

Transcript

Conference Call of Schneider Electric Infrastructure Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen, I am Honeyla George, moderator for the conference call today. Welcome to Schneider Electric Infrastructure 2Q FY19 post results earnings conference call hosted by B&K Securities. At this moment all participants are in listen-only mode, later we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Kunal Seth from B&K Securities. Thank you and over to you sir.

Kunal Seth: Thank you. I would like to welcome the management of Schneider Electric Infrastructure on the call and would like to thank them for giving us this opportunity. From the management we have Mr. Arnab Roy – Chief Financial Officer and Mr. Vineet Jain – Head Investor Relations. I would like to request the management to give us some opening remarks, post which we will open the floor for the Q&A. Over to you sir.

Arnab Roy: Thank you. Good afternoon everyone. I am Arnab Roy, CFO of Schneider Electric Infrastructure Limited. I am pleased to connect with you and share and update the progress of our company. Before I start, just a quick update, our Managing Director Mr. Bruno Dercle had to go for a very urgent customer meeting, Hence he could not be present here, I would be presenting also the business scenario on his behalf. Let us start on giving you some updates on the company, how we are moving and the numbers. If you look at the quarter 2 of FY19, it was a mixed market. Segments like infrastructure, metro, utility was positive, however segment like oil and gas is taking some time to bounce back. We broadly executed our strategy in line with our rebound plan and we would be going a little bit deeper as I take you through the slides.

With this, let us get into the presentation. So, I am at slide number three. Clearly the new segments which is emerging is data center, healthcare and hotels, buildings, so that continues to be and will be a focus area for us as we go forward, particularly on the data center space we want to focus and we want to increase our offerings. Similarly, renewable continues to be strong. So, there is a good pipeline of projects which we see there. So, that will continue to be a focus area. Transportation, particularly on the metro side, they continue to be interesting. So, we would continue to refocus there. Other segments, as you can see, utilities, definitely the utility DISCOMs there is a growth. There is a steady growth. So, we would continue to focus there. But, some of the other segments like MMM, oil and gas, still the growth is yet to pick up. So, that is broadly on the segment side. So, definitely there are some segments which are more attractive

than the others and our focus in the next couple of quarters and beyond would be more towards those segments.

Moving on to the next slide, slide four. Here what we wanted to show you is the kind of stuff which we are working on the short term, because this quarter was challenging as we will talk and we will go into the financial numbers. Clearly the things which we have identified and which we are working on is first the linearity of the sales. We have three manufacturing plants within this legal entity composition. So, it is very important that we keep those plants filled. So, this is what we are going to work on and it has been a continuous endeavor for us to make sure that the sales is linear, the plant is adequately full. So, we have ensured that in the current quarter, we have a good plan for the plant and also in the coming quarters, which is in the Q1 of next year. So, that is definitely clearly one focus area. And as we go into 2019, we are now working on the January to March period. This is where we have started working, because this quarter is already kind of progressed, where we are trying to see how we are keeping the plant full. Already the air insulated switchgear looks good. The rest of the line is where we are working on.

The second focus area is on the manufacturing quality. Particularly we had some issues on the fabrication side, which we have fixed now. And the key priority is to keep on working on it for 2019, keep improving the quality as we move ahead. The third bucket is on the cost management side. Now, we did some corrections in our cost folders. We have built in contingencies for forex and we are going to talk a little bit more about forex later. But, the economic variables remain uncertain. So, we have to react to that variability which the economy is giving to us. But, clearly we have incorporated what we had to do in our cost folders. And then a periodic update and cost tracking is something which we are strengthening, so that the cost folder will reflect the current position and we are quoting accordingly.

The fourth one is on the cost improvement. So, there are multiple quality and value engineering actions which we are working on and we are trying to realize, bring down the cost of the product continuously, to add to that there is a restructuring which is in progress and we are going to talk a little bit more about that. So, combination of both the quality and value engineering actions as well as the restructuring is expected to keep the cost at a competitive level. Just to sum up on this slide, better spread of the sales, more focus on quality, more strong cost management and keep pushing the peddle on the competitiveness. So, these are the short term focus which we are working on.

Moving on to the next slide, this is where we start giving you some mid to long term kind of a flavor of where the organization we are looking at and what we are looking to transform. So, if you look at it, the traditional utility business, where our presence has been very significant is definitely L-1 based. So, most of it is in L-1 based decision making, which means essentially low margin, very long payment cycle with the traditional electrical companies and obviously a lot of Government customers, so difficult to manage. So, that is the kind of business mix we were dealing with. So, what we are going to do in the next one to two years is shift the focus a little bit. We have clearly identified and going into a strategy of more electro-intensive and data centre kind of a business, where we will be leveraging our Proximity sales engine and we are also pushing more and more prescription at the planning stage. So, that is something which we are looking to do. Our approach towards the traditional companies will be, we are not going to vacate the market or do anything like that. We will be very much present in

the market, but we will be selective in our approach. We will be working through channels there. So, wherever it makes sense for us to go direct, we will go direct, otherwise we are going to go through channels. We are investing more and more on technological offerings. So, we are trying to bring in more prescription, more digital offerings, focus on DSO 4.0, which basically means more digital products, transitionalizing the products as much as possible, so that the lead time improves and then address the market through partners.

So, essentially we are right now in our annual sales and marketing plan for next year. So, this is the direction where we are working on and we wanted to give you a flavor of the direction here. So, essentially as you can see there is a shift there. The shift is more going towards high technology products, more towards digital products, more towards segments where there is a higher bang for the buck. So, that is clearly the direction in which we are going on and at the same time keep servicing the traditional utility market, but more through partners. So, that is in essence the strategy which we are looking for on a mid to long term basis. So, with this let me move to the next slide and give you a flavor of the different product pipes which we have or the different product lines, directionally how you can expect the next three years to be. So, there are some jargons and I will explain that for you. So, if what we call transactional in our parlance includes basically three products, INMCP, which is basically the loose breakers. As you see, that is going to be a focus area for us. It is green. It is going up in this year, in the next year as well as the following year. So, clearly there is a growth path which we will be working on, on the loose breaker side. MVP is the secondary distribution. So, secondary power distribution this is where we, this year definitely we are growing a lot. Next year we will rebalance it a little bit more between the segments. And again once we have rebalanced the portfolio, 2020 is where we will be again growing on that segment. ENP, which is the loose relay product, there is a clear direction to grow very aggressively next year. So, we will be growing pretty aggressively on this portfolio next year and then pretty much in 2020 we will stabilize the segment. So, overall what it would be for a transactional segment is, like this year we will be plus 5% versus the previous year and it will keep growing in the following two years.

Coming on to the next pie of the business, which is the projects business, which is basically automation where we do control and relay panels. So, if you see that, it is basically a focus area for us. So, there is a strong push on digitization and moving more and more towards connected panels, control panels, so that is going to increase in 2019 and 2020. SL2 which is our solutions business, so that is where we package the products and add the solutions together and we sell to the market. So, clearly we will be pushing these products, not everything, but definitely we will be growing through niche products in that segment. On the equipment side of it, which is the third bucket, transformer, it is pretty much a stable business. So, it will continue stable. MVE, which is more AIS and GIS panel, that is where as I explained earlier we will do a recalibration. Recalibration will be more pushing it through a standard configuration products, more pushing it through components and the partners that is the reason you see the components sales higher, but being selective here in this segment to see how do we serve the market. And within the market also being selective on the segments, for example the data centers, the renewable, the segment which is more lucrative is where we will focus. So, that is broadly the direction where we want to grow in the next three years. And I am sure there will be questions which we will take as we go into the questions session. But, we thought it would be good for you to kind of take a look at a

little bit more deeper into which are the segments where we are going to focus in the next two to three quarters as well as in the next coming one to two years.

So, with this let us move to the numbers part of the discussion. So, before going into the numbers parts, I think it is important to understand the context a little bit. So, if you see this particular quarter, saw a very unprecedented change in the forex. When we started the quarter, the Euro to Rupee was around the 77 mark. We ended the quarter with a Euro to Rupee getting into the 84-85 mark. So, there was almost 8% adverse movement in the Euro. What it means is it essentially hits us into two ways. (a) It increases the raw material cost in the short term, because the pricing action takes little time to come when there is such an unprecedented change in forex. (b) Whatever payable is there in the balance sheet, one has to revalue the payables market to market. It is a notional loss, but still one has to revalue to be compliant to the standards and that hits us. So, overall between both the buckets, we got hit by about 5 crores on the transaction side, which increased the raw material cost. We got hit by about 7 crores on the fluctuation side, which is revaluing your payables and doing it mark to market. Between the two we had 12 crores hit on forex, which broadly explains to a large extent your result for the quarter. So, that is what was unprecedented for the quarter. So, that is the reason I said before I go into the numbers, let us kind of understand the context a little bit.

So, with this let us go into the numbers and I am in the first slide, which is slide eight, which basically talks about the current quarter versus the corresponding quarter of last year. If you see here, overall the top line had a decent growth. And this is a combination of, of course our outside group customer sales, also the inside group customer sales, because now we are doing is, we are leveraging the plant more and more for low voltage panels, which we are manufacturing for the group. So, that business is also growing. So, overall it is a good news for the real entity, because the turnover is growing in the right direction. Material cost if you see, yes, there was a 3½% increase. As I touched about earlier, almost 2.2%, roughly about 5 crores was the hit because of the forex alone. And the balance is coming out of the mix, because this quarter the mix was more towards the equipments, so that is hitting us in this quarter. On employee cost, we had a one off charge this quarter, which was on account of the ESOP, because we had almost 4 crores kind of expenses coming on there. It is a one off. It should get smoothened out as we go (not clear), but that was the kind of an explanation for the employee cost. Other expenses have been controlled. And as a result of that, we had a profit before exceptional items of around 20 crores negative this quarter. Now, if you look at the 20 crores as I explained earlier, 12 crores is coming on account of forex, 5 is really on the raw materials, 7 is translation, which is mark to market, about 4 crores is basically on the employee cost, which is due to the one off WESOP and the rest is the normal line items. So, that is broadly the composition of the normal items. On the exceptional, we are going ahead with the restructuring. As I was giving you kind of the direction during the business presentation that we are working on the cost management, so we are restructuring our work force in the plant. To give you a quantum, between the two plants in Vadodara and in Calcutta, we are almost sizing down the workforce by almost about 17% to 18%. So, your company will see the benefit of it in the next year and we plan to complete this restructuring by the next quarter. So, by December we will be done with the restructuring. Those people will leave us by the end of December, as we are expecting to get a full year benefit as we go into the calendar year next year. So, that is the kind of direction we are going in. And a part of

the restructuring cost is what you see booked under exceptional this quarter. Next quarter you will see the remaining of it and we will be completing the restructuring.

Moving on into the next slide, which is the six months picture on where we are, so if you look at the six months picture, you will see a better reflection of the strategy. Like last year six months if you see, we were at a 34 crores loss. This year we are at a 11 crores loss, in spite of such a large forex. So, if you look at it, out of the 11 crores, as I explained earlier 12 crores is the forex for this quarter itself. So, if you eliminate that, pretty much I think you would see that we are at a breakeven level as far as the six months picture is concerned. So, it is clearly you can see that the strategy is working in the right direction. We are very, very carefully changing the portfolio, looking into the cost, moving into the restructuring as I was explaining to you, because once the restructuring comes and 17% to 18% workforce reduction, I think next year the fixed cost will be at a much more lower level for us to start getting leverage of the volumes. So, that is where we are broadly in terms of the numbers. And in terms of where we want the business to move and the direction in which we are going. So with this I will close here and now I would request and leave the floor for the Q&A discussions.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask your question. If you would like to withdraw your request, you may do so by pressing * and 1. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

We have the first question from Mr. Manish Goel from Enam Holdings. Please go ahead.

Manish Goel: Thanks a lot for the presentation. I have a few questions, first on the slide where you mentioned about various segments of the businesses, transactional, projects. Just to clarify, the growth rates what you have mentioned that, say transactional will grow 2% in 2019 and 2% in 2020 and for projects also similar numbers, so just a bit if you can clarify, is this the kind of overall growth rate we are looking for coming two years for transactional, projects, equipment and services?

Arnab Roy: It is more on the mix Manish. This is how the mix will change. It doesn't factor the growth. If you look at the base is 100 here, so we have not shown you the growth, what we are showing it, out of the 2019 mix, what will be the mix of transaction. So, for example say today's transaction is about, roughly say about, whatever, 25% or 27%, it will become 29%, that is what this means.

Management: Manish, just to update, as we had earlier mentioned, we are trying to reduce our system business and we will go more for the digitization and transactional business. So, this is showing how the evolution is happening towards the future.

Arnab Roy: How the mix will change.

Manish Goel: Okay. I would appreciate if you can just for the benefit of everyone that transactional you said is 27% revenue shares, what is it for projects?

Arnab Roy: If you look at the quarter Manish, the composition is projects system is about 61%, transaction is about 23% and services is around 16%. So, that is the composition of the current quarter.

Manish Goel: Sorry, you said project is about 61%.

Arnab Roy: Sorry, equipment is 61% Manish.

Manish Goel: So, when you say equipments, it includes projects and systems, right?

Management: Yes. System includes projects and equipments both together. It's combination is 61%, transactional is 23% and services 16%.

Manish Goel: Services is 16%, right?

Arnab Roy: Yeah.

Manish Goel: Okay. And this is how you probably see the movement happening. That clarifies. And some more questions on the, so I was just a bit surprised that probably two quarters back we had stated that we have started hedging and we will probably not see volatility of forex. So, now this quarter we are seeing impact of roughly 5 crores due to material cost. So, just wondering that why is it so, because we had started hedging?

Arnab Roy: So, what we have done is, we have started hedging from the June onwards or maybe last six months we have started hedging. But, some of our project lifecycle is beyond that, particularly the GIS; the execution cycle is almost close to a year. So, what we are executing now is actually from the before period. So, that is the reason you are seeing the volatility here. The last six months orders what we have started hedging, the benefit we will start showing in the coming quarters, when those projects are executed actually.

Manish Goel: Okay. So, probably the impact of forex would be much, much lower in the coming quarters, you are trying to say?

Arnab Roy: Yes, because those projects will get executed. Obviously translation one cannot say, which is the mark to market.

Manish Goel: No, that is something which is a notional thing and which will probably, okay. And would appreciate if you can give us the order inflow numbers in the quarter and what is our order book outstanding right now?

Arnab Roy: Yes Manish. So, for the quarter the outside group order was about 229 crores. And on top of that we had a inside group order of almost about 100 crores. So, that was the total order intake for the quarter. And I am trying to incorporate

the inside group order now as a parameter, because that business is growing, so I think it is important for us to get the total view of the legal entity.

Manish Goel: So, when you said inside group, it is exports which we would understand?

Arnab Roy: It is a combination of both. A large chunk of it is basically low voltage panels and Busway which we do for the other businesses of Schneider. So, we are manufacturing low voltage panel in Vadodara. That is the large chunk of it and obviously there are some exports as well. And your second question on the order backlog, the order backlog as on 30th September was roughly about 760 crores.

Manish Goel: Okay. And how have been the cash flow generation, say probably in this quarter or six months and what is the status on our gross debt number? What I probably see is that from March the gross debt seems to have gone up. So, maybe if you can clarify both on gross debt, net debt numbers and cash flow generation?

Arnab Roy: Absolutely. That is a good question. I think overall for the six months period where we have really focused is and this is mainly due to the volatility which we are seeing in forex. We have been trying to repay the payables as much as possible, subject to the cash flow. So, in this six months period, we have repaid payables, if you do a calculation, almost 108 crores payable we have repaid in this six months period. So, that is the reason you don't see much reduction in the loan, because the cash which we are generating, we are actually using to repay the credit payable so that we have a lower effect on the translation. So, that has been the focus in this six months period. And that focus is going to continue for some period, because we want to slowly eliminate the exposure, so that we are not exposed to the forex exposure.

Manish Goel: Okay. And what is the gross debt outstanding as on September?

Arnab Roy: As on September, the gross debt is about 410 crores.

Manish Goel: And net debt, excluding cash?

Arnab Roy: Cash was how much? Just give us a moment. The cash balance was about 5 crores, not much. That is around 3 crores-4 crores. 4 crores was the cash balance.

Manish Goel: Okay, fine. I will come back in the queue. Thank you so much for answering.

Moderator: Thank you sir. The next question comes from Mr. Ashwani Kumar from Reliance Mutual Fund. Please go ahead.

Ashwani Kumar: Good afternoon sir. I have two questions. One is, why is this restructuring taking so long for such a company, which has understanding as, international, multinational company which has a reasonable understanding and has been present in India for so long? One, why is it taking too long? Every time, every two or three quarters, there is some small twist in the strategy which we see, that is one.

Second also, what is the cost reduction possibility here, because material cost is 73 and employee cost is 15%-16%. Once you cut back, how much cost reduction is likely? And importantly how much turnover growth is possible in the business, because we also look at other companies which are not exactly in the same business, but within constraints, they have been able to grow turnover quite meaningfully in the last few years, despite low private CAPEX etc. So, where is the issue? Why is it taking too long for you to really address this?

Arnab Roy: Ashwani, let us take your questions by parts. I think your first question on the restructuring piece, so if you look at it, the restructuring was linked to also the segment focus. And I think what took us little time is to really come up with a very clear strategy on the segments which we want to finally focus on and the segments where we want to be very selective. We have been talking about the selectivity, but really on the ground, getting it executed and now with Bruno in charge, I think the move towards digitization, move towards technology is becoming, very evident. And that is what you see reflecting in the strategy and a very clear cut indication of going, particularly in the traditional utility segments, more through partners and pushing more components is something which has hit the ground now. So, as a result of it, as I was articulating earlier, there is a 17% to 18% reduction in the plant workforce. To give you a quantum of the savings, this will translate next year onwards to an annualized saving of almost 16 crores.

Ashwani Kumar: One-six or sixty?

Arnab Roy: One-six, 16 crores. Out of the payroll cost (inaudible), 16 crores will be the annualized impact of the restructuring which we are doing. So, which is pretty substantial, if you see it. It is the reflection of clearly the segment focus and what we want to manufacture in the plant versus what we want to do outside. I think this is what took a little time for us to now zoom down and get into that discussion. But, now at least the segment focus is clear and hence we are kind of resizing our fixed cost. So, that is one part of your question. Second part on the turnover piece, I think the focus needs to be more on improving the profitability, because with whatever I presented in this segment, rebalancing, doing more and more digital, more and more transformation, of course we don't give a forward looking outlook, but as you can see, clearly the focus is moving the profitability more. So, hence turnover will not come down, but it will be to a reasonable level to the market. But, definitely you will see a change in the profitability, as a result of the mix which we are talking about. So, that is clearly the focus of the organization. To add to that, from a legal entity perspective, the (not sure) which I have been articulating 100 crores in the quarter, that will keep continuing. So, that will give us some fixed cost leverage and also we will kind of improve the turnover.

Ashwani Kumar: The thing is that let's say if we look at the numbers of September 2018, 319 crores is the turnover, gross margin is 27, which let's say and then your employee costs are 15%, 15.8, that leaves other expenses 12.2 and some negative margins. So, even if we were to exclude the extraordinary, which is happening even in this too, even if I were to remove 16%, this will change it only by 1%, because last year your employee cost was 184 crores. So, this 15 crores and 1400 crores turnover or 1500 crores turnover would be 1%. I want to understand this material cost of 73%, which is there today, once you really restructure the mix, what does this become? Because, ultimately if you are not going to grow your turnover and you are only going to, I am saying you are attempting to do, but let's say in the interim you only change the

product mix, where will this 73.7% go and how will this change, because ultimately if you make, instead of 27% gross margin, 26% or 25% and pay 14, and 12-13 of other expense still it will give a loss at the operating level or a very marginal profit. For a multinational of your size, if you really look around and look at other companies, how they are let's say addressing India, of course there is the private sector downturn in terms of CAPEX, but I am pretty sure there must be opportunity for you to look out and get some business out there and grow this. So, the turnover growth, just the product mix is the real key. If you are doing so little with the cost, which you are cutting, then what is the plan to really change the product mix very meaningfully, so that even a moderate turnover increase gives you profit? This is my question.

Arnab Roy: Yeah, understand. So, if you see the 73%, first of all we are starting with, if you exclude the forex, as we said that we started the hedging, so in the coming quarters you will not see the forex part, then 73 becomes 71, which is more than normalized. So, let us start from the 71, which is more the normalized product mix. So, the improvement will come over and above the 71. So, I don't want to give a forward looking outlook.

Ashwani Kumar: No, no, I am not looking for any guidance, but what I am trying to understand is small fix will not help a company of your size. A small fix of 1%-2% here and there cannot help the situation. What will help is significant growth in turnover over a period of time, plus the meaningful change in product mix, because I am very sure looking at India, given the opportunities in India, a multinational which is so well respected like yours cannot be aiming for 1%-2% change here. This company, we have been investors for the last three, four, five years and we have seen plenty of times strategy changes, which is quite fine with us in terms of your way of looking at things. But, ultimately the ambition cannot be 2%, 3%, 4%, 5% change in the turnover. Ambition has to be much bigger, given the opportunity and given the lineage which the company has got, that is what I want to say.

Arnab Roy: Yeah, ambition is definitely bigger. But, I think it is one step at a time for us. So, just to complete your first part of the discussion, there will be a significant change, because of the mix as we are shifting from single digit to double digit margin product mix in the short term. So, that itself is one part of the discussion. The second part of the discussion is, with the plant first phase which I said, is about 16 crores. So, if you see, your average is about 45 crores is what the average quarterly salary is. So, 45 into 4 is 180, so on 180 if you are doing 16 crores, so it is almost like about 8%-9% of the employee cost is what you are taking out overall. So, that will definitely have an impact on the profitability going forward. And so this and along with raw material change will definitely, even without the turnover increase will bring us to a good positive situation. And beyond that the turnover increase will definitely come in, so that is the direction, where we are going and you can clearly see the reflection of it once we have a normalized quarter, next quarter and we can have a follow up discussion, that is the direction where we want to go basically.

Ashwani Kumar: Fine. Thank you for this. Thank you for this.

Moderator: Thanks you sir. The next question is from Mr. Sanjay Doshi from Reliance Mutual Fund. Please go ahead.

Sanjay Doshi: Good evening sir and just following it up on your questions, so just to get your sense on the RM side, our RM to sales seems pretty elevated. Can you help us what is the import content in this, because that also has a lot of bearing on our margins?

Arnab Roy: Yeah, which is very clear reflection this quarter Sanjay, as I was explaining earlier. So, roughly 30% is the import content and that is why I was giving you the 5 crores number. So, if you see, 235 crores in this quarter, roughly 30% is imports, which is roughly about 70 crores and 8% of 70 is basically the 5½ crores which we got hit by the forex. So, it is roughly about 30%.

Sanjay Doshi: And sir, how can this meaningfully improve over the next two to three years time period? Do you think this can move down?

Arnab Roy: Yes, because there are localization drives which one is working on and I cannot kind of give you all the details now. But, definitely there is a very, very strong localization focus which is happening. To add to that, the Government of India is also coming up with some guidelines on localization, so that is also going to be mandated for all the organizations. And we are aware of it and we are working in that direction.

Sanjay Doshi: So, in that sense can you help us what is your vendor base today and how are we working on improving that, because localization would ensure that you will have to get more on to your vendor base?

Arnab Roy: It is quite spread out, because Schneider when we talk about Schneider as a whole it is not just this business, it is also the other businesses of Schneider. So, with our overall presence, we have a very decent vendor base for almost all the components, be it when you talk about LV panel chamber or you talk about wiring or you talk about any of the other mechanical devices, I think we have a pretty spread out vendor base with all the businesses which we have. And we try to consolidate and leverage the benefit of the one Schneider buy (not clear), so that we are playing on a larger volume. So, I think it is a pretty established vendor base. So, that side we don't see a concern.

Sanjay Doshi: So, in that sense the imports would be more on the electronics, where exactly, what is the 30% is really high?

Arnab Roy: It is only the high technology products. It is mainly the high technology products, for example the relays, that is one area where we import, which is a high tech product. And similarly the GIS panel is where we import, that is a high tech product. So, these are the two products mainly which we import.

Sanjay Doshi: Okay. The other few questions sir if I may, one on the other cost, your total other cost is at around 200 crores-220 crores annualized number. As a size of your company that also seems pretty high, 15%-17% of your revenue is roughly your other expenses. So, is there any opportunity to reduce, is there any timeframe and any target that you can share?

Arnab Roy: Obviously as you see we have done the plant side of it, which we are doing. So, the next focus is definitely to look at the other pieces of it.

Having said that, the market is also growing, so we are also in that constant endeavor whether to, what I was explaining to Ashwani earlier, whether we increase our turnover and leverage the sales force more or we really look into getting into a cost cutting mode. So, that is the constant evaluation which we also face. But, having said that if the turnover doesn't pick up to a level, definitely that will be the look out. But, at this stage, the first preference will be to kind of increase the turnover and leverage the sales force more.

Sanjay Doshi: Perfect. And last one thing sir, if you can comment on the competitive intensity in terms of the area that we are clearly by far the leader in terms of the technology and automation? So, what kind of competition is there in the market, because we don't see this kind of a pain in the P&L of other MNCs?

Arnab Roy: When you see the P&L of the other MNCs, first of all the comparable ones are the other two MNCs which are comparable, you don't see probably the medium voltage basket standalone. You will see the medium voltage and low voltage basket together. So, you are not doing an apple to apple comparison really. So, but if you have to do an apple to apple comparison, I think you would see a similar picture. But, what is happening is, there is clearly in the market a demarcation between the tier-I and tier-II players. The tier-I players are going more towards the technology, more towards connected products and that is where they are trying to focus. The low tech products, where you have lot of Indian players qualified is clearly where people are leveraging on their partner model. And if you see what I spoke about earlier, we are also going in the same direction. We are going to for the segments which are totally L-1 base, we are going to leverage more and more on the partners. The segment which values technology gives a premium for it, is where we will be playing more direct. So, in a nutshell that is what the other two MNCs are also doing and we are moving in that direction. And that way I think the market is clearly moving in a particular defined direction, where the tier-I players will play more on technology and more on connected products, more on remote monitoring. The tier-II players which will be doing more the, me too kind of products.

Sanjay Doshi: Understood sir. Last one thing sir, if you can just help us appreciate a bit more, because what I personally think is that last part of our offerings are not well appreciated by the customers. So, the benefits of investing in this technologies, that what are the.....?

Arnab Roy: I think it is a very pertinent question Sanjay. And that is where I think the company has taken a conscious call. I think bringing somebody so senior as Mr. Bruno Dercle into this market is a reflection of that, because clearly the direction is that we need to do a differentiated feature selling versus the price selling, that is clearly, clearly the direction and that is why Bruno is here in India and his first agenda will be, in the next couple of years to drive that change. It will take some time, because it will require a change in the way we offer to a large extent, retraining the sales force or inducting some fresh talents into the equation. So yes, for the next couple of quarters that is the focus area which we are working on.

Sanjay Doshi: I am not asking, last one thing, I am not asking for absolute numbers from you. But, in the mix today, will there be businesses which will be, or the projects or products which will be earning you double digit operating margins, but it is

just that the share of that business is low? Will it be possible for you to share anything on that?

Arnab Roy: In this business and that is the reason when you see our segmentation of transactions, services and systems, transactions and services clearly gives us a double digit EBITDA, a very handsome double digit EBITDA. And that is the reason the focus is to increase it more and more. So, if you see the direction of it, not all systems are bad, that is where the segment sales slide was important, because there are segments which values technology, where you get a reasonable margin for your technology. There are segments which doesn't value technology. So, I would say a part of systems will be in double digit. A part of systems will be in single digit, because it is more L-1 based. Transactions and services are all double digit.

Sanjay Doshi: Perfect sir. Thank you very much and all the best.

Arnab Roy: Thank you so much Sanjay.

Moderator: Next question comes from Mr. Sabyashi Mukerjee from India Nivesh. Please go ahead.

Sabyashi Mukerjee: Hi. Thanks for the opportunity. Could you just mention some of the key order under execution?

Arnab Roy: Okay. So, if you look at the current quarter, basically we have good orders both from the end user as well as from the EPC contractors. For example we had orders from Toyota, we had orders from CEAT Tyres, HPCL, JSW Steel. And then we had orders from some of the large EPCs like L&T, Sterling and Wilson. So, it is a combination of both end user and EPC orders. So, I think the digital content of the order is increasing as I was kind of constantly have been repeating that message in this presentation. I think that is the direction which we should be getting into the current quarter some of the ones, including one where Bruno is today. The digital content of the order is somewhere where we are really pushing it high now.

Sabyashi Mukerjee: The names you mentioned that is for the order inflow, right? I am asking the order execution, key orders executed in this quarter.

Arnab Roy: Okay. The ones majorly executed in this quarter was Alstom, L&T, JSW, Tata Projects. So, these are the main orders executed in this quarter.

Sabyashi Mukerjee: And could you just give the breakup of order inflow in terms of your business segments, like transactional systems?

Arnab Roy: Yes. So, you want the order inflow, right?

Sabyashi Mukerjee: Yeah.

Arnab Roy: Okay. In terms of order, systems was at 54%, I am talking about the quarter here. Transaction was 27% and services was 19%. So, if you compare this with the corresponding quarter last year, systems was 58%, transaction

was almost in the similar range and services was in a similar range. So, basically the 4% systems went down and it was compensated by transaction and services, 2-2 each.

Sabyashi Mukerjee: And the same numbers for H1, if you can just say?

Arnab Roy: H1 I don't have it readily Sabyashi. I will ask Vineet to follow it up and give it to you.

Sabyashi Mukerjee: Okay, fine. Next should be on the order book side, you said around 760 crores you are having, could you just break it up with the outside group and the inside group?

Arnab Roy: This is only the outside group, the inside group we don't disclose it to all, so it almost comes to be like three to four months kind of a cycle. So, you can add another 100 crores-110 crores on top of it for inside group.

Sabyashi Mukerjee: Okay.

Moderator: I am so sorry to interrupt sir. Sir, could you please join the queue for more questions. I am so sorry to interrupt sir.

Sabyashi Mukerjee: Okay, sure.

Moderator: Thank you sir. We have the next question from Mr. Jigar Shah from Financial Research. Please go ahead.

Jigar Shah: Sir, thanks for taking my question. Sir, this is the first time I believe you started disclosing the outside and inside group order intake and order book breakup. And I believe you did mention to one of the earlier participants that you would expect about 100 crores constant order inflow from the inside group, am I correct?

Arnab Roy: Yes, that is correct, because that business is picking up now, so I think it is important now that you get a visibility of it, because earlier that business was small.

Jigar Shah: Okay. So, how much do you think this can ramp up eventually and in terms of, you would be having excess spare capacity also leading to your operating leverage also because of that? Can you shed some light on that thing?

Arnab Roy: Yeah. So, that is a focus area. So, there are two parts of that business. One is what we do domestically, which is basically what we are manufacturing as I was explaining earlier, low voltage panels for the other businesses. So, that business is roughly about say, 60 crores-65 crores out of that 100 crores and the rest is we do a little bit of Busway. And some 20%-25% we do exports. Now, opportunity is definitely in exports. So, that is where as we were kind of doing our operating plan for next year, we are working on that. Probably I will have a better answer for you next quarter, because once we freeze our operating plan for 2019, but clearly I can tell you currently as we speak we are working on Africa, we are working on Middle East. So, those are the places where we are working on. So, once we see some kind of operating plan for next year, it is when I will be able to quantify the numbers for you.

Jigar Shah: So, exports would be surging going ahead?

Arnab Roy: It is definitely going ahead, how much? I will probably come back to you on the next call, because we have the kind of order pipeline there, I will be in a better position to speak. But, definitely we are looking into Africa, we are looking into Middle East, so that is what we are looking into.

Jigar Shah: Okay. And could it be possible to mention what would be our capacity utilization across the plant, just to get an idea. On this existing capacity, is it possible that we may achieve a turnover of say, something like 1500 crores say two years down the line or something?

Arnab Roy: Yeah, it is possible. So, when we talk about the capacity, basically in our kind of business it is a combination of the inside brand capacity as well as the supply ecosystem which one has. So, from a supply ecosystem perspective, if you see, we have a capacity of about 1700 crores-1800 crores what we have from a supply ecosystem perspective. From a plant capacity perspective, definitely 1500 crores to 1600 crores will be doable that's scalable, because if you increase your supply ecosystem, I think basically in the plant your capacity is flexible. And it is mainly a question of your AIS and secondary distribution products, where really the plant comes into picture. Rest everything is flexible products.

Management: Just addition to that, because we are going to add more digitization on the e-commerce side, so those kinds of solution which we add further, so we will not require much of the installed capacity. So, without much of that side, we can also increase our revenue.

Jigar Shah: Okay. Just one more thing, I think the phase-I the restructuring exercise that we were doing, I believe the phase-I is completed. And the phase-II is ongoing and it should be completed when sir?

Arnab Roy: December. By December we will be done with the plant restructuring.

Jigar Shah: December 2018?

Arnab Roy: This year.

Jigar Shah: Sorry?

Arnab Roy: December this year, another two months.

Jigar Shah: Okay sir. Thank you so much.

Moderator: The next question comes from Mr. Kunal Sheth from B&K Securities. Over to you sir.

Kunal Sheth: Hi sir. I just wanted to know about how is the smart city business, have we seen any further tenders or movements in terms of where we were already discussing as far as the smart city orders are concerned?

Arnab Roy: Yes. So, smart city what is happening now is that the offering we are catering to different channels or different go to market channels. So, we spoke about the (not clear) which we have now almost executed that project. Now, there are two or three more projects which we are addressing, but we are addressing it slightly differently. For example, we have just bagged this quarter an order for Gurgaon smart city, but what we are doing is we are catering it to a partner and we are supplying smart avenues there. So, the same segment we are kind of catering it through partners now, instead of going for a big bang smart city directly with us. So, Gurgaon smart city is one. One we are doing in West. But we are catering now more and more through the partners now.

Kunal Sheth: Okay. But, any further apart from Gurgaon, so any more cities coming up with tenders or currently it is slow because of elections and all?

Arnab Roy: Still Q1 there are four or five more which is in the pipeline, which will get finalized. I think till February-March, I think these will get concluded. Then really the election effect will hit us. But, till February I think the order will be, generally not just the smart city, generally the Government orders will be on a higher spiral is what we expect, because.....

Kunal Sheth: Okay, sure sir. Thank you sir.

Moderator: Thank you sir. And that will be the last question for the day. I would now like to hand over the conference to the management for the closing comments. Over to you sir.

Arnab Roy: Okay. I think first of all I would like to say that the market sentiments as I told you looks to be positive, considering the digitization drives we are doing in most of the market segments. This quarter I think clearly we have had too much of discussions on this, was kind of a one-off because of the forex. But, with all what we are doing and particularly if you saw some of my responses to the questions you people were asking, clearly you can see that there is a direction to resize the cost, improve the raw material mix, so that going forward we have a much more sustainable results. And to add to that once the turnover starts kicking in, this company will have a much more sustainable result. So, with this I think I would like to wish you all a good evening. Have a nice evening and close the call for today.

Moderator: Thank you sir. Ladies and gentlemen this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a pleasant evening everyone.