"Schneider Electric Infrastructure Limited Q3 FY-18 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Schneider Electric Infrastructure Limited Q3 FY18 Earnings Conference Call hosted by Batliwala & Karani Securities India Private Limited. As a remainder, all participant lines will be in the listen-only mode. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nirav Vasa from Batliwala & Karani Securities. Thank you and over to you sir.

Nirav Vasa: Thank you very much. Hello everybody and welcome to the Q3 FY18 earnings conference call of Schneider Electric Infrastructure Limited. From the management side, we have Mr. Prakash Chandraker – Managing Director of the company, Mr. Arnab Roy – Chief Financial Officer, and Mr. Vineet Jain – Head Investor Relations. May I please request the management to help us with some opening remarks and share the presentation, which is shared on the stock exchanges after which we can open the floor for Q&A session.

Prakash Chandraker: Good afternoon, everybody, I am Prakash Chandraker – Managing Director, Schneider Electric Infrastructre Limited. I am pleased to connect with you to share and upgrade the progress of our company. I will be supported by my colleague Arnab and Vineet. Q3 FY18 was moderately challenging with positive operational growth excluding one-off. We have seen the positive results of the project order to cash which we launched during last quarter which is supporting us I will say in the current quarter. Further along with P&L performance we remain focused to build a healthy backlog with better mix in line with our strategy.

Today we will present you a few slides on market outlook and order to cash projects. So let us go to the presentation, slide number 3, which is basically segment outlook, it is short to medium term. So the first one is Utility Segment, the main drivers are some of the funding, which is coming from the government side like IPDS, Smart City and that is basically to support the utilities to really improve their efficiency in terms of reducing aggregate technical and commercial office, improve their efficiencies and that comes through technological intervention like smart grids, distribution management system, self-healing grid, load management. This is where we have expertise and we have divided this opportunity into 3 parts, if you see right side: Connected products, which is basically power distribution equipment, which create the infrastructure for carrying the current from one place to another place; second is edge control is basically monitoring and controlling those infrastructures and; third is enterprise software which is used basically for analytics. We see in the first two vertical, it is quite positive considering those funding what is coming from IPDS, UDAY or Smart City areas. We see good positive traction happening in Enterprise Software also which is analytical layer, when it comes to utility which is almost 45 to 50% of our today's market.

Coming to conventional generation, as most of you already know, which is basically coal based power generation, nothing significant is happening. However, what is happening is basically on renewable generation space where government is continuously maintaining the focus and we do see good capacity acceleration happening on the solar and this is where we see a positive traction for our transformer business. Almost 1/3rd of our business is contributed through solar with respect to transformer and we enjoy, I would say premium over most of our competitors. So that is also good news for us when it comes to renewable and government is actually pushing power to all through this distributed energy. So we do see a positive in short to medium term for renewable.

MMM is basically Mine, Metals and Minerals; so the first one, steel, if you see there are investments happening. But it is mostly in smaller level, though there are few steel plants coming like JSW Dolvi or Bilari or some other expansion happening but not significant. However, there is OPEX based investment which is happening. So steel sector take some more time still there is a negative in terms of our overall growth pattern what we would like to see. Cement we see a positive traction there are grinding units being pushed by many of the manufacturers to go closer to the actual market to reduce their transportation cost. So these are the areas where we see positive like in cement plant we see Dalmia Cements or Orient Cement or Chettinad Cement, Ultra Tech, Ramco so we are working on a few of these large opportunities. In cement plants, we do see a positive sentiment and investment coming back in this grinding units in the cement sector.

Oil and gas -Euro 6 is the focus area where obviously the reduction in Sulphur is focus area and there are expansion projects coming up to really make sure that they are not behind going for Euro 6 norms. So like HPCL Vizag or ONGC, IOCL retrofit so there are projects, but not significant positive, but yes, it will be moderately positive.

Transport -which includes metro also, so we are working on some of those opportunities like Nagpur, Ahmedabad, Pune, and Mumbai. There are expansion projects coming from Mumbai, Delhi and all that where we already have the installed base. Freight corridor; the DMIC, we do see some of the projects are progressing, a few orders got decided also, few we have also secured so we do see is moving in a positive direction.

Buildings -not significant change. Investment in real estate in terms of building is not too much, but we see in hotels. education, healthcare, these are the areas where we do see positive when it comes to building.

Data Centre -through our IT division, we have been able to make a good connect with many of the e-commerce companies for their data centre requirements. The government is also coming with lot of digital opportunities where they are pushing for digitization. So we do see opportunities there also. So data centre can be another growth area we see in the short to medium term.

Smart cities -we are executing NRDA Raipur. Phase 1 is coming close to completion then we will be in the phase 2. But we do see opportunities, at least 8 to 10 opportunities are moving fast in the pipeline and after the budget presentation by the government, we do see the enthusiasm around that. So we will remain focused in smart city, we have allocated separate team working on this and we are working on some hot opportunities at this point of time.

Water -we had a positive growth. My colleague Arnab will be presenting the order growth where water was one of the areas where we had a very positive story. With AMRUT scheme, there has been a lot of push in the water scheme.

So overall, I will say moderate in terms of market outlook in short to medium term.

Next is a very important topic, Order to Cash because it is not only to secure the order and convert into a sale but cash is very important and we know that we did have a tough time last few quarters in terms of cash and we did have a challenge of creating this provision and that was because of some of the customers really went through a really bad phase and we had no other opportunity but to provide it. And that is why this specific focus has been brought. We divided our actions into 3 buckets. First is Control Action, second is Process Actions and third is Tools. So under control action, it is basically to eliminate customers with bad track record. Not to acquire order where cash security is an issue. So that is step one and this is where we have started scrutinizing all their credentials, the legal terms and conditions. We are also trying to go through those lists where the customers are already where we had a bad experience. So we are very careful in terms of making sure that we really secure good quality orders.

Process Actions -So after acquisition of order, once we deliver the consignment to the customer. We are making sure that if there are punch point issues or handing over issues to realize retention payments, we are fully engaged. And those actions what we had already identified has been fully launched and we are almost closer to completion of that. And that is basically tracking a full life-cycle of the project to make sure we don't create challenge where the cash realization becomes an issue.

And third is Tools, is basically in complete project life-cycle to track how the orders are moving from orders to Cash. So that the sales team is aware what intervention is required, and what kind of support customer requires. So this is basically to reduce the lead time from after the sales is done then for cash. So this control action, process action and tools which we have launched is really helping us to create more robust P&L. And going forward in the medium to longer term, this will definitely be very useful for our backlog as well as for the sales.

Next is, basically highlights of the quarter, just wanted to share with you because this was inaugurated by our Prime Minister Shri. Narendra Modiji. This is the JNPT container terminal. With this expansion, the capacity has become double and is the biggest container handling terminal in India. Now they chose Schneider Electric because of the intelligence which we could bring in the power distribution system which was required really to make the operation of this terminal efficiently. There are operators involved who wanted that if it would be possible to operate it remotely this kind of large container terminal and this is what we have tried to create. So we have supplied here GIS, AIS, PSA, Intelligent electronic devices which really makes our equipment more smarter to be managed remotely. So this can be the benchmark infrastructure project, which can be very useful for projects like airports which is there in the right side what you see is the expansion project, our smart roads like Bharat Mala project. So we do see this reference will create good benchmark in the market which will be useful for us really to drive the opportunities more towards technology what we offer.

Now I will ask my colleague Arnab to take you through the details of our financial results.

Arnab Roy: Thanks Prakash, let's move to slide number 7. So as you can see in this page, we had a significantly positive quarter in terms of our operational performance. We strongly improved both in orders so this slide talks about the orders. If you see compared to the last quarter, we had a 66% growth in orders which is very significant. And in terms of the similar quarter previous year we had a 15% growth. So order was very robust in this quarter, some very good orders which Prakash was touching upon earlier.

Moving onto the next page, on sales, similar story when you look at, compared to the Q2 to Q3, we had a 74% growth in sales. So this quarter we did about Rs. 471 crores of sales compared to the previous quarter this year we still had a good quarter than last year also. So we still had about 2% growth in sales, but overall a very strong quarter in terms of sales and order.

So let's move onto the next slide. So once we go to slide number 9 let us go to the P&L now and see the reflection of these orders and sales in the performance. So if you see this Rs. 471 crores in sales which we did with a steady other income, gave us a Rs. 479 crores of top line for the quarter. We had a gross margin of about 29%, other costs remained in control. So reduction in employee cost compared to the corresponding previous quarter of last year, other expenses was lower. As a result, the EBITDA for this quarter was Rs. 47 crores so this was a significant quarter in terms of the EBITDA, we had a 10% EBITDA to sales. Depreciation remained stable and so we had almost a Rs. 40 crore EBIT which was 8.4% of sales.

Now, Prakash touched upon the order to cash earlier. Now you can see very early reflections of that in the interest cost. So if you see compared to last year, the interest cost as on lower trend, and if we continue this focus on cash were going to see a better results here. So good performance on cash which is getting reflected although we don't have a balance sheet this quarter. But there is a corresponding reflection of that in the balance sheet as well which you will see in the next quarter. So, profit before exceptional items stood at Rs. 29 crores which is about 6.2% of sales. Having said that as we were in last March, we had to take some significant provisions last March. So we still kind of looked into all our risks and this quarter, some of the residual risks which we were left, we have covered it. So with this I think we have covered the known risks, which was there with us till this point of time. And after factoring those exceptional items of about Rs. 36 crores, we had a profit after tax of Rs. (-7) crores.

So that's been the kind of the quarter for the story, to sum up a very strong quarter, operationally. Strong EBITDA, strong EBIT, lower interest costs coupled with some one offs which we had to take to come to the profit after tax mark.

So that has been the number side on the quarter. So we will take a pause and I would ask the operator to ….

Nirav Vasa: Thanks Arnab. Before closing we will come to the Q&A. So operator we request to open for Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Santosh Yellapu from India Nivesh Securities. Please go ahead.

Santosh Yellapu: How do you intend to repay the short-term borrowings that is sitting currently in the balance sheet, first? Second, how long will we be using the provisions to write them off in our P&L? And third, what is the cash flow from operations for 9 months for FY18 versus 9 months for FY17?

Arnab Roy: Although we don't have a balance sheet which we have published this quarter, but overall if you see, there has been a significant reduction in the borrowings. So just to give you a order of magnitude compared to where we were 6 months back to where we are now we had almost Rs. 73 crores reduction in the total borrowing amount and as I said when we go in March and publish it we will see a further positive trend there and are probably a higher reflection of that in the interest cost as you go in the coming quarters, because you will have a full quarter effect of that. So that is on the borrowings part of it.

Second question on the provision piece, I think as I said earlier, when I was talking about the P&L, almost all the known risks which we had, I mean on the debtors' side we have now covered so this was kind of residual leg. So we have taken care of that. So really unless something very untoward happens in the market we don't expect a significant risk coming on that count.

And your third question was on the cash flow. So if you see the last 6 months of the year, cash in versus the cash out the business has generated about Rs. 103 crores of positive cash in the 6 months period which itself is a very strong testimony of the way the cash performance has moved. And as a result of that as we articulated earlier, we were able to repay Rs.73 crores of loan.

Santosh Yellapu: As a follow-up question, if I may, how do you intend to repay these short-term borrowings sitting on our books as of now? Meaning do we have adequate cash flows that would be able to generate to recoup the step?

Arnab Roy: I think I just answered that question right, if you just follow the last 6 months we generated Rs. 103 crores of positive cash and we have already repaid Rs. 73 crores and that journey will continue.

Moderator: Thank you. We will take the next question from the line of Nirav Vasa from Batliwala and Kirana Securities. Please go ahead.

Nirav Vasa: Just wanted to get some idea, as we were undertaking some restructuring exercise in FY18 and the intention was to keep the organization say really lean. So can you share little bit more aspects on the same?

Arnab Roy: So that action is on. We are revisiting all aspects of the organization; it is a combination of restructuring as well as a growth story. So lines where we have market opportunities, we are pushing for growth. So the lines where we don't see adequate volume at this point of time because as Prakash's kind of indicated to you we have segments where we are growing, we have segments where the market is not growing. So it is really a segment to segment product to product play. There is no one shirt size fits all approach, so it is a very specific product to product approach. So it is a combination of restructuring and a growth story we are going. But some of the lines yes the restructuring actions are on which we intend to complete by March next year.

Prakash Chandraker: So just to complement what Arnab said, even if you see P&L, with moderate growth the P&L reflects the control on the cost, which is quite significant. So the EBIT level if you see is quite significant in terms of last year same quarter versus this year. And that has come with multiple actions I will say; one, which we shared last time also. We're trying to do a transactionalization where the products and equipments can be synchronized to the customer's requirement and that is helping us to make our order to cash process very efficient because we don't have to do a several time engineering of it or designing it. So that is one which is what we call transactional growth which is a high profit activity. We are trying to accelerate the growth on that. The systems part we are quite selective which order to cash process which we talked about and we are allocating resources in line with what is actually required, and this is what is helping us. So we are quite selective when it is coming to accelerating our growth based on the mix.

Nirav Vasa: My last question would be pertaining to the debt number, so would it be possible for you to share the quantum of debt that you intend to repay in the next financial year?

Vineet Jain: As of now there is no target. I would not like comment on how much we are targeting. But I will say that the trend is set and we are ambitious that the way we are going now going forward, we will follow the same trend.

Arnab Roy: The actual number is as I said Rs. 73 crores has been already repaid between June to December. So that is what has already happened, you will see a further trend continuing in the next 3 months by the time the close of financial year.

Moderator: Thank you. The next question is from the line of Sagar Parekh from Deep Finance. Please go ahead.

Sagar Parekh: What would be the gross and net debt numbers? You mentioned Rs. 73 crores has been repaid. So what is the exact number now?

Vineet Jain: Right now, I don't have the numbers because December balance sheet is not published. But I will update you after the call.

Sagar Parekh: What would be our order book position?

Vineet Jain: Order book position is around 7 to 8 months' sales.

Sagar Parekh: And in terms of rupees crores would you be able to quantify that?

Vineet Jain: Around Rs. 800 crores.

Sagar Parekh: And do we give any kind of break up in terms of systems or products order?

Vineet Jain: As you are aware, we are breaking our order backlog in the system, transaction and service. So transactional and service together contributing around 25 to 30% and the rest is system.

Sagar Parekh: And any kind of guidance that you give on the top line for next year?

Arnab Roy: See usually we don't give guidance. As Prakash kind of give you the segmental breakup, there are positive segments which is there. So obviously historically the October to December quarter is always high for us you can see a reflection of that. January to March it will be a good track. But obviously it will be comparable to the quarter, which we had in the previous year and slightly better. So that is the right way to calibrate January to March.

Sagar Parekh: No I was talking about FY19, the year as a whole. What kind of top line are we targeting? Would we be having growth as compared to FY18 or FY19 would again be a year of consolidation for us?

Arnab Roy: See it will be a year of definitely a selective growth because the economy is expected to pick up for FY19 so we will definitely target to grow in line with the economy is what I can say. But definitely a higher growth compared to the previous year's.

Vineet Jain: Just to add what Arnab is saying, so but our main focus is on the bottom-line. So we are targeting to grow but main focus still will be the bottom-line.

Sagar Parekh: So bottom-line would be assume this 10% EBITDA margins that we have done as you mentioned that there are no more provisions us behind now. So can we assume that reported EBITDA going forward can be 10% levels going forward for the full year?

Arnab Roy: You will have to calibrate it based on the yearly number. So, I think my suggestion would be wait for March to come, see a full year consolidated number of how the picture is evolving and particularly last 2 quarters rather than doing an extrapolation based on a single quarter. Because this was the quarter with the highest volume and it will always remain that way so that is how our market trend has been. So wait a little more, wait for the March results to come, calibrate with it more normalized volume would be my guidance on this one.

Sagar Parekh: So what is the 9 months normalized EBITDA there?

Arnab Roy: 9 months if you see, the normalized EBITDA was around 4.5%.

Sagar Parekh: So possibly we can touch about 5.5-6% for the full year. So we can look at similar kind of number for the whole year next year or some bit of improvement over there.

Vineet Jain: I think we have already explained it, we are targeting for the bottom-line. But as of now calibrating a number I will not recommend so better is to just follow the trend how it is going. And definitely it will improve, and our vision is to grow in a positive trend.

Prakash Chandraker: We will be good to keep giving you results better than your expectations so let us keep it that way.

Sagar Parekh: So this order book number of Rs. 800 crores will this number be more or less similar like 7-8 month range?

Arnab Roy: Yes that has been the usual trend of the business. May be in a particular quarter where we have more transaction this will go down little where we have more system it goes up a little that is usual business mix. But on average yes, 6-8 months is the average backlog which we mean for this business.

Sagar Parekh: So then basically we will not be able to project a growth trend or visibility just by the order book number because it will usually remain 7-8 months in spite of we even let's say that we grow by 15-20% also in one particular year in a good year, but the order book will still remain the same 7-8 months kind of range.

Arnab Roy: Correct, it will be 7-8 months of the higher base in that case.

Sagar Parekh: Absolutely, but just that it will remain in the 7-8 months kind of range.

Arnab Roy: Yes, and the whole endeavor is here to get faster cash so with what Prakash explained the whole order to cash process the endeavor is not just profit, the endeavor is also to see that the whole conversion happens quickly.

Moderator: Thank you. We have the next question from the line of Viraj Mithani from Jupiter Financials. Please go ahead.

Viraj Mithani: Are these write-offs over or there are still more to come?

Arnab Roy: I think we have already answered in one of the earlier questions. If you would have followed that all known risks on the debtors' side, we have already covered.

Viraj Mithani: In the AGM when we met, the management said there will be some write-back also. Are there any the write-backs coming from the write-off? Nothing has come so for the quarter.

Vineet Jain: As we have a declared in the last quarter we recovered around 82 million from the bad debts only so as and when it comes, we will report. And we are focused to cover all the provisions that we have provided we have not written-off, we have just provided the provisions.

Arnab Roy: So last quarter to your question. There was about Rs. 8 crores which was recovered in the previous quarter.

Viraj Mithani: But no recovery in this quarter, or coming quarters, any sense, if you can give to us?

Arnab Roy: I think it's premature to say that we are working on that. But better be positively surprised next quarter when things come.

Prakash Chandraker: We are engaged with customers very deeply and the all those customers are still in a tough situation. So this is where I would say the current scenario is.

Moderator: Thank you. The next question is from the line of Santosh Yellapu from India Nivesh Securities. Please go ahead.

Santosh Yellapu: Sir given that now around 50% of our business is with non-Discoms and there is a decline in the collection period. By when we expect to see our collections period going below the 100 days mark to say somewhere around 60 to 90 days range at least. How long will it take for that to be seen?

Arnab Roy: I think you will have to go back to the mix of the business. I think Vineet was articulating to you the mix still it is 70% in systems about 25-30% is transaction. So your statement will come true when transaction really become 70% to 80%, which is really not going to be the case here so the expectation has to be calibrated accordingly. Still 70% of the business is systems and systems carry its own transactional days. Having said that, when you see the balance sheet in next March you will definitely see a very significant improvement in the DSO days. So as I already articulated earlier, if you do the math you will yourself know a Rs. 100 crores positive cash in 6 months has already reduced the DSO significantly and that trend is going to continue. So wait for March for balance sheet to come we will see very significant reduction in the DSO.

Moderator: Thank you. The next question from the line of Manoj Saini from P&Y. Please go ahead.

Manoj Saini: Could just give me the approximate margins figure for the outstanding order book?

Arnab Roy: It is more or less in line with the business performance. So I would say there is nothing abnormal there. So it is a healthy order backlog which we carry.

Manoj Saini: Second point is more or less a request than a question. Every quarter you guys mentioned that the worst is over, the write-offs are now done with but then the investors get a shock in terms of write-off and all. So can the management clearly clarify that the worst is over and the write-offs and all are mostly done and then we can see a bright future going forward.

Arnab Roy: I think I've already done that a few times during this call. So it is also driven by the market and I think when we articulated in last March, there were quite a few external market reasons, including the whole bankruptcy code coming, some of our customers getting declared bankrupt. So it is not just only internal reasons a large chunk of it was external reasons.

Prakash Chandraker: Apart from that, actually if you have heard what we also said is preventive action to avoid this situation order to cash process is specifically launched where we are spending lot of time in order quality acquisition itself. So we are quite careful in terms of booking order itself compared to previous period where we were basically getting engaged during the sale we are now deeply engaged doing order itself with the credit team and the finance division doing full health check of the customer to make sure that order when we are booking can be really traded so that is a difference I would say in terms of proactive and preventive action.

Arnab Roy: So having said that I think it will be important for you guys also to kind of calibrate. See in a market like India, there always will be some risk. But that risk should be normal operational risk, which is what we expect to go forward. India will never be a country with zero bad debt right so there will be a reasonable amount but that should get covered in the normal operations. So that is what the endeavor is.

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

Jigar Shroff: I have three questions; one is just mentioned that the rebound strategy is on track and will get over next year. So, is that of March 18 right, you're saying it's going to get over? That is one. Number two is; what would be the impact of increase in material cost going ahead with all the commodity inflation around? And number three, I think somebody did mention about net debt as of 31st of December.

Arnab Roy: I think the debt question; we have already answered it few times, so I would skip that question. On the rebound strategy, I think it is happening in phases. Rebound-1 yes, it is getting over by March there are some more improvement actions more not the restructuring actions but improvement actions basically on some of the products on the go to market which we are covering as part of Rebound-2. So that will continue in 2018-2019 but that is more towards making the business portfolio more robust. But yes, on the restructuring side most of the actions are getting over by March. You second question is on the raw material cost yes, last year we had a year with very adverse FOREX fluctuations like the Euro to the Rupee, there was an adverse FOREX fluctuation. So that is something which we are constantly keeping a watch and trying to kind of cover the risks as and where we can so that is a close watch item. Also, the other thing that contributes and the raw material cost is kind of mix of the products. So that is the other thing which the kind of keep on a very close watch on how we are monitoring the mix of the products. So I would say these are the two factors which impacts the raw material costs. Beyond that there is the usual call like value engineering actions which keeps happening in the business.

Moderator: Thank you. The next question is from the line of Sabyasachi Mukerji from India Nivesh Securities. Please go ahead.

Sabyasachi Mukerji: Regarding the day sales outstanding, you said we will see a significant improvement, I just wanted to understand that basically Schneider's mostly the sales happen through the dealer networks and stockist where your credit policy I think of the competitors also is not more than 45-60 days.

Arnab Roy: I think you need to understand the portfolio and I think I have answered this question few times I will repeat once more. See Schneider dealer network sales is more on the low voltage side which is not on the perimeter of the listed company. I think here we are talking about the energy and infrastructure business which is a medium voltage business and here I think few times we have articulated that the profiling of the business is 70% systems business, so which doesn't happen for the dealer and distributor that is more direct end-user customer. So I think you need to go a little deeper when the March balance sheet comes into the profile of the products and analyze it and I think then you will be able to have a right calibration of the DSO.

Moderator: Thank you. We will take the next question from the line of Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal: Sir just one question, what we probably observed this quarter is that our costs have been fairly well-controlled and that has really helped us to overcome the higher raw material cost. So is this sustainable; number one basically in terms of lower other expenses what we have seen? And how do we see the actions on the cost control going forward?

Arnab Roy: So I think Manish a lot of initiatives are happening on this front so this quarter I would say is a more normal reflection of cost because thankfully we had no abnormal items on the other expenses. So this is more the normal trend of cost. We are going literally line by line on each of the elements of cost and this where I was kind of touching earlier on the restructuring. So what we are doing is if you see the kind of profiling product by product we are revisiting this wherever we have a good volume we are spending there, we are trying to do more investments there. Wherever we have a volume challenge we are question the cost more I would say with more microscopic lens to see what else we can do. So that is the approach that we have been taking here.

Moderator: Thank you. We have the next question from the line of Nirav Vasa from Batliwala and Karani Securities. Please go ahead.

Nirav Vasa: I was just asking about the factory, as I understand we have consolidated our Noida based factory so just wanted to check how do you plan to further work on this factory and may be what are the plans of some kind of asset monetization possible or how do you work on it?

Prakash Chandraker: So you may be knowing that Noida factory was nor very efficient one. It had come through Areva T&D acquisition that was not real industrial plot. It was in three different floors, so we were not finding it efficient that is how we had the integration activity in Chennai which is already operational and quite efficient. Second is; we also have huge space in Vadodara where some of those activities are being carried out there also. So in terms of industrial footprint for automation now we have two places one in Chennai other at Vadodara where we do all this IED integration, so it is quite efficiently operational. We do see digitization is growing and this is where our Vadodara factory will be quite useful for us to enlarge our operations there because we do huge number of our intelligence devices for switch gear panels and that is basically synergic activities so we are trying to have more capacity build up in Vadodara.

Nirav Vasa: Sir what would be the cost that would be incurring for this reorganizing our manufacturing operations?

Prakash Chandraker: It will not be very significant because the base is still available because we do have capacity available at Vadodara. We do have some of those machines which is available in Chennai which we can use at Vadodara because many of those activities are linked with more of engineering activities and integration activities and it does not require a very big machine. It is more of human skills I will say our expertise.

Nirav Vasa: So sir now as I understand that we have completed restructuring and we are focusing now big time on improvement. So any major changes in product portfolio, introduction of new products something which is there on the drawing board or something that you can throw light up on?

Prakash Chandraker: Yes, so I will say our focus has been always to create a value proposition which really solves customer's issue and we are going segment by segment where customers are really investing.

Take example of the Smart City we talked about in some of those solutions we actually pushed in the port which I shared with you today, the new port. Now this port we are creating really benchmark energy management system, and this is going to be the, I will say the reference for other ports. This is where we are spending time, energy so rather than a product I will say it is a solution which we are creating because we have a lot many products already and those are intelligent products. We are creating solutions which solves customer's issues. It can be for let us say cement plant is a different value proposition, for metro it is a different value proposition and for Oil & Gas it is a different value proposition. So this is where we are engaging and trying to accelerate those. Utilities again very special one where we are trying to do all those smart grids so we are quite engaged to create edge control and enterprise layer on top of our connected product which we call philosophically let us say Eco Structure Solution. So Eco Structure Solution is on the layers of hardware we build edge control and enterprise layer and we create a value promotion which helps customer to solve many of his issues.

Nirav Vasa: Sir I get your point, but what I am able to understand is by when you are working with utilities and Discoms is that the existing infrastructure is quite aged and on that doing really high technology work seems to be quite limited. So how do we mitigate this kind of problems that we are facing especially with utilities?

Prakash Chandraker: So utilities, as I shared with you, are almost let's say, 50%, 50% is on other segments. So in utilities also 50% market what we see even 20% responds positively is good enough for us to give a very good positive growth and this is where we are targeting to have some of those utilities who are quite positive and they are spending on the hardware infrastructure layers also which is basically taking good connected products versus secondary distribution as well as transformer as well primary distribution. There are I will say several tenders around that which is I will say quite positive and many of these utilities are quite aggressive on this because that is the only way they can make their utility more viable.

Nirav Vasa: Sir, can you name some states which are doing really positive work on this utilities space and for the Smart City CAPEX specially in FY19 which cities are you expecting to reach tendering stage?

Prakash Chandraker: So utility I will say many utilities like Bangalore, Orissa, Gujarat, Bihar, Haryana and we just got good order from Gurgaon so many of these state utilities are quite positive and they are coming with secondary distribution improvement project. And on Smart City space there are 7-8 states where we see positive traction happening. I will not name right now because we are working on those projects quite closely with the city administration and once we cross that phase, it will be better that I share with you. From competition point of view, it is important to maintain the secrecy of those opportunities.

Moderator: Thank you. The next question is from the line of Sabyasachi Mukerji from India Nivesh Securities. Please go ahead.

Sabyasachi Mukerji: So your other income is around 87 million for this quarter, can you give us a split of that?

Arnab Roy: It is a combination of the regular things like some duty drawbacks and some of the miscellaneous scrap incomes and other things. So as you see quarter-on-quarter compared to that October to December quarter it is in similar line so that is the usual trend nothing abnormal there.

Sabyasachi Mukerji: So you expect this figure to come into the next quarter as well?

Arnab Roy: This is the usual figure, that is the usual trend of the income which continues. Unless we have something big which we will report in exceptional like recovery or something.

Sabyasachi Mukerji: And one more question, one last question sir, you spoke about the several cost control measures that you are undertaking. We see that in this quarter the employee cost has gone down. So any major things you are doing there?

Arnab Roy: We already touched upon some of the restructurings which is happening, and I think that effect is continuing.

Vineet Jain: So if you remember last year we had done certain restructuring activities so this is the outcome of that last year restructuring. So we are getting the Phase wise benefit of that activity.

Moderator: Thank you. We will take the next question from the line of **Piramal Mathani** Individual investor. Please go ahead.

Piramal Mathani: This is regarding to your order book, do we expect the same run rate happening for quarter-on-quarter basis?

Arnab Roy: Yes, the order book run rate is going to be steady. As we said at any point of time our backlog is between the 7-8 months kind of a sales run rate. So that is expected to continue.

Piramal Mathani: It has been almost 4-5 years in terms of since you took over our business in India in the electric space and concall after concall you have been saying that the provisioning ratio is going to come to an end. Are we at the tail end of it or are there any unknown yet going ahead from here?

Arnab Roy: I think I have answered this question few times during this call. But one more time, I think if you see as I said what all known risks which we had at this point of time we have covered on the debt side. So don't expect anything significant. Having said that as I was articulating earlier also that in a market like in India there will never be zero risk, there will be some normal operational risk which we will cover through normal operational performance. So one-offs, I mean I don't expect anything significant now going forward.

Moderator: Thank you very much, that was the last question. I now hand the conference over to the management for their closing comments, please go ahead.

Prakash Chandraker: Thank you very much. Before closing I would like to say the market sentiments look to be moderately positive and considering the digitization and digitalization drives, we will like to assure you that we will remain focused to secure moderate growth in line with the market for our listed entity. However, considering the short-term challenges what we have been seeing, this will remain and for that we will remain focused through our order to cash process. We are closely watching the development of the market to bring more changes which should happen at the ground level and that should support our growth really from order to cash. Thanks once again for your valuable time to understand our company and have a nice evening.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Batliwala & Karani Securities India Private Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.