

Moderator: Ladies and gentlemen, good afternoon, and welcome to Schneider Electric earnings call organized by Batliwala and Karani Securities India Private Limited. At this moment all participants are in a listen only mode. Later, we will conduct a question-and-answer session. At that time. If you have a question, please press star one. Please note this conference is recorded. I would now like to turn the conference over to Mr. Kunal. Thank you. And over to you, sir.

Kunal: Thank you. And I would like to welcome the management of Schneider Electric infrastructure on the call. From the management we have Mr. Bruno Dercle Managing Director, Mr. Mayank Kholani, Chief Financial Officer and Mr. Vineet Jain Head Investor Relations. I will request the management to give us opening remarks post which will open the floor for any Q&A or to you sir.

Speaker: Thank you. So, I am Bruno Dercle, good afternoon everyone, I'm managing director of Schneider Electric Infrastructure. I'm pleased to connect with you to share and update the progress of our company. Today, we present you a few slides on market outlook and the company's strategy, how we intend to take to make the most of the current context. And then we the financials with my own. So, let's go to the presentation. And we start with slide number four here on the you see a few KPIs that we that we macroeconomic KPIs that we monitor, especially, talk the GDP the better. So, mainly the one that you see as the center of the slide, which is the gross fixed capital formation indicator, which is one of the most impacting key performance indicator of other activity engine voltage and low voltage equipment. You can see a very strong dip in the commission of a growth cap of six capital in the April to June in quarter one is not a surprise to you, but it is very impacting productivity and you will see that. In the second quarter it was still negative but much better in terms of volume. And we expect that to continue seeing recovery in the sub quarter the quarter that we just closed. Then, we have also mentioned in the forthcoming slide, the impact that the new budget of the of the Indian government can have on our activity. So, I then go to the next slide. With this time, on slide five, you see the market trend and the growth driver by segment. You know that our legal advocacy is majority focused on the full overall segment, power and grid the distribution company sometimes the top CHECK [00:03:36] company mainly the distribution company, in our case. Oil and gas and petrochemical are the second segment. CHECK [00:03:46] which is for the mining methods which is also a newly opened segment for us and finally, mobility segment which cover highway, metro and airport infrastructure CHECK [00:04:02]. So, these are the four major segments and I will go little bit on to some points I will not go into each and every item that you can see on this slide, but I will highlight the most important one you will have read I am sure the audience the other items which are impacting activity. In power and grid, we are mainly sensitive to the government's initiative to modernize the grid, improve the quality of service and electricity reserve our increased distribution to the customer. So, for us it can affect into smart grid of

smart city, smart CHECK [00:04:49] initiative, but also strengthening the distribution network. Strengthening the distribution network typically is when distribution companies come shift from an overhead line distribution network to another ground line distribution network. And in this case, we have very good offer a medium voltage that we could have a new or the smarter and new, and this investment in terms of the distribution network is very positive for our company. Also, the initiative of smart metering we don't have an activity of smart meter itself, but we have an activity of software to control the smart material in our company precise tools technology developed by Schneider Electric in overseas. So, there is strong initiative in grid modernization and how company is adding quite a good presence and an offer to satisfy these initiatives. So, second items that we highlight and pick up for power and grid segment is related to the renewable power segment. We are very important share of our transformer high voltage transformer activity was prompted is located in CHECK [00:06:23] which is going to the solar segment in the CHECK [00:06:34] board segment and the push of government to set ambitious very ambitious targets of power generation from CHECK [00:06:48] is also a key driver for us enough to transformer and engine voltage activity. In Oil and Gas, we are dealing in a situation today where the capex investment of the companies are mainly driven on the downstream path of this segment meaning the refinery, more than the upstream path higher finding a little success. So it's a so-so situation if we stabilize to load with some activities in the refinery mainly, sometimes ethanol it can CHECK [00:07:35] away which is also an important point to mention that the plan of the government to develop the ethanol activity is tough to be visible into project and all the caliber. I go to the sale segment, the AAA mining minerals and metals, here this was the I mentioned this last call and our last two calls and this was the segment which was the most impacted by the crisis the COVID-19 crisis and the lockdown. We have seen last quarter, we have seen some sign of recovery in the cement sub segments, we re-bagged all order from summon factory not always to increase capacity, but to improve the operation of the cement existing cement in order to reduce the cost of the operation. So, we have bagged several orders for them in cement improving the operation by investing instead of increasing the capacity. So, cement industry, CHECK [00:09:01] segment is tough to pick up while we do not see in last quarter, we start to see them in the quarters, the current one, but in last quarter we didn't see yet still industry rebounding and recovery. We expect a lot from the new laws that liberalize the minerals sector, we expect a lot of fresh capital inflow, but this is not yet visible in terms of enough CHECK [00:09:39]. In terms of the last segment the mobility segment last year, so delay in the execution of existing projects with a shortage of manpower that most of the contractor experience. So, they were another order delay in, in this CHECK [00:10:04] sub segment. But we can see in last year last quarter a lot of project becoming to CHECK [00:10:28] gets the order, you can expect that after one or two quarter it will come to us to half entity where we supply medium voltage, low voltage equipment to the EV. So, after the year of 2020, we have most of the project have been delayed in metro segments and

highway segments, we expect to see a very strong rebound in starting from 2021 but still not in last quarter. Also, major trend in this segment not visible in last quarter figure, but should start to be visible in the second half of this year is the fact that the plan to privatize airport and to give new license to private operators should boost the airport segment in the coming 1 to 2 years. So, that was the point that I wanted to mention. Then we can go to the next slide about how we see the budget the country's budget impacting our productivity and interesting thing is the pie chart where we **UNCLEAR** [00:12:03] during a buying segment no surprise you see a major **CHECK** [00:12:12] it can be the ore, it can be the tunnel, it can also be the metal and the highway it can do to the airport all these transportation is 7% growth better to very high level that's a major component of the Capex with the government that will have an impact on the on the **CHECK** [00:12:40]. Here of course you understood as I'm talking about 2021 more than the last quarter that we will see afterwards. Another important point is the fact that the electric utilities share of expense is growing by 75%. We are very sensitive to this investment, it is mainly recapitalization of fiscal and investment into increments of the medium voltage distribution network, strengthening the distribution networks as I mentioned before, this 75% of the of investment and capitalization will definitely help us knowing that power and grid is approximately 50% of small 50% on order intake. These are the two points that we can mention. You will see that people in the mining sector especially under oil and gas with decreased level of value of investments of the whole. So, we do not expect a very strong rebound from the government pushed initiative but we expect rebound on the private owned cement and steel industry. In this segment. I continue to the next slide and somehow what I mentioned on slide seven already so high impact on Schneider for the top box investment metal, oil power, highways, lets extend more for the tunnel being supported by the investment of the government 2021. We see also good development for the investment water segment. The smart material is a great[00:14:59] opportunity for us, I mentioned as not as a smart manufacturer, but as the Smart software component. If we take some distance beyond the strict budget of this year and macroeconomic situation, we are on slide number eight, you have a very compact summary of the of the strategy of our company. So, we start from the observation that the world is more than a click more decentralized and more the impact, okay. So, that is the observation no more retained, it's a regular headache we see. So, we are starting from the left side tend to have the one system approach across the different division of our company by segment. And as I had mentioned several times what counts as the most important segment for us in the **CHECK** [00:16:52]. So, we send more competition system, including software, the good position, it requires several software companies in the **CHECK** [00:17:05] impact in the past six months or nine months now. And we get a **CHECK** [00:17:13] of these different acquisitions to propose a seamless solution and complete solution to our customers. It's a must visible for our company **UNACLEAR** [00:17:29] which was announced in September including the remakes to be done in expense of **CHECK** [00:17:40] in a few weeks but this will

definitely offer a possibility to CHECK [00:17:47] to our user to our user a more complete and seamless solution. The second key driver is that we are offering most of our offer now most of the product and equipment that we deliver also now CHECK [00:18:06] means that they are connected natively connected. And they can be accessible, from a remote or from a local point in order to check the status and anticipate potential failure anticipate potential CHECK [00:18:38]. So, this is a very strong investment that was that has happened last year. And in the last part of the year in the last quarter CHECK [00:18:53] we have launched in a digitized I would say connectable CHECK [00:19:01]. Finally, on the right side of the screen, we have now thanks to the digitization of our info CHECK [00:19:12] we have now enriched our solution in order to support our customer in their studies. In this method, most of the installed base in any can be removed. Now, why before it could only be local service. Now we can offer remote services to offer installing. I continue briefly I want to highlight two success stories that happened in last quarter, it's on slide number 10 it's the first time that we could supply to Nestle food and Bev giant's complete solution for their 9 factories. So, it was a moment of great pride that the factory for her for Magic product was sold as a as a solution by your Schneider Electric. The interesting thing in this success is that it involves several top notches offers such as the CHECK [00:20:45] transformer, collectible medium voltage switchgear. Also, the low voltage panel is also connectable. And all this equipment that's on the top spot now. So, we can say the smart transformer, the MD switchgear and the low voltage switchgear, all of these are connected to an asset advisor solution, and Eco structure asset advisor which can which is a good illustration of what I was mentioning before service and equipment being interconnected and serviceable from remote place and from the local place for the benefit of the of the service and the lifespan of the equipment. So that's a quite an interesting project that is now under execution, it is not yet commissioned. So, we will have to follow it as soon as it will be commissioned to the benefit of Nestle. Another example here it is not a big amount. I am not giving the details about the price of this type of solution. But it's not a big amount of money, but it is replicable and can be multiplied by hundreds. And it is also very interesting, because it is a new way to protect people and to protect installation and quick installation of power or installation. It is the arc flash protection, the principle of the arc flash protection for you have heard the word protection of relays CHECK [00:22:43], it is a core product of CHECK [00:22:46]. But we tended to sell them at flash protection, which is a specific type of protection only in the with in West in Europe or Japan, China and the USA. I insisted on this one because it's quite the principle of least protection that detects the light. So, it goes at the speed of light, when you start to have an explosion in voltage equipment, which is extremely rare, but it happens. And when you start to have an explosion, it starts with some light. And while detecting the light, you can immediately switch off the device and protect your equipment. And of course, because we are talking here about exposure, you protect people which are around, which might be around the device equipment. So, it's quite interesting in terms of safety management. It's quite interesting in terms of

new technology being launched on the Indian market. And it's interesting in terms of the protection concept to protect the equipment and investment. Given this case it is to cement factories, cement blocks we have come protects the investment and their employees. I will now give the floor for financials of the last quarter.

Speaker 2:

As Bruno was pointing out that the market continues to be challenging, but we are seeing attraction in few pockets. We at Schneider continue to be cautious in order booking and in terms of cash security, along with margins. slide number 13 see our order intake for the quarter stood at about 1673 million INR which is down by about 51% over last quarter and lower by about 28% for the year to date nine months period. And during last year, this nine-month period based on current market situation and delay in projects we have cancelled orders go for close to 1100 million rupees due to variety of reasons, primarily related to price volatility, and from some of them also from customer side. Next slide. We have seen strong comeback in sales execution after a lockdown in practice q1 and q3 sales were flattish versus previous year. Now coming to pnl you see the results are in line with our strategy. We are selective in conventional orders, which are available in the market but however negative impact on margins, our EBITA margin improved by 0.6 percentage points and the profit after tax is 7.1% for the quarter, while it was 6.2% in the previous year, same quarter. Year to date period if you feel gross margins has improved by 1.9 points. EBITDA is improved by three percentage points and profit after tax is positive by 1.3 percentage points. So, overall profit there is good improvement in profitability in spite of drop in sales and exceptional expenditures to completely related to the employee's severance pay which has been part of part of our cost optimization initiatives. I will close here and leave the floor open for question and answers.

Moderator:

Ladies and Gentlemen, will now begin the question-and-answer session. If you have a question please press star one on your phone. And await is your turn to ask the question when guided by me. If your question has been answered before you're turn and you wish to withdraw your request you may do so by pressing star and one again. We have first question from Mr. Ankit Merchant from Quest Investment.

Ankit:

Thank you for the opportunity. My question is related to the breakout, can you give us the sales breakup for the quarter as well as for the nine-month period which particular segment is contribution how much?

Speaker 2:

So, four quarter our sales system have been 73%, transactional 16%, and services at 11%. While for nine months period system serving 74%, transactional 15% and services 11%.

Ankit:

Okay, and about this order which we have de booked of close to 110 crores in the I believe it's in the oil and gas segment right?

Speaker 2: No, this is across the segments not just oil and gas. We have consciously booked the orders which have been continuously getting delayed and there was no clarity on the execution period. And also, because you know the orders, which were two years back and because of delay, obviously they can't be executed at the same margin. And if customers were not willing to give you the price value variation, we have booked because the validity was already over.

Ankit: Okay. So, then going ahead do are we seeing any revival in the orders for us over the next over the last few months have you seen any re pickup in activity or in the orderbook?

Speaker: For the order you can see the dip of the three quarters ago there was a very strong dip into investment capex formation. So, we are impacted as vendor of equipment, we are impacted something like two quarters later. So, this is what we have seen last quarter. Now, we see some rebound in the metro segment with several Metro project coming up to maturity. We have seen we see it in the cement industry the cement segment. We start to see a rebound of the steel industry just starting. Oh, yes, definitely we see some rebound of some segments which were the most affected last year by the lockdown followed by the COVID-19. It is being said, we have also seen in the past six months, the steady decrease of the investment and the capex of the CHECK [00:30:31] distribution company. So, it's the present strong component of our order intake. And we see the new projects the new creation of project, decreasing that's way we welcome the initiative of the government to recapitalize the CHECK [00:30:53].

Ankit: So, what is the total order book size right now which we have in our hand?

Speaker 2: So, it's close to 630 crores?

Ankit: Do you have the breakup of that 630 crores How much is which particular segment?

Speaker 3: We don't give the segment wise breakup. We are tracking as a breakup of system transactional and services businesses, which this breakup we can provide.

Speaker 2: It's about 74% systems, 14% transactional and 12% services.

Ankit: Okay, and this one last question is related to the working capital. So, have we seen any changes in the working capital? And how would it be going ahead? Are the payments, are we able to receive our payments on time?

Speaker 2: So, we had seen an increase on our outstanding so in the mid of in the quarter 1. So, with deep faced outstanding shooting up in May and June month. And then

but in terms of end if you see, we have been able to close the year at almost pretty much very close to the level of December '19. So even though whether it's overall receivables or the day sales outstanding, we are pretty much at the same level, which were a few days slightly higher in terms of day sales outstanding. But overall, you know, outstanding, have reduced, the receivables are reduced from what it was December '19.

Ankit: Okay, so from the perspective of the financial year, should we be closing at all those similar level from the last year?

Speaker 3: We have seen some positive trend in the market. But as of now, as you know, market is not stable. So, we cannot comment on the year end situation. But yes, things are improving on grounds. That's something we can comment right now.

Ankit: And just one last question related to the system business? Or is there any impact of import because of China as such, are we seeing any import related delay affecting our project integration also on the ground?

Speaker: Not material. We have a few components that we import from our own plant in China, mainly for the low voltage activity. But it's just really material in terms of size. And we are currently looking at localizing India reactivity, which is the most impacted by CHECK [00:34:17], which should be completed by quarter three this year.

Ankit: Any orders of our competitors flowing into our books is that is there a possibility because a few of our competitors were aligned on completely sourcing it from China. So are we seeing any trend change on that front for us? So if our supply has been slightly impacted because of the China factor then our competitors also would be suffering who would be importing most of their stuff from China. So are we seeing their orders getting cancelled or delayed and flowing for us is there is there is that a possibility which is happening for us?

Speaker 3: We already mentioned that, we are not seeing any major challenges for import from China.

Speaker: But competitor could be more impacted than us and then typically the GIS activity, GS activity our main competitor is importing from China and can be more impacted than us because we are importing the component from Germany. So in this example, yes, in the GIS activity, which represent 8% of our total we could beneficiate or benefit from competitor situation.

Ankit: Okay, thank you. That's it from my side.

Moderator: Thank you. We have a question from Mr. Manish Goel from ENAM Holdings Private Limited. Please go ahead.

Manish: Yeah, thank you so much. First I would like to have some housekeeping questions on the order the inflow if you can give us the breakup of order inflow also in systems transactional and services.

Speaker 2: You mean the value for the value of order?

Manish: Yeah basically for 167 crores order in flow, if you can give us a breakup.

Speaker 2: Out of this 167 crores close to 43% is in equipment and 18% in project so, about 61% in systems 23% transaction and 16% services.

Manish: Okay, and can you also provide what is the intergroup revenue and order inflow number?

Speaker 2: Intergroup revenue has been about 16% of the system so you can say about 11 to 12% of total. Order inflow is around 87 crores for the quarter.

Manish: What is our debt outstanding as of December?

Speaker 3: Manish this is not published information, so, for September it's around 640 crores which include our Stafford classified as a debt and without Stafford it's 504 crores.

Manish: Okay, okay. Fair point. And so, we have seen a very good amount of cost cutting both on employee side no doubt, we had done VRS last year as well and in current year as well and other expenses also has been in control. So, I believe there were certain things which were under kind of travel restriction or such similar things, but going forwards and how should we expect our fixed cost base to behave?

Speaker 3: We expect the you know, this year obviously have been seen some of the structural changes and a lot of tactical savings also in which travel is one of the technical, but we expect part of at least 50 to 60% of tactical savings to convert to structural, As you mentioned about travel people getting more comfortable with digital ways of working, we obviously look at even as a travel to reduce considerably from what it was used to be in pre COVID period.

Manish: Okay. So, I'm just trying to get a sense in terms of the improvement in margins what we have been seen for last two quarters. Can we see such scenario continuing going forward like because also I'm asking in context also, if you can clarify that

now. But there has been a significant commodity inflation. So in that perspective, also, how do we see our margins going forward?

Speaker 3: So, as far as the fixed costs or the overheads are concerned, we continue to, you know, make efforts to optimize and reduce it. But yes, as you mentioned, this commodity price poses a challenge. And we are, you know, working on contracts to wherever we have price variation clauses, with customers to get the contract amendment, and also to do the Value Engineering to the best extent possible to optimize the cost. But yes there is a raw material inflation, especially in the copper and steel poses a challenge. But we, we hope to continue improving the margin.

Manish: So, like how much of our order book is covered under price variation clause and how much is under fixed cost?

Speaker 3: See, there are in the congeners in the private sector, it is, you know, the price variation clauses are there, and even in the government sector, but all the long term contracts, we have price variation process generally which are in the long term trend, but immediately, I don't have an exact number.

Manish: Sure. Okay, fine, I'll come back in the queue. Thank you.

Moderator: Thank you. We have next question from Mr. Utkarsh Somaiya. He's an individual investor, please go ahead.

Utkarsh: Thank you for the opportunity. I just wanted to know whether the company is going to participate in the PLI scheme or is the balance thing going to affect company prospects in any manner? I wanted to know about the PLI scheme announced by the government, does that effect the company prospects in any manner?

Speaker 3: No, we don't think.

Utkarsh: Oh, thank you.

Moderator: Thank you. We have next question from Mr. Viraj. Mitani. from Jupiter financial. Please go ahead.

Viraj: Yeah, good afternoon. Can you give me the sense when you're debt? How much is on the parent this 504 crore? And the rate of interest that we have the debt on?

Speaker 3: The rate of interest on our you know; average cost of borrowing is for last quarter was about 6.9. percentage.

Viraj: Okay, and the parent loan would be how much in this?

Speaker 3: Majorly from the parents only and all the short term loans is coming from the banks and majorly the long term loans is from the short term overnight loans, which are there for few days or only from banks otherwise primarily from not from parent but group companies.

Viraj: Okay. My next question this railway electrification does it benefit us and how much to what extent if you can just expound on it? The railway electrification drive by government of India, does it benefits Schneider? And to what extent?

Speaker: We are manufacturing medium voltage switchgear for electric locomotives. So, we have a huge percent of our sales which is for this technology and we are very proud to supply this medium voltage switchgear to the **CHECK** [00:44:22] which is the electrifying in most of the major share of the electrification program of railway in India. So, **CHECK** [00:44:36] is our customer for medium voltage switchgear for this railway electrification program.

Viraj: Okay. How about the solar drive by the Government of India and the green drive the world what is your thought process the more we own this and how we our company would pay benefit in next four or five years on this thought process on that?

Speaker: I understood that it is the interconnection of the grid to supply solar power neighbors

Viraj: I am talking about the world-wide green India government of India putting a lot of emphasis on solar power even the world and from the elk point of this how would we benefit like is that to think about Schneider in 5 years and what amount of benefit if any?

Speaker: So, as I mentioned big portion of our transformer built production is going through building solar capacity in India. We are interested as SCIN not a Schneider we have other activity for that but for SCIN we are increasing the big solar farm. Okay because this is where we can supply transformer and medium voltage switchgear. We are not into the diffuse solar market which is also supported by the government initiative which is to put rooftop solar installation this we are not supplying there. But we supply big solar plant capacity building which is also supported the government.

Viraj: You also talked about mobility and transportation. So, how do we benefit from EV in India and even the world? Can even say something about that?

- Speaker:** Mobility we are mainly we are interested in the **CHECK** [00:47:31] segment. In India these are the 2 segments of mobility very Capex oriented and we have the right solution in automation and medium voltage switchgear to supply the metal project and to supply power project
- Viraj:** What is the capacity utilization for this quarter?
- Speaker 4:** Let's, this quarter is almost at the level that it should be. So, utilization was almost full for this particular quarter as well historically also known as quarter is big and we achieved sales in more or less in a similar level. So, this particular quarter was fully occupied in terms of the capacity utilization in the plant, in fact we have over utilized.
- Viraj:** Last question is are we seeing the traction in the business? Are we expecting more enquiries, orders from the private companies' government intermediaries of government companies if you can throw some light?
- Speaker 2:** So, Bruno has explained in his presentation, that the various pocket of the segments are getting some attraction from segment wise the detailing itself says so, what exactly you want to ask further, can you please explain?
- Viraj:** Are we saying that the traction in the business, the enquiries from the sector which is mentioned in the presentation are converting into orders are we moving forward compared to last four years which Schneider were. Are we seeing a change my question is that?
- Speaker:** Segment wise we have seen in 2020 we think that in the past three quarters, we have seen a very strong decrease of the intake of order at top level in metro segment, but a strong increase in the highway segment. So, these are composite in one group by the other, we expect to see a very strong increase in the coming few year in this segment of metro and highway. As far, we see a very strong increase to come compared with the trend in the past few years. In terms of cement and steel, we have seen a very strong decrease last year and we expect to see a very strong rebound this year. In terms of oil and gas, we expect to see stability at a high level for the downstream segments, meaning the refinery because HPL is now following HIL. We expect to see a rebound in the automotive segment after a very low year last year, we expect to see a very strong rebound on automotive, but at a slower pace and **CHECK** [00:51:12] and you see people and grid is a big part we expect to see productivity at high level of the capex of the UTD funds to better service to the customer, better quality and better distribution network. So study see at a high level in the coming here for investment.
- Viraj:** Okay, thank you.



*Batlivala & Karani Securities India Private Limited
February 15, 2021*

Moderator: Thank you. There are no further questions. I would now like to hand the conference over to management team to conclude.

Speaker: So to close I would like to say that the current market is rebounding. settlements look to be positive in medium to long term. And we have a few segments like CHECK [00:52:12] and automotive that will take time to come back. We are currently CHECK [00:52:18] capture more growth in line with our strategy. Thank you for your attention and have a good night.

Moderator: Ladies and gentlemen, this concludes your conference call for today. We thank you for your participation and for using our junction conference service. You may now disconnect your lines and have a great day ahead. Thank you.