



“Schneider Electric Infrastructure Ltd. Q2FY20 Earnings  
Conference Call”

**November 07, 2019**



**MANAGEMENT: MR. ARNAB ROY – CFO, SCHNEIDER ELECTRIC  
INFRASTRUCTURE LIMITED  
MR. VINEET JAIN – HEAD INVESTOR RELATIONS,  
SCHNEIDER ELECTRIC INFRASTRUCTURE LIMITED**

**MODERATOR: MR. RUPESH SANKHE -- ELARA SECURITIES PRIVATE  
LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Schneider Electric infrastructure limited Q2 FY'20 Earnings Conference Call hosted by Elara Securities 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 call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rupesh Sankhe from Elara Securities Private Limited. Thank you and over to you sir.

**Rupesh Sankhe:** Good afternoon, everyone. On behalf of Elara Securities, we welcome you all for the Q2 FY'20 and H1 FY'20 conference call of Schneider Electric Infrastructure Limited. I take this opportunity to welcome the management of Schneider Electric Infrastructure, represented by Mr. Arnab Roy -- CFO and Mr. Vineet Jain – Head, Investor Relations. We will begin the call with the brief overview by the management followed by Q&A session.

I will now hand over the call to Mr. Roy for his opening remarks. Over to you sir.

**Arnab Roy:** Thank you very much. Good afternoon and welcome to the call. So, let me start with the "Opening Remarks" and a "Brief Overview of the Results" and then we will open it up for your "Questions."

To start with on Slide #3, here we are giving you an overview of the macro indicators. Most of it is known to you, so, I would not spend too much time, but if you look at that chart it is very evident that the current quarter has been sluggish from most of the parameters be it GDP, I mean, the intergroup value-added, the fixed capital formation. Particularly, I would like to draw your attention to the electricity growth number here, because this is what has a direct correlation with your company's numbers. So if you see for the first time in August. electricity growth was negative, and it was very sluggish in July. So, all in all the message from this slide is, yes, it is tough macroeconomic environment we are all in and I am sure we are seeing it in this industry as well as in the other industries as well.

Moving on to the next slide, we go a little bit deeper into the segments. Here you see six months view and 12 months view and then on the right hand side you see one and three months view. So, most of the segments which we operate in MMM, oil and gas, transportation, so you will see that the six and 12-months view was positive, the pipeline has been growing, but in the one to three months view there is a dip. So this quarter has been tough for many of the segments, you can see many reds in that chart. But having said that for us the backlog is still healthy; the backlog as on September 2019 was at Rs.784 crores which was higher than the corresponding quarter of June which was at Rs.734 crores, so backlog was still good and which means the next quarter the revenue is going to be good. so I will talk about it later. But overall as you see the short-term outlook for most of the segments has been challenging.

With this macroeconomic background, let me move to the next slide. So before going into the results, let u talk about little bit on the important facts which impacted us in this quarter. I

already spoke about a general economic slowdown. Coupled with that most of us would have seen a liquidity crunch in the market. So in the quarter there was a liquidity challenge, I mean, cash was not freely available, we deal a lot with utilities and EPCs. Some of the large EPCs in the country, they had challenges in this quarter which we saw in our cash inflow, they were slow in paying.

The good news for us is our order intake has sharply increased in spite of the macroeconomic thing. So we had a dip in Q1 because some of the decision-making was not happening due to the general elections in the country, which we saw rebound to some extent in Q2. So the order inflow was good. I will talk about it in the next slide. However, our sales number was disappointing and I will be affront about it. One of the main reasons which impacted us was, we had a major flood in Baroda on 31st of July. So it was a last day of the month. We had lot of shipments lined up and we had a major flood. So, our Switchgear factory was flooded, there was water all inside it, people had to be evacuated and it took us little time to stabilize the operations. So for two weeks there was almost shutdown and another two weeks it took us to come back to normal operations. So almost for a month, we were impacted because of this flood to recover fully back to operations. I will talk about it little later, but just bear in mind that was one big impact for us. Some of the orders as a result of this could not be executed. So we had delays.

Again on the good news, the sales mix when I talk about the results, you will see improved significantly in this quarter. It is moving more in the direction in which we wanted, more transactional and more services, so the mix is moving in that direction.

Cash, I already spoke about, but yes I mean, the impact of the cash had an effect on the interest cost and also little bit on the FOREX, which you will see in the results.

So with this background, let us move to the numbers. But before going to the numbers let me cover the Baroda flood little bit because it has an impact on this quarter's result as well as in the coming quarters. So, I already spoke about the situation. So we have filed two claims; we have filed a property damage claim of around 64 MINR and we have also filed business interruption claim of about 160 MINR. So, as you know, these claims will be scrutinized by the insurance company, there will be a back-and-forth in this one and eventually we will have the award. So, we expect the closure to happen in first quarter 2020. As I already told you that the current quarter we took a hit. To be little bit more precise, our sales was down by about Rs.45 crores in the quarter as a result of this disruption. If one has to take an impact of the fixed cost which could not be recovered as a result of this disruption that was in the tune of about Rs.10.5 crores, with the 45 crores of sales one month of operation led to about Rs.10.5 crores under recovery of fixed cost. Add to that margin, which is roughly about Rs.2.5-crores. So around 13 crores you can say is the profit impact which was attributable to this one month hold in operation. This is what broadly you see in the PPI claim...of course, we have captured some opportunity cost and other things there. So we will take our try with the insurance

company to see how much we can justify. But yes, operationally, purely, if you see around Rs.13 crores is the impact which is there because of this event.

So with this, let us move to the “Financial Update Section.” So, if you see on the order side, as I was telling you earlier that we had a good order growth quarter; compared to the Q2 of last year, we had a 28% order growth, and some good orders both on the end-user side as well as on the UPC contractor side. So we had a good mix of order gain in this quarter and I already spoke about the backlog earlier.

Moving on to the sales, I touched upon the sales, so although quarter-on-quarter you see a 2% degrowth, but the expectation was much higher, as I told earlier, we were expecting a Rs.45 crores higher number than this. So this has impacted us for the quarter.

Moving on to the P&L, if one has to compare this quarter versus the corresponding quarter last year. Sales, we already spoke about. Material cost, this is the positive side in this quarter. If you see operationally, as I told you earlier, the business mix has improved, so there is a 3% gross margin improvement which has happened because of the business mix improvement. There have been more transactional products. The mix in this in the right direction, overall, the services growth was decent. So all this put together the gross margin improved by about 3%.

Moving on to the Employee Cost. Overall, you see 8% to 10% kind of an increase. So there are two or three factors which have impacted there. Obviously, there is an increment impact of about 8%. Then we started seeing the benefit of the line-2 project which we spoke about last year, the restructuring benefit. That benefited us in a similar amount. So the inflation and the line-II project almost nullified each other, so we have 39 MINR benefit coming out of that project. As I told you last quarter also that now we have some revenue generating payrolls which is classified as payroll. So we have almost 23 million of that kind of expense, for which we already have a service income, which is sitting in other income bucket. So 23 MINR is that which is not a real cost. And there was about 14 MINR which is the higher call for the voluntary share option plan which we have. So that is broadly on the salary. So there are three or four components which is on the salary.

Interest cost, yes, so, as you see compared to 110 MINR last year, we had 133 MINR of interest cost this year mainly because of the lower cash inflow which we saw this quarter. It was a tough quarter on cash.

Similarly, we had an impact of that on the FOREX which you see on the other expense side. There was 30 MINR higher FOREX impact on the other expense side. This was because we could not accelerate our payables to the way we wanted because of the lower cash.

So, net-net these are the key numbers. There is one more number which is the insurance deductible because the global policy which we have, comes with the deductible of about Rs.1.5 crores. So, we had to make a provision for the deductible in the books; so there is Rs.1.5-crores

abnormal cost which is there in the results. So all this put together contributed to the P&L performance which you see and I am sure you will have more questions, we will deep dive. But just to summarize, it is an impact of the flood and around Rs.13 crores getting impacted because of that, which will get covered hopefully with the business interruption insurance claim, couple of one-offs on the employee cost, I mean, cash being slower on the interest and on the FOREX, so that is a broad walk for the P&L.

It is important to touch upon the next slide which is on the balance sheet because if you would have seen the operating results you would see that there is a note-7 in the operating results, where the auditors have referred, and we have also referred on those points. Because of the operating loss which we had in the quarter, the net worth was a negative, so we had Rs.15 crores negative net worth, which is purely temporary because next quarter we have a big quarter coming up, so we expect the net worth to get squared off by next quarter, it will come back to positive. But, yes, this quarter it was a negative. So auditor had to oblige as per their accounting standards on the going concern. They have not put a qualification, but they have just mentioned, "If it is a matter, you have to show that." To draw your attention that yes, the networth came to negative in September.

The other point you would see mention there is the higher current liability compared to the current assets. This was the case last quarter and the quarters before as well, but since the net worth has been negative, so this was also mentioned. Large part of that is because of inter-company loan classification which we have which was classified as short-term. So we are taking care in changing the contract to move into long-term so that we reduce the imbalance, so it will be back to more positive. I thought these are two items which you should know because you would see a reflection in the results in some way or the other.

That is from my side and now we would open it up for your questions and I will be happy to take to your questions now.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nimish Shah from Fortune Financial Service. Please go ahead.

**Nimish Shah:** We have been following the results since multiple quarters and the performance has been generally lackluster over last few quarters. When do you expect to actually turnaround and come up with some robust numbers? Shareholders just remaining patients to be very honest. This flood is the one-off event, but even if we see the prior quarters there have been no flood or no sandstorms or something also, the numbers have been almost dismal to put it mildly.

**Arnab Roy:** If you look at there are two parts of the results. Operationally, if you see the last three or four quarters, we are moving as a plan, we never committed to be at a very high growth, but we have been moving in the direction in which we have been telling you for the last few quarters. So this quarter also if you see the gross margin number, you can see a reflection of the way the business mix is moving. Having said that, yes, we live in a macroeconomic environment which

was challenging this particular quarter which had its impact in the cash and in some of the other items. Yes, flood was one of the events as you said, so that has its impact, so you will have to take out Rs.13 crores from this result and see which will get recovered through the insurance claim as I articulated earlier. The business, all I can say is moving in a structured direction. You will see a reflection of that in the next quarter... r usually the October to December quarter is a big quarter for us, and this year it will be no different. Overall, when we close the year you will see that we would not have deviated too much from what we told you at the beginning of the year. We are still operationally in the same direction subject to couple of one-offs which will be a catch-up between one to the other quarter.

**Nimish Shah:** And going forward what is the guidance?

**Arnab Roy:** We do not give a guidance, but as I told you that October-to-December quarter will be a big quarter, so you can see last year October to December quarter, as I told you, it is going to be no different this October-to-December. So if I have to give any comfort to you, today as we go into the quarter, we are at 97% backlog for the next quarter and we are at about 55% to 60% backlog for the January-to-March quarter, that you see any ideas you can take....

**Nimish Shah:** So you expect the trends to continue at least you know going forward, I mean, I do not expect a V-shape recovery, but at least we can have U-shape recovery for the overall business?

**Arnab Roy:** I think I have already answered your question; if you heard me, I said 97% backlog in the October-to-December quarter and 55% to 60% backlog in the January-to-March quarter, that should answer your question.

**Moderator:** Thank you. The next question is from the line of Manish Goyal from Enam Holdings Private Limited. Please go ahead.

**Manish Goyal:** If you can probably refer to your slide #4, so bit of dichotomy, you said that order inflow has been quite strong, but the slide shows that pipeline has been weak in the short-term one-month to three-month, so just can you probably clarify that?

**Arnab Roy:** Yes, I will clarify that. See, when we close the order, many of our business are long cycle business. So the orders which we would have won in the quarter would have been in the pipeline for 6-to-12-months period because it would have been a long cycle thing, so that explains your answer. But having said that, although the quarter has been sluggish, but still there are few opportunities which we are pursuing on multiple sides. So the outlook an order is I would say still very positive in the current quarter or in the coming quarter, I do not see a slowdown happening too much on the order side, because there are quite a few significant opportunities, I cannot give you that much details because of the competitive reasons, but, yes, our outlook does not look that bad for the next couple of quarters.

**Manish Goyal:** So you expect order growth momentum to continue for Q3 and Q4?

- Arnab Roy:** That is what I would expect.
- Manish Goyal:** Can you give us the revenue breakup like what was your basically IG sales in the quarter and also the broad base like transaction products have done well, so what is the growth in the transaction products, some numbers on that please?
- Arnab Roy:** Yes, sure, and I would request others to also take a note because this question keeps repeating. So in Q2 FY'20 the system share was 61% which included 52% of outside group sales and 9% of IG sales, so 52 plus 9 = 61 for systems, 25% was transaction, and 14% was services. Corresponding quarter last year if you look at it, systems was at 71%, so we had a high IG of 33% last year same quarter and 38% was OG. Transaction was at 17%, so this is what I was mentioning that 8% growth in transaction from 17% to 25% and services was at 12% last year same quarter.
- Manish Goyal:** In the order inflow, can you give us the similar breakup please?
- Arnab Roy:** So Q2 FY'20 equipment was at 47%, project was 11%, transactions was 27%, services was 15%. If you compare it with last year same quarter, equipment was 49%, project was 5%, transactions was 27% and services was 19%.
- Manish Goyal:** And number what you have shared order inflow is the external costumer, right?
- Arnab Roy:** External costumer.
- Manish Goyal:** So, will we take 9% of the revenues as the order inflow for the IG as well?
- Arnab Roy:** Yes, IG is pretty stable business month-on-month, so you can take it that way.
- Manish Goyal:** So that should be roughly Rs.28 crores.
- Arnab Roy:** Correct.
- Manish Goyal:** Can you give us the half year number also just for the IG inflow please?
- Vineet Jain:** Manish, I will give you. They are not ready.
- Manish Goyal:** Okay. So, just to confirm your external customer order inflow in the first half was Rs.517 crores versus Rs.500 crores, because there has been bit confusion on the order inflow number. So may be if you can share that later on?
- Vineet Jain:** Okay, I will revert to you.
- Moderator:** Thank you. The next question is from the line of Anand Jain, an individual investor, please go ahead.

- Anand Jain:** So, what has happened in a lot of states now, the grid is refusing to connect to more solar or renewable energy systems or power generator. So what kind of opportunity does this present to us because what I have heard is that we kind of specialized in these areas?
- Arnab Roy:** Yes, but there is some traction happening on this front I would say at this stage, but little early to comment.
- Anand Jain:** Because the U.P. has kind of stopped buying more solar power that I am certain of, but can you just quantify in terms of who our competitors are and how big the opportunity can be mainly on the grid stability side to support more renewable?
- Arnab Roy:** Renewable as a segment is definitely a focus segment for us and we are having a steady growth, even if you see pipeline slide which I showed you, you will see that that is a focus area for us, it is going in that direction. But specifically state wise breakup I would not have the details in this call to give you but yes, U.P. is one of the growth states for us, we do a lot of business on the automation side in U.P. and there are quite a few opportunities on loss reduction and other things which keeps happening on U.P.
- Harshit:** This is Harshit here from Elara. just wanted to understand sir, this revenue decline is largely because of highways impact as well or it is only largely because of the weakness in the industrial demand we are seeing sir?
- Arnab Roy:** As I told you this quarter, the revenue lower is because we could not ship because we almost had a month of disruption in our main plant, so Rs.45-crores is purely attributable because we could not produce in time and recover from the flood situation, we had the orders with us, it is just that we could not produce in time and sell it because the plant was near shut down for a month.
- Harshit:** If I adjust on the base quarter which had a FOREX loss of Rs.77 crores, the operating cost looks to be on a higher side, upwards of 17%. Is there any one-off for FOREX loss in this quarter?
- Arnab Roy:** There is a FOREX loss of about 30 MINR in the quarter as was I telling you. Usually if you look at the last few quarters, we have been as a strategy prepaying our old APs because evaluation was going always adverse, but this quarter we did not have the luxury to do that, because the overall cash situation was tough. So 30 MINR is definitely the impact which was coming out of that which is sitting in the other expenses.
- Harshit:** And we have seen good amount of gross margin improvement approximately 300 bps in this quarter. What would you that attribute that to -- would it be a product mix, would it only be related to being commodity prices in benign or something additional is there?



- Arnab Roy:** I think, my friend, you are not listening to the presentation then or maybe you are asking the question from a template. This is exactly what I said in my presentation and I explained it because of the product mix issue.
- Harshit:** By when do you foresee the claims for the Vadodara plant to come to our books -- would it be this year or next year?
- Arnab Roy:** I am expecting it by Q4 this year, so that is what we are endeavoring that by March we should be able to close this, because we do not want it to carry to next year and create year-on-year mismatch basically between the cost and the revenue.
- Harshit:** And sir the export side how the business has been trending. Can you give some light on that because we are looking to introduce new products in the export market?
- Arnab Roy:** We are moving to the plan. As couple of quarters earlier also we had said that this plant is becoming the focus plant for some of the products. There is particular air-insulated switchgear for which this plant has been identified as one of the focus plants. So we have already seen that offtake happening and in the coming two quarters and more importantly in 2020 we will see a good percentage of that particular air-insulated switchgear being exported from India to the rest of the world.
- Harshit:** From that, what you expect that to be sir in terms of percentage?
- Arnab Roy:** I mean, early days, I think in terms of number of verticals, it will go probably as high as up to 700 to 800 verticals of tunnels.
- Harshit:** On the sectoral side, if I had missed your earlier comments, could you give me some color on which sectors do you see the order inflow to come over the next second half because the first half has largely been muted for overall industry, so do you see a pickup and which segments you are seeing especially in your company sir?
- Arnab Roy:** Lot of work is happening on the loss reduction on the utility. So, there are quite a few good opportunities which is on the smart side aiming at reducing the losses. So the pipeline is quite robust there and I think that is one segment where we expect orders to flow in. There are multiple projects. It is just that the government has to conclude some of the metros, there are quite a few opportunities; highways, there are quite a few opportunities there, but the project has to get concluded. Data center is one area which is really-really picking up some of the large giants, they have big plans in India in the next two to three quarters. So we will have to wait and watch how fast they are executing it, but these are the few segments I would say we need to keep a watch in the next two to three quarters ahead.
- Moderator:** Thank you very much. The next question is from the line of Gunmeen Kohli from KR Choksey Shares and Securities. Please go ahead.

- Gunmeen Kohli:** You commented about the slowdown in the receivables this quarter. So what is the concentration of receivables, I mean, is it one account or multiple accounts?
- Arnab Roy:** It is not one account, it is multiple accounts. As I was telling you earlier also that we see particularly in the EPC sector... I can talk about all the large EPCs, three or four which we have in the country, we could see a pressure on all three or four of them. Then the small and medium sector, the small customers, the distributors which we have, there was the sluggishness for them also, and that is distributed, there is one single big account that is quite distributed. So, overall if you see my overdue percent compared to the June to September quarter there was 5% deterioration, efforts to introduce, but cash was just not coming in.
- Gunmeen Kohli:** So have you seen any improvement subsequently the liquidity in the system is getting better. So, on-ground what is your take on the current situation?
- Arnab Roy:** I do not see significant change happening till now, but, obviously, some of the September slippages we have collected in October, but that is a usual trend, I mean October, in the first month, people would have paid the September slippages. I will be little cautious in making a comment that it has improved. I will wait and watch this quarter to see how it is moving.
- Gunmeen Kohli:** Any receivables from PACs, and what would be the quantum of that?
- Arnab Roy:** See, our PAC business, if you remember three years back we were about 65% to 70% then, now we are in the range of 40s. So overall portfolio around 40s would be still with the utility exposure.
- Gunmeen Kohli:** You spoke about the opportunity in data center. What would be our opportunity that is within that pie if you can quantify it?
- Arnab Roy:** There is a good opportunity for medium voltage panels which gets into it and in the last two to three quarters we have been doing business in the data center, but last two to three quarters what has come in the country has been largely being the domestic players. Now some of the large global players, they have plans in the coming two to three quarters to set up data center, Amazon has a big plan, Volt has a big plan. so these are the large data centers which are coming in and obviously we have a presence there, Schneider as a group we are well positioned because we have the IT business also who have good customer relationship. So obviously we will be leveraging on that and we will be moving in that direction.
- Moderator:** Thank you very much. As there are no further questions, I will now hand the conference over to Mr. Rupesh for closing comments.
- Rupesh Sankhe:** We thank Mr. Arnab Roy and Mr. Vineet Jain for giving us an opportunity to host this call. We also thank all the investors and the analysts for joining this call. Thank you.

Life Is On



*Schneider Electric Infrastructure Ltd.  
November 7, 2019*

**Moderator:**

Thank you very much. On behalf of Elara Securities Private Limited, that conclude this conference. Thank you for joining us. You may now disconnect your lines.