"Schneider Electric Infrastructure Limited Q4 & FY23 Earnings Conference Call"

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MODERATOR: **MR. MUDIT KABRA – ELARA SECURITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Schneider Electric Limited Q4 FY23 earnings conference call hosted by Elara Securities Private Limited.

As a reminder, all participants' 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mudit Kabra from Elara Securities Private Limited. Thank you and over to you, sir.

Mudit Kabra: Good afternoon everyone. On behalf of Elara Securities, we welcome you all for the Q4 FY23 and FY23 Conference Call of Schneider Electric Infrastructure Limited.

I take this opportunity to welcome the Management of Schneider Electric Infra represented by Mr. Sanjay Sudhakaran – Managing Director, Mr. Mayank Holani – Chief Financial Officer, and Mr. Vineet Jain – Head, Investor Relations. We will begin the call with a brief overview by the management followed by a Q&A session. I will now hand over the call to Mr. Sudhakaran for his opening remarks.

Sanjay Sudhakaran: Good afternoon ladies and gentlemen. This is Sanjay Sudhakaran here, your Managing Director and CEO for Schneider Electric Infrastructure Limited.

As usual, I will get straight to the topic by talking about the economic outlook of the country. We will go over to the Page #3 where we have outlined certain macro indicators. Clearly, the economy seems to be facing some headwinds in terms of growth projections, but this could be due to some base effect of last year and we coming fully out of the COVID impact and a year-on-year comparison. However, we do see some headwinds in terms of the global situation, the recession fears – I would say more fears that are looming around, and the reductions in spends by certain IT giants, etc., do pose some headwinds in terms of the projections for India on an overall basis, but what we feel is that this twin story of electrification and digitization along with decarbonization will stay strong and as we can look through in the future outlook that we present on some of our key segments, we feel that these things could somehow be mitigated and we can expect a growth of around 6% to 7% of overall GDP in the calendar year 2023. The industrial production forecast does seem to be a little on the lower side. However, things are expected to improve as we go forward.

Going onto Page #4 which is the segment trends, we see continued interest in the government to invest money on modernizing the grid. This is of course linked to the urbanization that is happening across India as well. We could see some moderation in terms of mineral mining and metals which came off from a very strong year last year. However, the trends on the mobility sector seem to be very strong, again driven by urbanization and the need for more urban transport, primarily airports and metros, and the modernization of railways which is the Vande

Bharat platform, could see some very strong opportunities which are presented towards us in the market. The cloud & services segment which is primarily a data center market continues to be strong. We could see more investments coming on smaller data centers which are the Edge data centers along with the co-located large hyperscalers as well. The industry & building segment is also expected to pick up with vacancy rates dropping to a very large extent in all metros across India and rental rates firming up, we could see expansions coming in the building segment as well. Overall, I think despite all the headwinds that we see on the global economy side, we do see some good prospects for the Indian economy. Certain sectors might perform a little lower than the others, but the negative impacts would be canceled out with the positive impacts which will be driven by the government's push and drive to drive infrastructure growth in India to keep ahead of the growth curve.

Going onto the Slide #5 and beyond, I will use certain examples to articulate our conformance to our strategies which we spoke about previously. Here is one of the largest orders that we have won for smart RMUs from a DISCOM in the south of India, which is clearly a vindication of our strategy being focused around our key accounts, digitization with a smart RMU and partnerization program which is leading to more and more transaction orders coming in and we enhancing our position in this segment with better and better cash flows. This win clearly demonstrates our ability to execute on our strategy in these aspects.

I will go on to Slide #6 which is a repeat customer from one of the cement majors trying to put up a greenfield project in an already existing site and this was primarily a completely digital order with connected equipment and SCADA and solutions which will lead to further lifecycle revenues which is again focused on our strategy to grow services and software.

We go to Slide #7. We are committed to our key focus segments and transportation being one of them and primarily urban transportation. We have won a very large order for the mass rapid rail transit system in the north of India. We can expect this to be scalable with many more phases of this order coming in in the future. Of course, we need to win these orders in a competitive manner, but given the reference installation that we can have with this customer, I think this would position us positively. On the cloud & services provider, another repeat order from a Colo giant in India. Again, a very strong pitch with data center customers with Edge control software like SCADA, necessary digital communication, and a very strong power train in terms of both medium-voltage equipment and low-voltage equipment here.

I will go on to Slide #9 which again demonstrates our ability to percolate solutions with customers which will give us lifecycle revenues. On the left-hand side, you see an example of a major cement giant which is now on the EcoStruxure asset advisor platform with our protection feature inbuilt into it. This is again a solution which is predictive in nature along with the EcoStruxure transformer expert which is again a transformer solution which is predictive in nature with leveraging our ETAP acquisition that we made globally which will provide them with a digital twin. These 3 solutions will provide the customer with a reduced downtime due to

a solution that promotes proactive maintenance reducing downtime and reducing failures. This is going to be an example where a customer will in real time see the benefits of these solutions.

On the right-hand side, we are working with a major oil & gas public sector unit and retrofitting our old relays with the modern relays that we have launched in the market which is the P3 and P5. This will again provide us with opportunities in the future for service retrofit and also new equipment which can go with this state-of-art release. Customer stickiness over a long time and lifecycle revenues, again one of the strategies that we have articulated in our previous calls as well.

Going on to Slide #10, our basis philosophy behind digitization is to try and move towards 100% nativity connected equipment. We impress upon customers the need for an Edge control software which will connect all their equipment together and provide them with live monitoring and finally on a layer 3, we provide them with diagnostic software connected to the cloud that can boost their productivity and reduce their downtime. So, the pillar of digitization rests on we trying to serve the customers on layer-1, layer-2, and layer-3 which is articulated on the right-hand side in terms of what we call as connected products, Edge control, apps, and analytics.

We will go to Slide #11 and this is how we are progressing on these initiatives. We have almost a 20% growth in terms of our Edge control layer and a 50% growth in terms of our software and digital services as we call it. And you can see that we are trying to percolate into all our key segments here whether it is power distribution, automobiles, metros, refineries, or steel. And being largely a key account business, we see strong repeatability happening. Once the customers adopt this technology and are comfortable with this technology, we see that they can be long-term attached with Schneider Electric for many years to come providing us with lifecycle revenues.

Also, Slide #12, we spoke a number of times about the fact that we are diversifying our portfolio into the segments that we have not been strong before. Some of these are emerging segments, some of these are segments which have existed but our portfolio remained largely on the power & grid side due to historic reasons, but you can see that the diversification is actually bearing fruit. The industrial & building segment is growing by 40% which is almost 2x the rate at which the company is growing and the cloud & services which was very small in previous years is now gaining contribution and contributing positively to our business and it is growing at around 150% year on year. And with more and more customer acquisitions in the space, we expect this business to be sizable in years to come.

I will go to Slide #13. Along with all these, we are making sure that your company is positioned very strongly in the minds of customers as we call it – top of the mind recall. We have actively been involved with customers on the thought leadership side collaborating along with customers to create forums that will create awareness around decarbonization, digitization, and electrification which are the pillars on which our strategy lies. You can read for yourselves there are a number of events that we have participated. This is just a snapshot of what has happened

in the previous quarter, but throughout the year, we have engagements with the top leaders in the industry as well as decision makers.

Going onto slide#14, you would have got a glimpse of our financials. I would like to say that we stay committed to our strategy which is accelerated partner growth, more digital services, and diversification of our portfolio. Along with this, the financials will follow. I would now request Mayank Holani, our CFO, to lead you all through the financials and give you a glimpse of what's behind it as well. Over to you, Mayank.

Mayank Holani: Good evening everyone. You can move onto the next Slide #15. Orders for the quarter grew at about 10.6%. These are just the OG (outside group) orders and not the within group orders. And the orders for the full year have grown by about 10.3% taking it to about Rs. 15,376 million. We saw good momentum in orders in all segments and our backlog at the end of March '23 grew by about 15%.

Moving onto next slide on sales, this quarter saw a growth of about 20.7% on sales and we landed at about Rs. 410 crores versus Rs. 340 crores in previous year same quarter while sales for full year stood at about 16.1% at Rs. 17,772 million or Rs. 1,777 crores versus Rs. 1,530 crores in previous year. And this is once again the highest ever revenue in any financial year. Last year, we touched the highest number and again this year, we have crossed it. We see a good momentum in sales quarter after quarter. There may be slight ups and downs but we are in the right direction and implementing our strategy as explained.

Moving onto the next Slide #17, you see the P&L for the quarter. We saw a growth of 20% on sales, a slightly higher other income. Our gross margin is 37.6% which is an improvement of about 840 bps on since last year. This is due to a couple of factors. One being the raw material cost normalization which has been moving normally up in the previous few quarters and also to some extent the better mix of the portfolio which has led to this higher gross margin. EBITDA if you see, it's about 15.8% versus 5.9%, a growth of about 990 bps. Profit before exceptional items at Rs. 54 million, 11.1% of sales versus Rs. 27 million that is 0.8% of sales. That's a very good growth of about 1,030 bps. Exceptional items, this year slightly few small items. So, you see a net profit after tax of about Rs. 448 million which is 10.9% versus last year what we had about Rs. 7 lakhs profit for the quarter.

Moving onto the next Slide #18, you see the full year financial results. Sales, as I mentioned earlier about 16%, higher other income at a similar level, and the GM has improved to about 32.7% versus 30% in previous year. And you see last year there was a dip in GM because of the raw material inflation and supply chain constraints. So, we have brought it back to the normal level, rather improved from the year before that as well. Now, we are at the right level of GM in a way and recovered whatever dip or the decline we had seen in the previous year. EBITDA at 10.1% versus 6.3% in the previous year and the profit before exceptional items of Rs. 108 crores, 6.1% versus 2% in the previous year, so about 410 bps improvement. And exceptional items if you will recall in the quarter 1 and 2, we had reported some profits due to the reclassification of

the interest component of loan during renewal of the loan and also the profit due to sale of some land at the Naini. After that, net profit is about Rs. 123.6 crores versus Rs. 27.6 crores in the previous year.

That's it from my side. We can now open for questions.

Moderator: Ladies and gentlemen, we will now begin with the question & answer session. We will wait for a moment while the question queue assembles.

The first question is from the line of Amar Maurya from AlfAccurate Advisors Pvt. Ltd. Please go ahead.

Amar Maurya: Congratulations for a stellar set of numbers and strong order book. A couple of questions. Firstly, if you can give what was the closing order book for the Q4?

Mayank Holani: The OG order backlog at the end of March '23 is about Rs. 10,735 million. Last year December '22, it was Rs. 817 crores or Rs. 8,179 million.

Amar Maurya: Secondly, in terms of our revenue growth on a year-over-year full year basis, what would be the growth in the transaction services and systems? If you can give the breakup of that?

Mayank Holani: You are asking about orders or sales?

Amar Maurya: Order book breakup of the transaction services and systems and also the sales, both. If you can give the breakup?

Mayank Holani: You are asking the order booking breakup, right?

Amar Maurya: Yes, order booking breakup.

Mayank Holani: In order booking, the full year, the breakup is about 48% equipment, 10% projects, 27% transaction, and 15% services.

Amar Maurya: What would be the mix of let's say order book for the end of FY22?

Mayank Holani: That was March '22, right?

Amar Maurya: Yes, March '22.

Mayank Holani: 51% equipment, 14% project, 21% transaction, and 14% services.

Amar Maurya: I believe basically the transaction is reduced, right?

Mayank Holani: Last year it was 21%. This year it is 27%.

Amar Maurya: And services you are saying 14%?

Mayank Holani: 14% to 15%, services improved.

Amar Maurya: Similarly if you can give the breakup of revenue for FY23 transaction, services, and systems?

Mayank Holani: Revenue in systems 69%, transaction 20%, and services 11%. Previous year was 72% systems, 17% transaction, and 11% services. So, mainly the 3% change between systems to transaction.

Amar Maurya: And that led to the profitability improvement?

Mayank Holani: That is one of the factors, but it is not as simple as that. There are multiple factors.

Amar Maurya: Basically, now if we see the mix is moving more towards the high-margin business of transaction and services and I believe the order inflow which you are going to see in FY24, that would also be more skewed towards the more connected product services and transactions. Basically, under this light, how do we see FY24 profitability? Do we see that 10% EBITDA margin we closed this year? What should be the profitability we should look for the FY24?

Mayank Holani: We don't give any guidance as such on the numbers.

Amar Maurya: I am just asking you structurally should we see the inch up given the mix of the order book which you have and the kind of order inflow and pipeline which you are seeing?

Mayank Holani: Structurally, we are ambitious to continue improving the performance and the P&L year after year only. Otherwise, there may be some moments within quarters because it's a different project linked business. So, there may be mixed changes within quarters or something, but on a long-term basis, year on year, we should continue to improve.

Amar Maurya: Secondly, this revenue growth you are guiding for 6% revenue growth, right? Did I hear correctly?

Mayank Holani: No, revenue growth I said 16%.

Amar Maurya: Guidance for FY24. I think MD sir alluded something 6%.

Mayank Holani: No, I did not say any revenue growth.

Amar Maurya: Revenue growth would be what? 12% to 15% revenue growth we should assume?

Mayank Holani: We are not giving any numbers for the next year. You have seen last 2 years. So, you can make out what we should do but I am not giving any number.

Moderator: We will move onto the next question that is from the line of Dhavan Shah from AlfAccurate Advisors. Please go ahead.

Dhavan Shah: I have a question on the gross margins front. You already mentioned that some part of the benefit because of the lower raw material cost, there were some changes in the product mix. Can you please share the difference that how much it came from the easing of the raw material front and how much it is because of the improvement in the mix? Because, that is roughly 800 to 900 basis points improvement. And the raw material easing do you foresee that this is sustainable? In terms of the pricing scenario, how do we see? Do we have to pass on the benefit for FY24 or this benefit can be expected to continue for this fiscal as well?

Mayank Holani: We are into an ETO business where you do costing for each project individually based on the tender requirements and then you get an order. It's not a fixed list price kind of difference. Another question on the mix and the raw material impact, the mix also plays a big role and that's where if you see historically also, quarter on quarter, sometimes you see very big variances in the gross margin because if you have a few big orders or a few big projects of a certain product, it can swing your GM. Obviously, the Q4 GM percentage standalone if you look at it, it's not the representative. If you say 36% GM is representative of our quarters to come, obviously it is not. Because, we have to look at the GM for the full year and if you see the past, from '20-21 to '21-22, we dropped the GM because that year there were again a lot of unexpected movements were there on the upward side and then you had supply chain challenges also. This was more of a normalized year, much normal than that. It's kind of a normal level. Obviously, 36% is not something which we will continue.

Dhavan Shah: But on a Y-o-Y basis also if I look at it, it's roughly 300 basis points improvement versus the last year.

Mayank Holani: That's right.

Dhavan Shah: Can you share the breakup? Out of this 300 basis points, is that largely trend because of the lower raw material cost or is there any part of the changes in the product mix also?

Sanjay Sudhakaran: We should not extrapolate everything because it's got a number of reasons associated with it. The business change mix, there is more of transactionalization happening, there are more of better projects as we call it driven by digitization. It's a configured-to-order business. It's not always easy to measure that how much came from pricing, how much came from raw materials, etc.

Mayank Holani: It's a mix of a lot of factors.

Dhavan Shah: In terms of the order backlog, we segregate the segments and total of 5 segments are there. Is there any possibility like we can get the order book breakup in terms of these 5 segments and because I think in one slide it is mentioned that the industry and the building order book is up

by roughly 40 percentage Y-o-Y and the cloud services order backlog is also up by 150% Y-o-Y. So, is there any mix can we get based on these 5 segments in terms of the order backlog and the GP margin for these 5 segments?

Mayank Holani: Obviously, quarter on quarter, your backlog or order book mix will keep on varying. Different segments may have different growths in a particular quarter but we cannot provide you a backlog or order book as such by segment or by industry.

Moderator: The next question is from the line of Viraj Mithani from Jupiter Financial. Please go ahead.

Viraj Mithani: Sir, my question is that does this mean that we are shifting more and more towards the Ecostruxure platform and our vision has changed from being a product company to a full solution company or something?

Sanjay Sudhakaran: I think, Viraj, a good question. Software which is primarily Ecostruxure, as you rightly mentioned, also pulls product sales. So, there is no strategy to defocus on products. Products is always at the center. The way you pull products can be through a pure product play, it can be through digital products, it can be through Edge control software, or it could be through apps and analytics. Primarily what software does it is it provides a very strong stickiness between the customer and the organization because it's not just the product features that matter, it's the overall experience that the customer gets that matters.

Viraj Mithani: Does it mean that over a period of time, we will see the improving margins because of the initiative we have taken in the last 2 to 3 years going towards more software side and it will be a more solutions. Is this right to think?

Sanjay Sudhakaran: That is the intent as we have always articulated in all our strategy presentations that the idea is to move towards more of services and that too more of digital services and more of recurring services. That is what gives you a very healthy organization in terms of top line.

Moderator: The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: Sir, I joined a little late. What is the order backlog number as on 31st March?

Mayank Holani: It's Rs. 10,735 million.

Alisha Mahawla: This will be executable over what period?

Mayank Holani: Some orders would be going to next year, some would be in this year. Typically, our backlog is about 7 to 8 months of sales. And based on the product, some products may be deliverable in 3 to 4 months' cycle, some may have 6 to 8 months' cycle.

Alisha Mahawla: We mentioned that we are expecting the GDP growth rate of 6% to 7% for the current financial year. Just wanted to know that as our business can be assumed like 1.5x kind of GDP growth rate for our business?

Mayank Holani: It is difficult to comment. It's like giving a forward statement which as I said earlier we don't give.

Alisha Mahawla: Just something the earlier participant was asking the gross margins for the year were at almost 33%. This is not sustainable. Is that what we were mentioning earlier?

Mayank Holani: No, I said gross margin for the year gets averaged out but for the quarter, it's something of an exception. If you say 36% is sustainable in the next quarter after quarter and you have seen in the past also, quarter-on-quarter gross margins can vary based on a lot of factors. But obviously, full year gross margin definitely it's sustainable and we need to maintain that or improve.

Alisha Mahawla: Going forward, this number can improve incrementally keeping in mind that our order book mix is also tilting towards transaction services, etc.?

Mayank Holani: In principle, there is no way other than growing the sales and improving the margin. It is not that you can continue to maintain the same. It's a gradual process. You have to improve the profitability.

Moderator: The next question is from the line of Apoorva Bahadur from Goldman Sachs. Please go ahead.

Apoorva Bahadur: Sir, I wanted to know your thoughts on the RDSS scheme. What is the update over there? Are we seeing any pickup in the ordering? And what could be the opportunity size for Schneider over here?

Sanjay Sudhakaran: I wouldn't want to put a number on the opportunity size because of numerous reasons, but the money I would say investments are trickling in. Obviously, the government had challenges in terms of coming out of COVID, the huge spend on the health infrastructure that happened during that period, etc., slowed down the intent of RDSS and there are regulatory approvals which are also required for each of the investments. There is a bit of lag in what I call as intent and action, but we do see those investments coming in gradually.

Apoorva Bahadur: Sir, by when can we expect the ordering to pick up over here really? This year or next year?

Sanjay Sudhakaran: I think it should pick up towards the later half of this year. But then my guess is as good as yours.

Apoorva Bahadur: Sir, secondly if you can please share the export revenue for the year '23? And also where do we see over the long term? Is there any percentage we are targeting for exports?

Mayank Holani: FY23, the export sales is Rs. 1,985 million. Last year, it was Rs. 2,397 million. So, there was a slight drop in the export sales for the year.

Apoorva Bahadur: What would cause this?

Mayank Holani: Again, as I mentioned earlier, it's a project business. Last year, there was a jump on upside because of a couple of big projects which we had, so it keeps on moving sometimes like that.

Apoorva Bahadur: Are we targeting a specific share over here of the overall revenue? Say X percentage we would like to be exports?

Mayank Holani: We are expecting a good increase in the exports business one is the normal business as usual from the current operations, but also from the new factory which is coming up in Kolkata, that will lead to a good export additional business from FY24-25 once that is operational. That factory will lead to a lot of exports.

Apoorva Bahadur: How much would that be if you can share the number?

Mayank Holani: I will not put a number right now because that factory will obviously cater to both the domestic demand as well as export as well. A big part will be export. That will start from the '24-25 financial year. And just restrict myself to that right now.

Apoorva Bahadur: And also if you can share the intergroup sales number for the year and also the order flow?

Mayank Holani: Intergroup sales for the financial year '23 was about 19% and the order intergroup in terms of value, it was about Rs. 380 crores; Rs. 3,798 million in FY23.

Moderator: The next question is from the line of Raj Rishi, a private investor. Please go ahead.

Raj Rishi: Can you just repeat the export number which you just mentioned?

Mayank Holani: Export number is Rs. 1,985 million for this financial year.

Raj Rishi: In 2 to 3 years, what do you think the export possibility is as a percentage of sales?

Mayank Holani: It has to grow as per the overall business growth and that is the minimum and then additional big volume will come from the Kolkata new plant. In the last year, it was work-in-progress for construction of that plant.

Raj Rishi: That is entirely for exports, right?

Mayank Holani: No, that will be domestic as well as export, both.

Raj Rishi: How big is the railway opportunity for you? Whatever products you have on offer, how big can it get in 2 to 3 years?

Sanjay Sudhakaran: There are 2 to 3 opportunities that you can see on the railways side. One is urban transportation which are the metros which are greenfield constructions that are happening. Here you have a scope for your products such as air insulated switchgears; gas insulated switchgears; and a little bit on the transformer side, not too much; and also SCADA and software. The other opportunity is on the Vande Bharat trains where we have out of our Kolkata factory, we supply them with a specific breaker which is called a locomotive breaker. And you know the expansion plans of Vande Bharat. It's in the public domain, I need not talk about it. I think that's very clear. And we are one of the preferred suppliers there as well.

Moderator: The next question is from the line of Manish Goyal from Thinqwise Wealth Managers. Please go ahead.

Manish Goyal: Congratulations to the entire team on a strong progress on turnaround of the company and reporting historically high margins and also reducing the borrowings to some extent. Very heartening, sir. A couple of things. On our CAPEX what we have seen is that in the current year, we have spent Rs. 38 crores. Was it for our new facility in Kolkata or it was for our existing facility to increase capacity if you can highlight that? And second, on the CAPEX for FY24 going forward, how do we see that?

Mayank Holani: Manish, CAPEX for the new factory in this financial year was negligible, not very significant. This was mainly towards the traditional couple of machinery replacement as well as some kind of safety refurbishment which we had to do, mainly the firefighting system. That is the big one which we had done in the plants. So, it's related to the existing setup, not to the new plant. And a couple of machines we have replaced. That is also coming.

Manish Goyal: Has it led to some capacity expansion as well for us for our switchgears and transformers?

Mayank Holani: Not very significant. One big one was the safety setup, the firefighting setup. That was kind of a nonnegotiable thing and it was required. Another one, there were a couple of machines which were quite old and repeatedly breaking down, which we had to replace. These were the big ones we have been kind of deferring to utilize as much as possible to avoid CAPEX. That has also taken into it. Not a capacity increase as such due to the CAPEX.

Manish Goyal: And how much we intend to spend in FY24 towards Kolkata and other CAPEX?

Mayank Holani: For Kolkata, a big part of the CAPEX which we announced, major part will come in this year only because we expect it to start production in the next year.

Manish Goyal: So, roughly Rs. 130 odd crores what you have announced will happen?

Mayank Holani: Yes, definitely, a minimum of Rs. 100 crores will be in this year.

Manish Goyal: Ideally, how do you see getting it funded? Because, we saw some increase in your working capital also in the current year, and as we go forward, we believe, we will continue to grow in double digits. Do you think we can fund it through internal accruals or we need to borrow?

Mayank Holani: Partly internal accrual. Obviously, from the last 2 years, consistently we are generating cash. The working capital increase also has been to some extent a timing issue because you saw we had good sales in this quarter and even in the last quarter towards the end. That has led to an increase in debtors, which is reflecting on the working capital increase. Overall, partly due to internal accrual and maybe some borrowings as well which we have reduced currently. That's what we announced when we announced the CAPEX as well, right?

Manish Goyal: Sir, what we see is that there is an increase in inventory. Particularly in this quarter, we see that Rs. 42 crores increase and for the full year Rs. 63 crores. Is it that there has been some delay in dispatches or we are building up the inventory for future dispatches where we have good orders?

Mayank Holani: No, it's neither any inventory buildup as such for raw materials nor any significant delay in the project. It's the usual finished goods and WIP to meet the demand of the projects which have to be supplied in the current quarter, the June quarter and the early part of September quarter, which should normalize in a year. This has been high, but it's mainly WIP and the FG which will normalize. But no major project as such where you have a very big delay and the inventory is stuck. There is nothing like that.

Manish Goyal: A couple of questions more. On the traditional products side, how is the progress on empanelling the new license and how is that progressing and what is the traction we are seeing there?

Sanjay Sudhakaran: You are asking about the empanelment of the partners?

Manish Goyal: Yes.

Sanjay Sudhakaran: Like I mentioned, it's progressing very well with the state utilities and the acceptance is going and we see a fairly good amount of shift happening from direct servicing model to an indirect servicing model.

Manish Goyal: The reason I was asking is that directionally we intend that we probably move towards at least 40% of the revenue from transaction products. We will probably move on that journey.

Sanjay Sudhakaran: Yes, we will definitely move on that journey because the more references that you build up, the more accepted it gets in the market.

Manish Goyal: Again, a question on forward looking in terms of I just want to get a sense that particularly, Mr. Sanjay, if we probably see what we have seen a couple of years back and now, would you

probably like to put some or give some perspective in number that in terms of inquiries or in terms of order pipeline what is that growth you are seeing?

Sanjay Sudhakaran: Order pipeline you can get a measure from the backlog number that Mayank mentioned. You can see the backlog order growth.

Manish Goyal: What I am trying to understand, Mr. Sudhakaran, is how is the improvement in the environment? Are you seeing a big shift in terms of sourcing because for us, utilities is the large customer base and still RDSS is not probably getting fully implemented. Still you are seeing that the momentum building up from that side and….?

Sanjay Sudhakaran: Let me answer your question in a different way. The weightage on the power & grid segment has gone down because of our strategies of diversification. At one point in time, it used to contribute almost 50% to our top line. Now it is contributing less than 40% to our top line. On the other hand, you have growth prospects on the power & grid side because of the RDSS scheme. Even if it trickles in, it provides us with a good opportunity to grow over the base. And secondly, the diversification agenda still continues. So, you can assess the risk of the portfolio by looking at the diversification strategy.

Moderator: The next question is from the line of Nikhil Jain from Galaxy International. Please go ahead.

Nikhil Jain: I just wanted to understand, one was on the CAPEX in the new facility. Once fully operational, what is the kind of asset turns or kind of turnover that this new facility can add to our current top line?

Sanjay Sudhakaran: We don't want to talk about our business projections of the future right now. We have a robust business plan. We have an ROI attached with it and we have gone through the process very thoroughly but it's forward looking and we don't want to get into a forward-looking discussion.

Nikhil Jain: The point that I was trying to understand was on full utilization, not in the year per se. It was not let's say whether it will happen in FY25 or '26 or whatever. That was the idea. If you can give some sense….

Sanjay Sudhakaran: It will not give you a perspective because still it's a component factory and it's only a certain percentage of your overall sales. So, it would not give you a perspective. And for that if you want it to make sense, then we will have to go into the breakup and things like that which we wouldn't want to do that. Please appreciate that right now.

Nikhil Jain: The next question was what are the key factors that our order book is comprising of? In the last discussion, you said that power has come down to 40. What are the other factors which are emerging as an important perspective for us?

Sanjay Sudhakaran: We have time and again reiterated which are our focus areas. I think it's articulated in the presentation as well, which is mobility; which is transportation; emerging segments like semicon which are again very power intensive; minerals, mining, and metals. We have articulated all that in the strategy document as well and buildings & industrial now forms a pretty large substantial part of our overall portfolio.

Moderator: The next question is from the line of Sanjaya Satapathy from Ampersand Capital. Please go ahead.

Sanjaya Satapathy: It is great to see that a significant improvement has been made during this year and several quarters of profitability now, which I am assuming will be giving the company the confidence to go ahead with the expansion plan which they have lined up. My question is that you have reported 10% to 11% kind of an order growth while the backlog growth is 15%. Can I just understand the reason between these two differences like is it because of some capacity constraint or something?

Mayank Holani: When we are seeing 15% growth, it is from the same period last year same date as an absolute value growth. It's not just order growth which will derive that and you have orders and then you have sales number also. So, it's not simply just how much your order book that is the backlog also. But yes, your point principally, I agree, then order book has to be more probably but sometimes what happens it's a matter of some opportunities have slipped from March, it goes into next year or something which slips in previous year and goes to next year, that impacts.

Sanjay Sudhakaran: To answer your question more specifically, we do not see any concern on capacity to execute orders. We did have some issues with regard to electronic shortages, etc., which did slow down the backlog burning, but that situation is improving now. But there is a mix issue also. Sometimes you have infrastructure projects in your pipeline, primarily in the mobility sector, the transportation sector as we spoke about, which has a higher order-to-cash cycle. That is one of the reasons by which you could have a larger backlog growth than your order booking growth.

Moderator: The next question is from the line of Raghav Jain from Jain Investments. Please go ahead.

Raghav Jain: I have a question regarding the Vande Bharat train sets which you are talking about supplying them. Currently, of the current revenue, what is the percentage of revenue that goes to the Vande Bharat trains? Can you please tell me that?

Sanjay Sudhakaran: We do not provide granularity details on sales by segment or sales by specific opportunities. So, we will not be in a position to answer that.

Raghav Jain: So far as the electric mobility, the charging stations, where does our company stand with respect to the charging infrastructure scenario which is in a nascent stage in India? Where does our company stand as of now so far as supplying these charging stations and stuff like that? Can you please specify?

Sanjay Sudhakaran: As far as our strategy goes in this particular segment, we focus primarily on the infrastructure, which is behind the charges, i.e., the electrification of the power train, low voltage medium voltage, as well as the digitization of the networks. We have a very strong global line of business around mobility and EV charging. We have some very good use case examples from all over the globe that we bring to the customers here. So, if I were to answer your question, we are tracking customers who are diversifying into EV charging. We provide them with architectures and the low-voltage and medium-voltage equipment which is required to power these charging stations. The future opportunity which I spoke about in one of our strategy calls is on the microgrid opportunity where these customers might want to use a mix of power generation sources which is like solar and conventional generation put together which will make the grid unstable and complicated, there we have solutions which are primarily software solutions which will help the customer automate and digitize the grid and bring stability to the grid. These are the opportunities that we are working on, again connected to services and software. On the charging infrastructure side, we are in a wait-and-watch mode, I would say.

Raghav Jain: Right now if I may ask, are we executing anything in this regard or it's just that we have just supplied something and stuff like that?

Sanjay Sudhakaran: We are supplying electrification and the software solutions to the companies involved in EV charging.

Raghav Jain: And the future is bright, right?

Sanjay Sudhakaran: Future is bright. Yes, you are right.

Moderator: Ladies and gentlemen, we will be taking the last question that is from the line of Utkarsh Somaiya, an individual investor. Please go ahead.

Utkarsh Somaiya: Can you please tell me the current capacity utilization of your current facility?

Mayank Holani: It is difficult to put a number to it because being an ETO business, it takes a lot of factors. It's not a standard product where I can say my capacity is 1 lakh units per month and I did 80,000, so capacity is 80% utilization.

Utkarsh Somaiya: Just for the products business, is it possible to give me?

Mayank Holani: No.

Utkarsh Somaiya: My next question is, is it possible for you to explain the cycle of how your sales are? Is it that first you sell your products and after that you sell Edge control systems and then the apps & software? Or are there customers which don't buy products but do buy the other services?

Sanjay Sudhakaran: Both models exist. You could have a customer which is an installed base and you could provide these softwares to them as installed base services which would entail a little bit of more planning, shutdown, etc., because then you would need to be intrusive, you need to put in the sensors, etc., but there are customers who are looking forward to modernizing their factories and digitizing their factories. So, this opportunity exists. Once the customer has seen the benefits of this, he could say that in my new greenfield project which is coming up, I would like to do this end to end and that is where you supply natively connected products, as I spoke about earlier, and the Edge control software and the apps & analytics, all at one time.

Utkarsh Somaiya: Do you come across customers which haven't used your products but yet would like to go for the other services we offer?

Sanjay Sudhakaran: Yes, because some of the softwares and analytics that we have are also agnostic. As long as the communication protocols can be managed by the customer through a converter or whatever it is, we can still provide the customer with those services. We believe in open architecture and not closed architecture.

Utkarsh Somaiya: Is it fair to assume that only products comprise the maximum part of your revenue?

Sanjay Sudhakaran: Yes, of course. That's reality today.

Utkarsh Somaiya: Is it still not possible to give us an approximate utilization level if I am only talking about products?

Sanjay Sudhakaran: Like Mayank mentioned, it is not about just products. These are engineered-to-order equipment. So, a product could take 24 man days to be manufactured, another product could take 54 man days to be manufactured based on certain design configurations that the customer needs. So, you cannot calculate capacity in terms of units.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Mudit Kabra for his closing comments.

Mudit Kabra: We thank Schneider Electric Infrastructure management team for giving us an opportunity to host this call. We also thank all the investors and the analysts for joining this call. Any closing remarks you would like to mention, sir?

Sanjay Sudhakaran: I would like to give a big thank you to all the people who participated in the call. I thoroughly enjoyed the interaction. Have a good day, ladies and gentlemen.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Elara Securities Private Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.