"Schneider Electric Infrastructure Limited Q3 FY '19 Earnings Conference Call hosted by Elara Securities Private Limited"

February 19, 2019

Management: Mr. Bruno Dercle – Managing Director
Mr. Arnab Roy – CFO
Mr. Vineet Jain – Head Investor Relations

Moderator: Mr. Harshit Kapadia – Elara Securities

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Schneider Electric Infrastructure Limited Q3 FY '19 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, 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. Harshit Kapadia from Elara Securities Private Limited. Thank you and over to you, Sir.

Harshit Kapadia: Thanks, Reyo. Good Afternoon everyone. On behalf of Elara Securities, we Welcome you all for the Q3 FY '19 conference call of Schneider Electric Infrastructure Limited. I take this opportunity to Welcome the management of Schneider Electric Infrastructure represented by Mr. Bruno Dercle – Managing Director; Mr. Arnab Roy – CFO; and Mr. Vineet Jain – Head (Investor Relations). We will begin the call with a brief overview by the Management followed by Q&A session. I will now hand over the call to Mr. Dercle for his opening remarks. Over to you, Sir.

Bruno Dercle: Thank you. Good Afternoon Ladies and Gentlemen, so I am Bruno Dercle, I am the Managing Director of Schneider Electric Infrastructure Limited, I am pleased to connect with you to share the update and the progress of our company, but first of all since I took over this position six months ago in August, I will briefly introduce myself, because I could not do it earlier. I am a 57-year-old French National, I am an engineer. I always work for Asia and Middle East all over my career and I have always been working in the power system industry, working outside of France or sometimes in France. I held several positions in Saudi Arabia, in United Arab Emirates, in Indonesia, and more recently in the past six months in India.

Looking at Q3 of FY 2019, we could see that the market was mixed, some segment like data center and transportation, utility we are positive; however, segments like minerals, mining metals are taking some time to bounce back, but as we will see later on, we are increasing our market share in these latter segments. We executed our strategy well in line with our rebound plan that was presented to you and to the market repeatedly in the past quarters. Today, I will present you some slide on the market outlook, so we can go through the presentation now.

As you can see on the screen, this is our vision of the market by segments. You can see that at the bottom of the slide, CIB, Commercial and Industrial Building, segment in building, in Healthcare, in data centre are growing much faster than the rate. This is some portion of the market that we need to address in a specific way, we will come back to that in the strategy of presentation. Transportation with 7% growth expecting in 2019 driven mainly by investments in transportation. On the right side of the screen, you see the size of the market by segment, so we still have quite an important market in the distribution utility, which is representing a major portion of our order intake still, However, we are focusing in other segment too.

The key trends that we observe on our market, I will highlight a few of them extracted from this slide. At the bottom part of the slide, you see a continuous move towards digitization, smart components, smart energy, lot of investments from the utilities in the secondary part of the network to digitize and to improve the quality of service. Our company has solution to address growing part of the market, thanks to smart and connected product that we call in our jargon as smart, remote avenues Ring Main Unit of smart grid connected to components.

Another big driver which is very apparent in our market is and driven also by country regulation is the data centre market. The Indian Government is pushing towards localization of Indian data on Indian soil, which is driving very important investment into the data centre and we have an offer for both in medium voltage and in energy automation, so this are some items that will drive some growth in 2019 for company. Another driver also driven by the Government is making initiative. We are impacted positively by this initiative knowing that most of our production is already localized and with very high local content, Make in India, but we still have a few selected activities on which we have high imported content mainly in Relays and GIS activities. These two activities are subject to reinforcement of the localization that we will drive in 2019.

In terms of competition, we have observed the reinforcement of the localization driven by the Make in India initiative and push of the Indian Government, thanks to our local content in our manufacturing which will help us in current market. To take advantage of these global trends that we observe on the market and also to take advantage of the growing segments that we have observed, we are driven our annual marketing and sales plan at the frozen annual marketing plan at the end of Q2 fiscal year of 2019 in December, which is summarized on this rather complex slide, but I will take little bit of time to go into it. First of all, taking advantage of the growing segment, typically data centre, transportation, metals, so connection towards market segments to capture the growth on these selected segments and on the other side, and action of go-to-market and business model towards more transactionalized product, more transactionalized go-to-market, more transactionalized business model. These type of initiative lowest to cover some portion of the market, which is not addressed today in a direct mode in ETO, Engineered to Order, business model. It will also to grow faster and to reduce the lead time of our deliveries.

Other actions, I already mentioned them are two segments – cloud and service provider to take advantage of the growth in the data centre market and oil and gas using energy automation to address the oil and gas growing market. What you see here on this slide is part of the transformation, we have some launch of new products. These launch are scheduled mainly in H1, so it should be our Q1 2020, but we will come to this topic probably in the next call. We will have the launch of new breaker, which is called EasyPact EXE and we have the launch of new pRoyection range that we call Easergy **(Inaudible) 13.03**, so these new products will be launched in the H1 2019, so somewhere between end of Fiscal Year 2019 and early Fiscal Year 2020.

We can go to the last slide, the last slide is a success story that we are happy to have booked into the last quarter in December 2018. This project corresponds exactly to the strategy which has been defined to have solution activity on the domain where segment in this case steel industry, so mining metal segment. In domain where the competition is reduced to only a few key players, which is the E-house technology. In few words, E-house is a medium-voltage substation, together with its energy automation software and system, all combined into a metal leak enclosure with a very reduced footprint in terms of geographic footprint. It is very compact and it is also sheltered and pRoyected, the lead time to implement such a solution is considerably reduced compared with additional medium voltage substation that needs big footprint on the ground and sometimes an industrial or city do not have enough space available to implement a full traditional substation. This technology is the **(Inaudible) 15.13** to Schneider Electric Infrastructure Limited, very strong digital sector thanks to some optimization and very efficient footprint that we can have, so this project is for E-house for plant expansion of the steel factory for JSW Steel and it offers you the full range of the connected products and edge compact solutions meaning software for automation that Schneider Electric has to offer. The full range of pRoyection relays GIS technology for the medium voltage switchgear, all of which enclosed into E-house solution, so meaning that it looks like container, but **(Inaudible) 16.21** is lodged and housed inside. A project of this magnitude corresponds exactly to the strategy that we have designed for the solution activity of Schneider Electric and was booked for JSW in December 2018 for execution tri-semester of 2019. We will now give the floor to Arnab Roy for the financial presentation.

Arnab Roy: Thank you, Bruno. Good Afternoon everyone, so let us move to Slide 8, which is on the financial. If you look at the YTD nine months performance, how we have done April to December so far, the year is positive for our company. As we have already communicated in the last couple of quarters, we are focusing on few fixing the basics, the number one out of the same was the loading of the plant, we have been successful to linearly load the plant to a large extent and you see reflection of that. We have been also working on as I told you in the last call correcting the cost folder and consequential effect of that, so that has helped. Of course, these were offset by some one-time increase as I had already said last quarter, there was some increase on the WESOP and some increase on the employee performance variable pay, which is impacting the nine months' result. Overall, if you look at the YTD performance versus last year, we are progressing in the right direction and consistent with our strategy. Nine months EBITDA has improved by 0.6%. There is an exceptional item which we discussed last call as well that is the ETO restructuring. We are right sizing the employee footprint in the plant, so roughly around 17% to 18% we are reducing the manufacturing workforce, so you see the impact of the exceptional item there, but the good news is if you look at the profit before tax, I think after a long time we are in profit, so before exceptions for a nine-month period, as you can see we have a positive result, which is the good news in this.

Now, on the restructuring piece, we expect to complete the actions by March '19 for both the plants, so that is overall on the numbers and we will drill more with your questions, but the highlight here is that we are in a nine-month period, we are in profit and it is moving in the right direction. Now, if you go to the next page which is a quick snapshot of the quarter, I have already covered it in the nine months, but I think the trends are similar, so again for a quarter we are positive, we had a big impact of the exceptional, but that is where overall the shape of P&L is, so with this I would close the discussion and would request to open the floor for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Sir, good to see the company turning profitable back again, so wanting to understand two aspects, A, as in the restructuring exercises has been going on, so what could be the quantum of incremental cost which could hit the P&L as a part of this restructuring exercise in the fourth quarter incrementally beyond what we have seen in the third quarter of about 19.5 crores?

Arnav Roy: Renu, if you look at from a number perspective as I gave you the outlook last call also that we are looking at about 190 odd people overall, about 120 odd people from the permanent workforce and rest is from the temporary. We have completed roughly about 85% of the exercise, so another 10% to 15% is pending, so that is the quantum you would see hitting in the next quarter.

Renu Baid: Thereafter if you look at the gross margin front as an RM to sales has still been broadly flattish for the last two quarters, so how should we look in terms of the sales mix and profitability of the new orders which are coming in at the P&L, should we expect this trend to improve going ahead or you think the gross margin levels should be broadly at similar 26% to 27% levels, how should one look that given the current orders which are flowing in the market and the competitive intensity which we have?

Arnab Roy: There are two parts to the discussion, one is the mix part of the conversation and other is the what we have been saying that we will load the plant linearly what is going to be the impact of it, so if you look at going forward the next 12 months' picture by loading the plant linearly, by eliminating the under absorption, you will definitely see an improvement coming on that aspect, so that is one part of the conversation, but similarly we are also pricing up on some of the cases, we are pricing up the product to be more consistent with the raw material increases and stuff like that, so that also will move in the positive direction. Also, there is a mix portion of it which is coming in because if you see the IG piece of it where we mainly do a contract manufacturing operation, so that size of the business is impacting, so that gives us an overall leverage on the P&L, but if you see from RM to sales ratio, you do not see a positive leverage coming in because there the value-add is limited, we are doing more a contract manufacturing, so that will be a mix effect which will continue to play, but overall it will have a positive impact on the P&L.

Renu Baid: What should be the share of the IG revenues in the mixed for the current quarter and how should we expect this trend for Financial Year '20?

Arnab Roy: If you see, Renu, in the current quarter the IG is around roughly 17%, so that is what is there in the current quarter, it will roughly remain in the similar range. On the low voltage panel side, we will grow but the overall OG is also growing, so maybe 1% or 2% change in the percentage mix, but roughly in the 17% to 19% range.

Vineet Jain: Just to add what Arnab is saying, along with IG portion, we are also working on the transactional and the service part, so mix on that will increase, and benefit in the material cost. The strategy we had discussed, so now we have implemented it in 2019 and it will hit the sales.

Renu Baid: One last question for Bruno, overall you have shared a fairy good perspective of which markets are driving growth, but if we look at the core business, can we now expect the business momentum to start picking up in double digit terms and you think it will be still driven by data Centre and distribution utilities, and how should the end market customers behave in terms of the purchasing patterns, are we seeing any issues with respect to liquidity or payment from the customers as well?

Bruno Dercle: In terms of data Centre is growing fast, but remains small percentage of our overall activities. We need to position ourselves in data Centre of future growth, but in the coming three quarters, it will remain a small percentage. Our business, our volume are mainly driven by DISCOM, utilities. This is where we do our biggest portion. We are growing single digit into the DISCOM domain because we are very selective. You know that in the DISCOM market, very heavily regulated with lot of constraint on the payment terms and conditions, we are to be very straightforward, we are selective in this domain and we allow ourselves to grow single digit, not more. We put our efforts into the other segment in terms of growth. For the DISCOM, our priority is to improve the cost stability and gross margin. Loading the plant is one thing that Arnab just mentioned in order to avoid under absorption and growing the marginal order booking as well by being selective.

Renu Baid: Just one more thing to add, on the export side are we seeing business activities trending up new portfolios of product lines being targeted for the export market, so any new initiatives or order flow on that side?

Bruno Dercle: For the export market, we mainly rely on medium voltage switchgear called PIX Roll on Floor. Schneider Electric is driving worldwide initiative towards license panel builder with this product and basic kits will come from our engine factory, so this is a global initiative that should bring inter-goods exports to license panel builders mainly in the Africa, Middle East, and Southeast Asia.

Renu Baid: How large can this portfolio be in our revenues over the next couple of years?

Bruno Dercle: It could pan out something like 1000 panels knowing that we have today a capacity of 6000 panels.

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

Viraj Mithani: Sir, what percentage of our material cost is imported like we have 73% is the material cost of the total sales, out of which what is the import content would be?

Arnab Roy: It depends on product to product Viraj, but overall if you see roughly about 80% of it is local and about 20% of it is import on a ballpark basis, but it varies product to product, so like Bruno said in his earlier part, pRoyection relay will have a higher component of import, whereas some of the other products like air insulated switchgear will have 100% local, so those are the two extremes and it then varies.

Viraj Mithani: Blended business 20% is what the import content of the material cost is, right?

Arnab Roy: Yes, absolutely.

Viraj Mithani: Sir, any synergy from this Larsen unit with our company, which we are able to think or establish in the sense it has take over?

Bruno Dercle: As long as this operation is not concluded, we cannot go into any detail.

Moderator: Thank you. The next question is from the line of Harshit Kapadia from Elara Capital. Please go ahead.

Harshit Kapadia: Sir, can you please let us know what is the order inflow and the order book at this point in time?

Arnab Roy: Harshit, in terms of the order backlog we are at roughly around 755 crores at the end of December, so that is the backlog which we have.

Harshit Kapadia: How in terms of order inflow opportunity are you looking in terms of let us say after the first half of FY '20 because we are expecting the inflows to be lower at least till the election results are out, how do you look at FY '20 in terms of inflows?

Bruno Dercle: For the time being, we are not observing slowdown of the order inflow nor for the opportunities, so the pipeline remains very steady. We expect that in Q1 Fiscal Year 2020, there will be a slowdown of the order in fact. We expect only in Q1 Fiscal Year '20, but for the time being we have not observed any slowdown on order intake, we are growing compared with last year.

Harshit Kapadia: Since you have mentioned that you are bullish on certain segments like data Centre, is it possible for you to give us the size of how big opportunity for Schneider is this?

Bruno Dercle: For Schneider as a whole, we have presented already in the secure power business unit division, with very strong market share in this domain. We are somehow catching up in the power systems and digital energy activities. That is why I was mentioning before with that from a low value, low percentage of our activity, but at global level of Schneider Electric not on Infrastructure Limited Schneider is already present in this segment, thanks to secure power mainly, UPS.

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

Viraj Mithani: If this restructuring goes as planned, is it fair to expect that we will be PAT positive in FY '20?

Arnab Roy: Yes, that is the endeavour for sure and you can see already a reflection of that in the nine months, so we are already PBT positive in the nine months and that is the endeavour.

Viraj Mithani: Sir, any write backs are there or most of the write-backs are over because of the past takeover from Alstom or something?

Arnab Roy: This is a more normal performance, if you see the nine months. If you look at the positives and negatives, while there is a small recovery coming out of bad debt, but there has been some abnormals like the FOREX hit which you discovered last quarter, so overall if you do the pluses and minuses, this is a more normal I would say nine months' performance.

Viraj Mithani: So not much of the write backs and write-off, that is fair to assume in this?

Arnab Roy: Overall, I think this is a more normal performance, what will add is definitely the gross margin improvement which we were talking earlier.

Viraj Mithani: That will come from this Indianization and the cost-cutting, that is what we indicated, right last time also?

Arnab Roy: We talked about few things last time, if you look at it again the linear loading of the plant, eliminating the under absorption, correcting the cost folder and pricing up, combination of all of those affects.

Viraj Mithani: All our agreements are in Dollars base, for the import from the parent company also in Dollar base, not in Rupee base, is that correct?

Arnab Roy: It is in Euro base, from the parent company it is all Euro based, not Dollar based.

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

Sagar Parekh: Sir, firstly can you give us the order book breakup of 755 crores between systems, transaction, and services?

Arnab Roy: Systems overall is about 74% comprising of equipment 51% and project 23%, transactional sales 16% and services is 10%.

Sagar Parekh: Can you talk a little bit more on the services part of your revenue, so I believe that is the good growing segment, so qualitatively and quantitatively, can you give us some color on how it will shape up for FY '20 and '21?

Bruno Dercle: You see services representing 10% of the backlog, but on a yearly basis considering that services activity as a lead time and the turnover which is much faster than the solution activity typically. The overall rate of services is bigger than 10%. Roughly speaking, you see a growth of the percentage of the rate of services increasing each share 1% to 2% per year because it grows faster than the rest of the activity.

Sagar Parekh: In terms of margins, how would that be?

Bruno Dercle: Relative, better margin on average then the rest of the activity.

Sagar Parekh: Double-digit or more than that?

Bruno Dercle: We usually do not give a margin outlook, but compared to the rest of the activities it is definitely positive.

Sagar Parekh: What I understood is services currently contributes 17% of nine-month revenue?

Arnab Roy: Yes, roughly it is around 17% and it is growing as Bruno said faster than the rest of the businesses.

Sagar Parekh: How much did it grow for nine months FY '19?

Bruno Dercle: It is approximately in the 10% range.

Sagar Parekh: What would be our debt number as of December?

Arnab Roy: As of December, the gross debt was about 410 crores because what has happened is if you look at the last nine to 10 months, because of the FOREX again as I explained in the last call, we have prioritized the foreign AP repayment because to reduce the FOREX exposure, so although we are generating positive cash, but we are using it more to repay the loans, so that we reduce the FOREX hit.

Sagar Parekh: In this 410 crores, how much would be the FOREX debt now?

Arnab Roy: No debt is FOREX, I am talking about the cash which we are generating we were using to repay the FOREX AP, so the debt broadly remains same, account stable I am talking about.

Sagar Parekh: What would be the nine-month order inflow number?

Arnab Roy: Nine months order inflow number overall if you look at it is around 900 crores.

Sagar Parekh: On order inflow actually is lower than the sales, so which means that the order book has shrunk basically, so any outlook on that so what can this order inflow number be for this year and, what is OG and IG, I am sorry?

Arnab Roy: OG is the outside group and the Inside group, so this 900 was the outside group. Around 80 to 85 crores we are having the internal orders that is we are talking about LV orders. So roughly it will be about 1000 crores which is in the same level, so the answer to your question is the order inflow has not shrunk.

Sagar Parekh: When we talk about loading the plant, you are effectively talking about increasing the utilization rate, right?

Arnab Roy: Yes.

Sagar Parekh: What would be the current capacity utilization broadly on a plant level?

Arnab Roy: Last year, we had a challenge because particularly in the April-to-June quarter and in the July-to-September quarter we had a problem, so this year where the plant was roughly utilized 70% to 75%, but this year the plant is completely full like last quarter the plant was completely full and we see a same outlook in the January to March period as well.

Sagar Parekh: Now, you will see the operating leverage play in from Q4, right?

Arnab Roy: Yes, that is the endeavour.

Moderator: Thank you. The next question is from the line of Parimal Mithani from Credential Investments. Please go ahead.

Parimal Mithani: Sir, in terms of restructuring what percentage is currently completed as of Jan end exercise?

Arnab Roy: I think I answered it earlier to Renu 85% is completed, roughly 10% to 15% is pending.

Parimal Mithani: Sir, on your previous con call there was some issues on the manufacturing side in the Q2 conference call, is that issue being resolved in terms of fabrication wise?

Arnab Roy: Yes, it has been resolved and also the issue on the cost folder has been resolved as I updated earlier.

Parimal Mithani: Sir, in the previous con call you mentioned the order book was 73 odd crores and in this quarter the backlog is 755 crores, so we have just executed 5 crores or can you explain me how do I get it?

Arnab Roy: The backlog remains the same which means you had an equal amount of inflow and outflow, so that the backlog remains the same.

Parimal Mithani: What was the inflow in this three quarters if you can highlight?

Arnab Roy: If you look at this quarter, October to December period, the outside group order was about 400 crores and the inside group order was about 88 crores and similar amount got executed because this was a bigger quarter, so as you can see our revenue has been in the 450 crore range roughly.

Parimal Mithani: If I see the nine months, you got outside order of 400 crores in last quarter itself, right, and previous was 500 which were outstanding?

Arnab Roy: Correct.

Parimal Mithani: The inside group is 100 since last two quarters, right?

Arnab Roy: That is right.

Parimal Mithani: How does the inside group order work, it is like how does the, if you can just elaborate on it or how does it work from the group company, how does it confirm?

Arnab Roy: It is basically like we do a contract manufacturing for them, so primarily we are doing low voltage panel in our factories, so it helps us utilize our overall factory manpower, the space and we get a better operating leverage by using that order.

Parimal Mithani: Sir, once you mentioned about the Make in India thing, what percentage of product currently in terms of its total investments, what percentage will be there, forget the raw material cost, but how much percent of products are Made in India right now, can you give in percentage terms?

Bruno Dercle: It varies a lot by product range. You take the gas insulated switchgear medium voltage, the local content is almost 100%. You take some pRoyectional relay activity where basically we have the product range which is imported from another factory. Here the local content is very minimal only services basically. Overall, I think we already answered this question 20% of our all activities is imported mainly in some selective domain of pRoyection relay, GIS bringing most of this 20% of imported content, so Make in India for us is an opportunity because we are considered as the local manufacturer with 80% of our content being local.

Parimal Mithani: Sir, just to add on to it in one of the slides you mentioned you need now most of the contents are being ordered to people who have 50% localization, is it one of the reasons that we are getting a preference in terms of orders in the market?

Bruno Dercle:: I cannot say so for the time being, the Make in India is an intention. The industrial company needs to be ready for it in terms of actual implementation, the utilities, the DISCOM not giving today preference to companies who have an important percentage of local content, so it is something, it is a trend that we see coming, but it is not yet legal obligation in the utility domain.

Moderator: Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Just a small clarification, you mentioned the order intake for the quarter was about 400 crores plus 800 crores of inside group, so does it imply almost 500 crores of inflows or when we reverse calculate from the backlog, the number comes to close to 330 to 340 crores?

Arnab Roy: I said (+400) about 88 crores of IGA.

Renu Baid: That is about close to 488 crores on inflows for the current quarter, 3Q '19?

Arnab Roy: Correct, and if you see the current quarter sale also, it is roughly about 450 crores.

Renu Baid: The backlog is 755 crores as in backlog has declined despite relatively higher inflows than the revenue run rate?

Arnab Roy: Yes, your question is valid, what we do is we also keep scrubbing the backlog to see if there are orders which are dilutive to the company and which we need to clean up, so there is a backlog cleaning which also keeps happening, so that is a continuous endeavour. Our main focus is to ensure the right margin, so we keep looking at the backlog.

Renu Baid: What could be the quantum of the orders, which have been de-booked in the current quarter, would it be like close to similar 100 crores kind of number?

Arnab Roy: You can do the Math, the differential is the de-booking.

Renu Baid: Secondly, we have been working on the smart city initiative for quite some time and have been working on new cities as well, so what has been the development so far on those projects, which are already in the backlog and how are we looking at the pipeline in the segment of the market?

Bruno Dercle: In October-November 2018, so in last quarter we have got quite sizeable amount, quite a good success into the smart cities mainly for connected products meaning smart Avenue, smart medium-voltage component that you seen in the smart city. We have for example in several regions of India are in Manesar close to Gurugram but also in Tirupathi in the South, several in Northwest as well, so several DISCOM have selected our products. The interesting thing that we could promote there as a good market, we use the local contractors well produced with local DISCOMs and we supply them our product and solutions, so we are halfway between transactional mode and with full solution mode, so we are not taking the full solution and we are not taking all the risk which have any harm to doing business with the state utilities. This is taken by the contractors, but we are providing the full range of eco-structure solutions Layer 1 and Layer 2 grid age and connected products to this contractors in the range of something like 500 smart avenue and compact substations have been sold in the last quarter alone, so that is quite an interesting development because now we start to see the smart city concept growing into higher business in the DISCOM and in the second of networks, this is where we are best positioned.

Renu Baid: Just a follow up question to my previous question, this number comes to close to 100 to 150 crores of orders which have been cancelled or de-booked from our backlog, so can you help us understand the nature of some of these contracts were they from private sector DISCOMs, what type of orders were this, because 100 crores is reasonably large number for a company like ours?

Arnab Roy: It will be a combination Renu, what will happen is a part of it, it will be mainly the private players because Government you do not get a liberty to change a lot, so what we do is we do scrubbing and we have been doing it continuously of the orders to see that wherever the project is delayed, in other words we have an escalation and it is not covered by say a price variability clause, like an IMA clause, we keep revisiting it and we keep cleaning the backlog, so that is what we did. We have seen the orders, it will primarily be private players to answer your question.

Renu Baid: I am just wanting to understand the company's policy of de-booking the order, so when the projects are delayed without any clarity on the price variation, so basically fixed price projects which are delayed beyond a given point of time and there is no visibility on execution that is a time when we de-book this from the backlog?

Arnab Roy: Principally, yes, I mean that is the time when we will revisit it and firstly the endeavour is to go and renegotiate. If we are able to renegotiate, well and good, if not, then we explore this option.

Moderator: Thank you. The next question is from the line of Sabhyasachi Mukherjee from IndiaNivesh Securities. Please go ahead.

Sabhyasachi Mukherjee: Sir, if I look at the adjusted EBITDA margin, if we adjust the provisions that was made last year and the kind of FOREX gain we had this quarter and the last year same quarter, the EBITDA margin last year as in Q3 FY '18 was roughly around 8% whereas we stand now at 4.6%, this is looking from a perspective where we are going and we are moving ahead to a positive direction, it is not a very good sign, can you please explain the reason behind it?

Arnab Roy: You are looking at quarter to quarter, right, Sabhyasachi?

Sabhyasachi Mukherjee: I am looking Q3 year-on-year?

Arnab Roy: You are looking at the nine months picture or the three months picture?

Sabhyasachi Mukherjee: Three months picture this year versus last year.

Arnab Roy: Three months picture at times becomes confusing because if you look at the last, the Q3 of last year, we had a very substantial export order to Sri Lanka and Bangladesh of roughly around 50 crores with a good margin, so we had Bluebird there which impacted the performance and that is the reason I was presenting the nine-month picture more because that gives a more calibrated view, so three months was impacted by the Bluebird export order which is creating that imbalance.

Sabhyasachi Mukherjee: If we look at the nine months picture as well, the provisions I believe was made in Q3 of last year only, so if I adjust the nine month figure also, the margins are way ahead in last year compared to this year?

Arnab Roy: There are few things which we will have to look at it, you are looking at only one aspect of it, so while provision is definitely, we created the residual portion of the provision in Q3 last year, if you recollect we created bulk of the provision in March '17 and we created a portion of it in December '17, so that is one aspect of it, but this year if you look at the first two quarters, we had significant hit in FOREX like Q3 last year itself as I told you if you look at my transcript, you will see that we had a 12 crore hit in FOREX in the last quarter, so you will have to also see those impacts because FOREX hit us very heavily in the first half of the year, so the provision is partly offset by the FOREX, so that is point number one. Point number two as I was articulating, there are some one-off like the WESOP and other aspects which came in, so that has also impacted the nine months performance and that is the reason I was calibrating that if you take out the pluses and minuses, this becomes a more normal performance.

Sabhyasachi Mukherjee: On the gross margin front, if you take the nine months figure this year versus last year there has been a dip of about 130 basis points, is it mainly because of the Group order we are receiving, the inner group order?

Arnab Roy: Two points, one part of it is the Group order which we have received, the second part of it as I just explained to you there was a significant export order in Q3 last year which was at a higher margin, so combination of these two.

Sabhyasachi Mukherjee: On the interest part the finance cost, what would be your cost of financing?

Arnab Roy: We are roughly in the 7% to 8% range.

Sabhyasachi Mukherjee: If we look at the gross rate figure, it is around 410 crores and we have an interest outflow of around 33 crores in nine months, so the annual figure would be somewhere around 44 crores?

Arnab Roy: You are missing the Ind-AS adjustment for preference shares, so that also you need to add because as per the Ind-AS accounting, the preference share is counted as a debt and the interest for that has to be added there.

Sabhyasachi Mukherjee: But is it a book entry?

Arnab Roy: It is a book entry, obviously, but as per the accounting standards you will have to do that entry, so I think that is the missing piece in your equation.

Sabhyasachi Mukherjee: What would that amount be?

Arnab Roy: 180 crores with a coupon rate of about 8%, so that will hit you.

Sabhyasachi Mukherjee: Last question on the cash generation, you have explained that you have been generating cash but more or less paying the payables part, the receivables and inventory movement would you like to highlight?

Arnab Roy: If you look at from a day sales perspective, I think there has been a phenomenal reduction in the last 12 months period, so we closed December with the overall day sales outstanding for the legal entity at 92 days versus which was about 34 days higher at the beginning of the 12 month period, so that journey continues and I think we are making good progress on that direction.

Sabhyasachi Mukherjee: On the inventory?

Arnab Roy: Inventory has been fairly stable, I think not much change on the inventory side, it is mainly coming out of the receivable.

Moderator: Thank you very much. Due to time constraints, we take that as the last question. I would now like to hand the conference back to the Management team for closing comments.

Bruno Dercle: Thank you. I would like to say that market sentiments looks to be positive considering the digitization drive for which we have the right offer for most of our market segments. Now, we are entering into a year of where there is the election and we know that we can expect dip from some subsegment in the Quarter-1 of Fiscal Year '20. We are watching closely the evolution at ground level to capture more growth in line with our strategy, so this is the message that we try to pass to you, so we are watching the segment grow. We have defined our growth initiatives and we are very selective into some of the segments in order not to grow without profitability. Thank you very much and have a nice evening.

Moderator: Thank you very much. On behalf of Elara Securities Private Limited, that concludes the conference. Thank you for joining us, Ladies and Gentlemen, and you may now disconnect your lines.