



“Schneider Electric Infrastructure Limited
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Moderator: Ladies and gentlemen, good day and welcome to the Schneider Electric Infrastructure Limited Q1 FY2020 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kunal Sheth from B&K Securities. Thank you and over to you, Sir!

Kunal Sheth: Thank you Raymond. 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. Arnab Roy – Chief Financial Officer; and Mr. Vineet Jain – Head (Investor Relations). Sir, I would request you to give us some opening remarks and then we will open the floor for Q&A. Over to you, Sir!

Bruno Dercle: Good afternoon ladies and gentlemen. I am Bruno Dercle. I am the Managing Director of Schneider Electric Infrastructure Limited. I am pleased to connect with you today to share and update the progress of our company. Today I would present you slide on market dynamics and our strategy to address these market dynamics. So let us go straight to the presentation.

I will start with the slide #3 so that you have already received. On slide #3 you see we start from the top and then from the right side. First of all, we see an increase and we expect an increase of electrical energy demand in the next 10 years by doubling of the current volume. This is a continuation in fact of the trends that has already been the case since about two years that we expect to see it continued and then three main trends that we call the three Ds, you may hear me later on talk about the 3Ds so the three trends that we see now on our electric energy domain.

First of all decentralization, more and more power is being generated and/or consumed locally with sometime even some directional flow of power & consumers becoming self-sufficient. We stuck to see more and more requests for quotation of microgrids in India and other part of the world but in India especially. So decentralization trend is the first one.

Associated to it very often it is a case of renewable source of our power. Solar is actually active in the country. The waste management, wind generation, so the trend of decarbonization, the trend knowing that we still large in India or there is huge install base of generation capacity in fossil generation mainly coal, but a big portion of the new capacity is decarbonization and of all trends I mentioned that in the past also was the digitization trend very active in India where self generation, and digitization of the secondary distribution network of our customers is happening at a very high speed. That is the general trend, the macro dynamics leading to a very dynamic market with a strong demand that we can address.

If you go to slide #4 the next one you will see the key strategic dimensions that we are implementing in our company. First of all, we continue the business positioning to profitable technology & services driven business.

We have a very favorable market environment with growth as you could see also produce, to do our business transformation in a smooth and efficient way. This market environment gives us some opportunities. I mentioned in reproduce course of rebound project so “back to the core” that we could say it is rebound project has allowed us to focus our energy and our transformation on few transformation and then few strategic pillar.

The first one is developing our most profitable go-to model through partners. Partners can mean different go-to market. It can mean from an EPC, to contractor, to very transactional model where we sell component and core component to a partner builders. So behind this, we have partners, we have different concept, so partner builder lies on since the partner builder, it can be also little bit of we are currently developing a set of offers in order to be partner compatibles that on this launch in the coming few weeks and more. So first of all developing our growth through partner whatever the type of partner but the more transactional and more profitable go-to market we are from Schneider Electric Infrastructure Limited.

Second transformation project deal is well positioning of utilities distribution companies business to more of technology driven business and to more services business. So that is something that we have engaged already, some past years ago. It has started to pay off. We have now crossed below 50% of activities in utilities, coming from 70% two to four years ago. So this repositioning of this utility business to a core technology driven business is ongoing and is very important strategic pillar of what we are currently doing in this entity.

India is where we do most of our activities is medium market in terms of demand, in terms of requirement and we are currently engaged in two strategic rethink of at global level of how we can reshape our offer in order to be more medium market compatible and that addresses and getting better support from the line of business and from the global business to address the Indian medium market.

I mentioned before that most of offer must be service ready so this system activity is now more and more service ready with digital as the key differentiation. This is especially the need for our software and hardware side of that and to a longer-term we are also medium voltage repositioning on green and digital using the SX63 as a better field. We do not see yet the specification evolving towards SX63 in India. We stuck to see it evolving in some countries in Europe and in other places. We expect that it will come and on that domain at Schneider Electric global offer will bring us some digital, it is not for future it is some domain on which we see the market evolving in the coming few years and for that we will be ready.

If you go to slide #5, you will see the focus that we have for our entity. On the right side I mentioned already the channel we want to become as a must partner friendly medium voltage player on this market and we have lot of things on Schneider Electric Infrastructure Limited. There are few tough competitions on this market. We will be now seeing in the coming few weeks more partner compatible offers and when I will say partner I remind the most added value low core added value of the partner go-to market which is like from fee and the core component model. Several announcements will come soon on this domain.

In terms of segments we are specialized into the Electro Intensive segments of the market. Electro Intensive for us I remind is transportation, metal, airways, boats, aircrafts, it is OGP, Oil and Gas and Petrochemicals and it is mining and metals segments. We are positioning of utilities to different go-to market in a profitable way. In terms of technology the SX63 Green technology is coming, not just this year, it is available in Schneider Electric Global for some markets, it will come at the speed the mature in tier Neogen markets and the digital foray is already representing quite set that whole portion of ourselves today.

I continue on the specific domain on slide #6 of what we want to do and how we approach the distribution companies, the DISCOM utility positioning, and we classify in fact of this activity in to we have done two at least the digital transformation and the service hedging attitude of the electric utilities on one side so on the top of the slide and also that we could at least the influence of the local DISCOM on the CIB segments on the commercial and the industrial building segment, which is much more diffuse by nature but can be more or less influenced by the local DISCOM with specification which of the DISCOM that can be imposed to the private developers when they procure some medium voltage and the smart components.

Clearly, there is domain where there is a high maturity level of digital transformation in the DISCOM and the high influence on the CIB market, that we can otherwise few channel partners. This is the box number two, very green. This is typically where we can grow and the next is on a portion of the market that we need to play with the EcoStructure mindset to differentiate and to drive the services activity and so this portion of the market which is now identify as number two is obviously where we hit our specifics as the best and is the most effective for us.

On the opposite when there is a low digital transformation so it means that there are lot of competition on the local competition with local players on this market, low digital transformation and so low insurance on CIB it means that we cannot play their use go-to market. There is distributor. There is partner and to go to the CIB market. We end up into box number 3. It is a red color where we intent to see low margin big volume with low margin and the very less effective portion of the market. This is the portion of the market that somehow we are vacated already so it is no more figures of less and less impacted by this portion of low red color, option of the distribution utility market and in the

meantime, in the intermediate situation you have this box number one and four where we can play sometime the software and the smart agreement curve typically the high digital transformation with low implement, low influence from CIB segment so box number four here we play with the EcoStructure and whole our software digital tools that we have. The more traditional activity which were present big volume for our entity is the number one, we have transitioned all business not portion of it only engage into the digital transformation. It will present big volumes. It presents good effectiveness, thanks to different go-to market. It can be direct or it can be indirect issue partner which is the book number one so typically we do our volume in our entity mainly in item one and two with one being representing the business transformation and item two representing as the place where we want to grow.

In box number four we represent a lower portion of our market and sales. We are more pessimistic in this domain. We took over this different subsegments of the utility segment so we are positioning of different offers and of different go-to market along this box blue and green and the box number four is we are using in fact the four things of shift on digital. Thanks to the software project that we have.

We will go to slide #8. On slide #8 here we have mentioned the strategy that we have for the system. You know that systems for us cover what we sell as solutions and what we sell as the equipments together with servicing. By a position to transaction our activity that we have discussed before through partners so we try to address, of systems activity. Thanks to the capacity to be service ready in order to drive some future sales of services after we have the solution of the equipment. Most of our services lines are growing at double-digit meaning that they grow at higher speed than our main equipment activity and they also grow at better margin than the rate of the activity even though the most of the strategy which is implemented is to execute project solution and equipment in order to generate services at a later stage, so for that the product must be services ready typically each product whether medium voltage or automation is now equipped with QR Code. We stuck to implement or so some sensors, the little green box that you see in the middle of the slide and this is big like matchbox light. It is very smaller to matchbox. It allows to medium voltage equipment to send some characteristics of the medium voltage in a real time to some asset management software, which saw selling services on a weekly basis to see end result. So more and more of our project and more and more of our equipment today there is a range of products which are equipped with the sensor, this matchbox handling data to software or asset default management and QR Code in order to ease in the future network and the future services.

In conclusion, on slide #9 you see where we are in our domain and what is our domain exactly so back to the core is what that I have already used at some stage we grow transactional activity through partners. Thanks to energy management. We do utility repositioning in order to have better profits. We need to build medium strategy which is not yet fully designed. It has to be done together with the global things because the medium strategy will address different continent, not only India so this is

work in progress. We have on block number two is whether to manage in the next place is systems activity. The first is a yellow box as a box number one was related to the transactional activity, the box number two is the green box is related to systems, the equipment and solutions. We have selected the segment on which we want to work. We are the specialists in a few of the segments. Each of that must be service ready in order to drive the future growth and the profitability of the service activities and we are stocking to engage also from the software sales for systems for solutions through partners.

On the right side of the screen this is the future. We have the SF63 which have been launched some equipment of medium voltage equipment SF63 have been launched four months ago at some global event and the onset was latest requirement of green energy in some geographies in Europe and USA so this is the future of this industry in medium voltage. Otherwise what is already available in India on India market is the digitalization and the ability of almost whole of panels and systems.

I will stop now and I will ask Arnab to update on the financials on the last quarter.

Arnab Roy:

Thanks Bruno. Good afternoon everyone. Bruno has already give you the mid to long-term outlook of this company also the detail outlook of the strategy.

Now coming to the quarter, I also would like to give some pointers on the background of this quarter. As you are aware that this was the election quarter for all of us first two months of the quarter was pretty much impacted by elections and that is the reason our flow orders and the new orders, which were suppose to be finalized got postponed by sometime and we can see the reflection of this in the financials particularly if you look at the material cost line you see a higher material cost which essentially meant we were burning our backlogs as the flow orders were less. So you will see that the systems order has been high this quarter, which is reflecting in the higher material cost so that is one of the reasons why the performance of this quarter was not positive.

The second impact this quarter was we had a lesser recovery of debts or the other income was lower, again a function of the slowness of the economy that the general activity the cash flow was slow this quarter.

The third thing to highlight in this quarter was that this quarter had some one-offs in terms of some one-off charges on the employee cost and few other lines. So which all in all resulted to a loss in this quarter, but if I take out the one offs and the impact of the mix overall the fundamentals remain strong and we expect to catch up in the coming quarters of the month. No real concern in terms of the mid-term, but yes some blips in the quarter is how I would summarize the results.

With this I would open up, request to open up the floor for questions and answers.

Moderator: Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Mr. Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth: I just wanted to know quick view on the strategic initiatives that you have mentioned on the slide #4. Do we have any timelines in mind by when we are likely to achieve all of this or implement or will this be a gradual process, if you can throw more light on it?

Bruno Dercele: If you refer to the slide strategic deal on the slide #4, clearly the left one green and we are using SF63 and today only the digital part is engaged. We have launched some products on the global basis on the SF63 for avenues and for medium voltage switchgear. We have not yet launched them on the Indian market because we have not yet seen the demand for it. The sixth one is the digital part is completely onboard. The green SF63 is not yet onboard on our entity. The partner move is the first one. The partner move, we are fully engaged into it, into this initiative. If you want to have some figures we currently have one license operational. We are signed three additional licenses already. This partner become operational for manufacturing and validated prototype on the Schneider Electric brand in the coming few weeks, so in a few weeks we will have moved from one to four licenses and we intent to have 12 bagged in next year. So you see the extent of the partner growth through partner move within 18 months from last winter to next summer, we will have moved from 1 to 12 operational licenses.

The second item utility business to more core technology driven business is a consequence of the first item. Once we have 12 licenses on board plus something core component builder, most of the utility business will be addressed through partner and the core technology driven way. So this we are talking about three to four quarters from now the move will have been completed.

The medium strategy with de facto to have the medium strategy because otherwise we have nothing exists in India. I think I will just share some data last time what we observe is the optimum segment in the Indian market is declining that the basic lower than medium portion of the market is also decreasing in India due to the digitization move and the medium portion of the market is the one growing and ensuring most of the growth of the Indian market. With de facto to have medium strategy what we need to do is to implement and to compliment medium strategy at a global level of Schneider Electric. This is what is currently being done and we will benefit in India of Schneider Electric having power system, having medium voltage, medium strategy at a global level because then the offer will be driven also for the medium market engineer. This will take more time. It will take probably a year to take shape to complement in the Indian medium strategy with a global one.

We continue to drive system excellence to be service ready with digital electricity transition which is ongoing. It is moving on. Our service activity is growing double digit, highly profitable and this is something which is ongoing and more and more of our equipment collected equipment.

- Kunal Sheth:** Thank you so much for the detailed replay. Sir what is the share of services in the revenue right now?
- Arnab Roy:** It keeps fluctuating quarter-to-quarter so if you look at more from an average basis it is around 11% to 12% this quarter it was slightly lower because of the higher system sale as I was applying earlier.
- Bruno Derclé:** It is growing by 1% point every year approximately, we enjoy some path and we expect it to see this 1% point growth continuing.
- Kunal Sheth:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ashwini Kumar from Reliance Mutual Fund. Please go ahead.
- Ashwini Kumar:** Sir my question is that between the listed entities and unlisted of Schneider Electric, is there any conflict of interest means are the companies which is listed and unlisted are they in anyway same lines of business and is there any interdependence on the two, if you could help me understand this?
- Arnab Roy:** Ashwini, as we have outlined in the past as well there is a very clear demarcation on the voltage ratings the medium voltage and the low voltage, the listed entity takes care of the medium voltage side of the portfolio, the non-listed entity takes care of the low voltage side of the portfolio. So the demarcation is very clear as we speak today there is no overlap.
- Ashwini Kumar:** Second is basically your company size is relatively very small in terms of size and given the opportunity in India why is it taking quarter-after-quarter, I mean every time you are having a strategy why one is economic conditions but besides that why acceleration in profitability or improvement in profitability or improvement in turnover is taking relatively much more time because it is not a company which is of some 1500 Crores per quarter turnover kind of thing. I just want to understand where is the bottleneck? Is it in the market? Is it in the internal strategy not being completely fixed as of now? What exactly is the issue?
- Bruno Derclé:** Beyond the ups and down that you can observe in a quarter and it is clear that we have the few exceptions in quarter one that have impacted our figures beyond that the strategy is defined, building a network of partner to change the mix of activity from an almost 90% equipment activity to more balanced way with a portion of it in services, a portion of it in equipment and a portion of it in transactional model and building a network partners requires times. This is a move in which we have engaged. So we still can have and we have in quarter one last quarter some hits due to some exceptional and some kind of slowdown and also on the decision process of some our customer which was expected. So beyond that the overall improvement of the fundamentals is taking time because we are changing the mix of our activities in order to be system profitable in by being able to play with the

transactional, services and the service equipment segments models. In the past we could not, so now we are growing transactional. We are growing in servicing. We remain flat overall it is picking in equipment in order to grow up to profitable go to market model.

Ashwini Kumar: You could expect the strategy to play out basically how much time do you think and does it increase the scope of activity for you? I mean the new strategy does it open up the new market or does it increase the market side for you to increase the future turnover and consequently future profitability?

Bruno Derclé: We closed not this quarter, but the quarter before we close the year which has shown already so first ensure the receipt of the strategy with sound improvement and we expect that this year is the full year this four quarters will show again an improvement in terms of the bottomline and topline in a reasonable growth of topline. So the switch is on except that there have some ups and downs quarter-by-quarter.

Ashwini Kumar: Thanks.

Moderator: Thank you. The next question is from the line of Jigar Shroff from Financial Research. Please go ahead.

Jigar Shroff: Thanks for taking my question. Sir what would be the order intake in the first quarter? Second question the outstanding order book as of today with a breakup between systems transactions and services? Then I will ask further questions Sir.

Arnab Roy: As I said in my opening remarks that the order intake this quarter was lower because of the delayed decision making so this quarter we had a fresh order of 223 Crores and it was down, it was lower compared to the corresponding quarter last year.

Jigar Shroff: How much was it last year Sir?

Arnab Roy: Last year the corresponding quarter was about 272 Crores so we almost had an 18% lower order this quarter and which was primarily there was a delay in the decision making, a part of it we have already caught up as we speak because those decisions have now taken. What it has led to the backlog? Yes, we have consumed our backlog to the extent of about 92 Crores so the backlog as on June 30, stood at 734 Crores versus 826 Crores as on March 2019.

Jigar Shroff: What would be the breakup Sir in systems and transactions and services in the order backlog?

Arnab Roy: You are talking about the order backlog?

Jigar Shroff: Yes.

- Arnab Roy:** Order backlog in this quarter was equipment will be about 58%, projects is 4% so both together is the systems business which is 62% transaction is around 20% services is around 18%.
- Jigar Shroff:** Can you explain me exactly what you mean by transactions and systems I just wanted to understand now to segregate between the two?
- Bruno Dercele:** Systems is composed of equipment, medium voltage switchgear equipments and transformers as well are including system, addressing that require engineering to order. It includes or so solutions so we are the smaller activity of solutions which requires even more engineering, it requires project management, it requires usually long lead time to execute or complete solution product this is what we call systems.
- Jigar Shroff:** So mainly equipment it would be Sir, right?
- Bruno Dercele:** So it is mainly equipment in our activity marginally solutions and this solution integrate equipments as well.
- Jigar Shroff:** For the transactions?
- Bruno Dercele:** Transaction it is activities which can be typically lose switchgear by medium voltage switchgear is a transactional activity which is sold to panel builder or license panel builder.
- Jigar Shroff:** Sorry?
- Bruno Dercele:** Panel builder so it means that somebody that we integrate this component inside medium voltage switchgear which would then be an equipment.
- Arnab Roy:** So any loose component is what is transactional it can be a breaker it can be a loose relay so a component inside the system is where what we you call transactional?
- Jigar Shroff:** Transactions of the loose components and systems will comprise of full equipments and solutions?
- Arnab Roy:** Equipments and solutions, yes.
- Bruno Dercele:** To the extent when you are in a transactional mode, it can go to your customer is a distributor, he knows your price list, he has a tool and a software to pass the order directly and it goes straight to the EFT of the plot we have some equipment which are some line of business which are working along this model. See it is fully transactionalized and we there is nobody doing it and there is nobody doing an offer, just a discussion on the price list and it goes straight to the EFT of the manufacturing. Some

of our transactional activity is along this model. It is a very mature model for some of the product line. Unfortunately not all our product lines are as efficient as these. We have some work to do there.

Jigar Shroff: Sir, and one more accounting question what is the net debt as on June 30, 2019 in the books?

Arnab Roy: So the gross debt as on this quarter was around 589 Crores.

Jigar Shroff: And the net?

Arnab Roy: What do you mean by net?

Jigar Shroff: I mean whatever the cash in hand or the cash flow of the respective balance sheet Sir. So the net debt I mean so to speak?

Arnab Roy: We will just respond that as we go in discussion. Let us take the next question we are just fine.

Jigar Shroff: What is the sustainable EBITDA margins are you looking at Sir going ahead I mean and what would be the one off and can you quantify the one offs in this quarter in terms of amount?

Arnab Roy: There are two or three discussions on the one-offs here. As I said one was the mix issue so there is roughly about 2%, 2.5% which is due to the mix because the mix was not the normal mix so that is the biggest component of the performance this quarter. Other than the mix issue which was the higher systems business there are couple of one-offs on the employee cost line, which is impacting the thing so 2% on account of say the mix plus roughly about 2 Crores, 2.5 Crores one-off on the employee cost line so those are the one-offs for this quarter other than that and if you discount it we are more on a breakeven position like the way we were in the previous quarter.

Jigar Shroff: What is the sustainable EBITDA margin you would say?

Arnab Roy: See we do not give a forward outlook, so Bruno has outlined the strategy. The reflection of it will come into the numbers.

Jigar Shroff: We ended the March 2019 at with what EBITDA margin Sir for the full year?

Arnab Roy: Full year I mean if you take out the abnormal item we were at a positive PBT margin.

Jigar Shroff: And the EBITDA?

Arnab Roy: EBITDA was around 6%.

- Jigar Shroff:** 8% for March 2019?
- Arnab Roy:** And the net debt is approximately 530 Crores.
- Jigar Shroff:** This includes preferential share right?
- Arnab Roy:** Yes it includes some of the preferential share which are coming as a part of debt as per the new Ind AS.
- Jigar Shroff:** That I believe 15 Crores per annum you show it as interest cost, right?
- Arnab Roy:** Yes that will be approximately. Approximately 172 Crores preferred equity out of which approximately 100 Crores is for the preferred equity which is considered as debt as per the new Ind-AS.
- Jigar Shroff:** I see, what would be the capacity utilization across all the plants?
- Arnab Roy:** The answer will vary line by line. I mean, some of the lines we have a very high capacity utilization. For some lines we have capacity to utilize. So there is no one answer. It depends on the individual lines.
- Bruno Derclé:** We have three main lines. The transformer, which is our biggest single product line, still has some capacity unused on transformer. On the medium voltage switchgear, the capacity is much higher.
- Jigar Shroff:** Thank you so much.
- 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 Derclé:** Market sentiment looks to be positive considering the digitization drive in most of our market segments. We are watching closely the evolution in order to capture more growth. It is time after a lot of transformation it is sometime to capture more growth in line with our packaging. As we could mention several times during these questions the strategy is defined and it is being implemented in frequent manner and 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.