking at in the medium term in terms of transaction systems and services could you elaborate on that?
- Arnab:** So as you have rightly said FY '20 if you see assistance was around 74% and transaction was 15 services was 11 so that was FY '20 mix. Directionally we intend to take that transactions to about 17%-18% services to about 12%-13% so that's the direction. Of course our recent June quarter is not representative because we could not ship the larger projects. Hence I'm not taking this quarter as a reference point here. But on an average transactions will go up about 2-3 percent and services by about 1-2 percent.
- Jigar:** Okay, any outsourcing opportunities in terms of exports opportunities that we are looking at?
- Bruno Dercle:** We have also having initiative to capture the new aggressively of EPC's to abroad meaning to ship off inventory to capture flow in markets of the complex solutions. We have seen in the past few months very strong demand so these Indian EPC's have shown a very strong aggressivity to capture complex projects in abroad some of them was from the tender which is running the

exports that we are also focusing right now. Also we capture 10-11% percent growth we had. Another action plan configuration is a fact that ABB and Siemens solution groups are being step by step dismantled and they become open to Schneider Electric products. So we have also been able to capture some market share which was forbidden to us in the past because it was captive market share between ABB and Siemens) but now that's big conglomerate have being split, it open some new markets for us, huge channel is open to us and we have been able to capture some market shares from ABB and Siemens solution which are must learn to get these goods.

- Jigar:** What is the EBITDA margin that we are looking at in the medium term?
- Arnab:** As you know we don't give you a guidance so I think we will give you enough insight into the business but we will not give you a specific guidance because that's something which we don't do.
- Jigar:** Something like I mean in the hike entered double digit level...
- Arnab:** I won't give you a specific guidance sorry we don't do that. You can ask questions about the business we will give you specific answers.
- Moderator:** Thank you. The next question is from Mr. Kunal S. You can go ahead.
- Kunal:** Sir if you can give some sense about the you know we were supposed to do a VRS scheme so any update in that? Have we concluded it/
- Arnab:** So the first phase of VRS that we had announce last year that was concluded. If you remember last year we had done a 33 crore provision for the VRS sometime in Q1 that got concluded. But as I said due to COVID we are looking at each and every aspect of cost. So there are some cost actions which we are doing but the way we are doing this time it is more to say this it is not a one big bang scheme but it is happening in phases. SO you will have an update going from us every quarter now on the impact of what you see. You already see a small portion of it which we have classified as exceptional in the quarter the 24 remain are which I should you in the pnl. But you see a corresponding higher amount coming in the next 3 quarters. So it will be by phases but it will not be one big bang kind of a thing.
- Kunal:** But will it be concluded it in this year or we can see it spilling out to next year as well?
- Arnab:** Most of it will conclude in this year but we are re looking at every aspect of cost both in the plant as well as the commercial teams.
- Kunal:** If you can give us some sense in terms of while we understand we know that last few quarters have been relatively bumpy and this year because of COVID impact. But in 2 year's time what is the steady state operating margin that we can expect from the business.
- Arnab:** I think let's break the question in 2-3 parts. So if you see the entire '19-'20 fiscal we had 2 abnormal events which hit us during this quarter. One is obviously this quarter we had the COVID impact which is 150 crores of sales we missed we told you. The second one is if you remember in the month of July last year we had the Baroda flood and the operations were down for about a month in Baroda and there was a significant impact and we are in the process of getting a property damage and business interruption claims and if you go to the transcript of that particular quarter you will see a quantification of that it was done. These 2 abnormal events if you take out in the entire year PNL and do a normal PNL simulation you will see that broadly we are in direction with the strategy which we have been giving to you. So from that perspective and what I just told you in the PNL presentation that steady state we are reaching at about 30-31 percent gross margin. So you can do a simulation we can average cost so that will give you a trend of and that's the reason I was not answering the gentlemen's question on guidance because I think we give you enough figures to do your own modelling but if you see with a 30-35 percent steady state margin these 2 abnormal events taken out you can get a fairly good direction of where we are moving and I think with the volumes coming back and the catch up which will happen in the next 2 quarters I think we will move further in that direction.

- Moderator:** Thank you. Next question is from Mr. Manish Goel from Enam Holding. Please go ahead.
- Manish:** Just to take it forward Arnab on the gross margins you said only 200 bps is something which we can relay to mix change of the higher change of transactional products and you are indication that the revenue share will keep increasing going forward. So do you this this as a sustainable time like in our order inflow do we have such a mix which can support that? And on the inquiries that we have ongoing right now and also if you can give the revenue breakup and order` book breakup as always you give.
- Arnab:** I think what I would suggest is don't take the quarterly breakup because as I told you it is not representative because we could not ship the equipment's. I will ask you not to take the quarterly breakup but overall if you see you already have the FY '20 breakup which was 74 in system, 15 in transaction and 11 in services and as I told you directionally to the earlier question that the 15 we are looking to make it around 17 and 18 and 11 to around 12 or 13. So that is the derived mix going forward and so that answers your mix question. In terms of backlog if you would see we are already at about 937 crores which was end of June, end of March was somewhat about 892 crores. So that backlog has increased, partly because of the shipping which we could not do but the order momentum which I told you 11% growth that is also added. Which mean if you look at it analytically we are around 8 to 9 months of our sales which is already in the backlog. So this is a very I would say a healthy situation we are in from that perspective. Of course the challenge would be to get the supply chain back in track. Our ability to produce and then ship to the customers with the various degrees of lockdown which we still have in the country Bruno has given you some examples earlier like Nepal and other places. SO that challenges continues and I don't think it will be a recovery overnight, next 2 quarters we will face the challenges so that's the uncertain part of it. But subject to those elements I think we are clearly in a stable direction I would say.
- Manish:** Would it be possible to give order book break up that should give us a better trend as well?
- Arnab:** Out of this 937 crores which I told you, system is about 73%, transactional is 16% and services is 11%.
- Manish:** Okay.
- Moderator:** Thank you. The next question is from Mr. Viraj M. from Jupiter Finance. Please go ahead.
- Viraj:** What is the order book you said 937 crores right?
- Arnab:** Yes, over the year.
- Viraj:** What is the inter group portion of the order book and this 937 crores?
- Arnab:** It is completely external order book. This is not inter book, inter group will be about 100 crores which is over and above this.
- Viraj:** Any positive traction happening in inter group order book, I mean are we seeing some increasing trend in that?
- Arnab:** No I think it is pretty much in the same trend, there is not much change.
- Viraj:** Alright. This quarter we became net worth negative so what are like you are saying in next two quarters it would be again recovery in the net worth?
- Arnab:** Yes absolutely that a pure arithmetic of the 150 crores what we missed. So if you see we only did 200 crores of sales in this quarter. So that's an arithmetical reflection of that that will come back.
- Viraj:** We won't require any parent support again for the net worth right?

- Arnab:** I don't think so.
- Viraj:** Okay fair enough. My last question is that the shift to digital does have Schneider in terms of like have you seen trend from the government or any other infra projects where it is helping, since this pandemic has started a lot of things are shifting digital. So?
- Bruno Dercle:** We have been seek from the government's plan but they were already in the pipe. The government plan is just next edition of the smart city program for which we were already positioned. When I say it must cities it can be smart homes or smart campus or simply the monitoring of your secondary program at work from a distribution company. So there are different level of complexity of smart city but the initiative of the government is pushing forward these smart cities and this is what are the biggest impact 1 million voltage. The second initiative of the government is the push to localize data of India in India. And this push gives some market that I have not mentioned at the very beginning because it is more of past of our pipe. There are some big data centre giants localizing their data centre inside the boundaries of India, the first one being Amazon. You don't see these in the quarter one results because it fills small percentage of sales. The push of the government to localize in India data of India is pushing the big giants to localize their data centre in India the first one being Amazon on which we are positioning our offer for the Hyderabad systems. But this is not yet visible inside 1<sup>st</sup> quarter figure; it might hope to be in quarter 3 figures.
- Viraj:** What is the size of opportunity in this digital program like just a guess?
- Bruno Dercle:** It depends on the data centre of the system, worth you have several million Euros of million voltage and several million Euros of low voltage equipment's on the data centre of 60 MW. Then it's a number of data centre of 60 MW which have been built and which has a size the type right now before it was much smaller of 5,10,15 MW. Right now we have really big data centre coming in the country.
- Viraj:** Can you put some number to it, the ball park figure to the opportunity?
- Arnab:** I think it is very difficult to do that, I think Bruno has given god points.
- Bruno Dercle:** We have running tender right now and I don't want to give information to competition about the level of offer which is under preparation. But we are talking about several million Euro of low voltage and several million Euro of medium voltage products.
- Viraj:** So it could be a decent sized opportunity to big size opportunity for us if it worked out is that correct?
- Bruno Dercle:** The first giant in the country is in Hyderabad.
- Viraj:** Okay thank you.
- Moderator:** Thank you. As there are no further questions, I would like to hand the conference back to the management team for closing comments.
- Bruno Dercle:** Market sentiment are uncertain under covid19 situation. We are watching closely the evolution of the situation at ground level. I wish you to have a nice evening. Thank you.
- Moderator:** Thank you very much. On behalf of Batlivala and Karani Securities India Private Limited that concludes the conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.