



“GE T&D India Limited Q3 FY20 Earnings
Conference Call”

February 11, 2020



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Moderator: Ladies and gentlemen, good day. And welcome to the GE T&D India Limited Q3 FY20 Earnings Conference Call. As a remainder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Suneel Mishra – Head of Investor Relations. Thank you and over to you, sir.

Suneel Mishra: Yes. Thank you, Vikram. Ladies and gentlemen, good afternoon. Myself, Suneel Mishra. And I manage Investor Relations for the company. So welcome to today's conference call with GE T&D India Limited management team. As we know, this conference call has been organized to present and discuss financial results for the third quarter and nine months ended 31st December 2019.

Now let me first introduce my management team available on this call. We have with us Mr. Pitamber Shivnani, our new Chief Executive Officer and President. Mr. Shivnani has joined the company with effect from 15th of January 2020. So, we welcome him on this call. Further, we have Mr. Sushil Kumar, CFO, sitting with us. Moreover, we have Mr. Sandeep Zanzaria, who is our Commercial Leader. We have Mr. Manikapurath Sivaprasad, who is our Operations Leader. Moreover, we have Mr. Manoj Prasad Singh, Company Secretary; and Mr. Anshul Madaan, who is our Communications Leader.

Please note that this conference call is scheduled up to 5 PM. I hope you would have received the investor and analyst presentation and read the disclaimer as per Slide 2. I would now request Mr. Pitamber Shivnani to begin this conference call, highlighting key events of the quarter. Thereafter, Mr. Manikapurath Sivaprasad will be presenting slide on operations and execution. Then Mr. Sandeep Zanzaria will give an update on order and market. Followed by Mr. Sushil Kumar, who will be speaking on financials.

I will now invite Mr. Shivnani to begin. Over to Mr. Shivnani.

Pitamber Shivnani: Thank you, Suneel. Good afternoon, ladies and gentlemen. Thanks for joining the call. I would like to start this call by giving you a brief overview on last quarter. And then I would request my other colleagues present here with me to go through the details.

The grid market continues to be stable at approximately US\$ three billion. In quarter three of financial year 2019 and 2020, we booked orders worth Rs. 1,250 crores versus Rs. 690 crores that we booked during quarter two of the same year. A part of this can be attributed to renewable energy additions that are creating new opportunities with Green Energy Corridor. We received good number of orders related to renewable evacuation for few major renewable generating states like Gujarat, Rajasthan in last quarter. Sandeep, my colleague, will talk about them in detail later in the call.



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In terms of operation, we did face challenges because of tough market condition and certain projects delays. But still, we were able to maintain the execution momentum and delivered many key projects for our customers in India as well as Bangladesh and Bhutan. Overall, we had challenging quarter financially. Though we have done well on orders and collection, but profitability continues to be low, majorly impacted by execution challenges. Sushil will walk us through the financials.

On the market side, we continue to witness other challenges like liquidity issues, which is leading to delayed project execution. Plus, there is pricing pressure, continues to be aggressive competition, which we have been seeing on continuous basis now. I understand you will appreciate that all these things are not new and rather have been prevailing for a while. We are consistently working on aligning our priorities with business needs and have outlined our priorities for future quarters very clearly.

Increasing commercial intensity continues to be our prime focus, ensuring that we are winning market share with margin levels that we are satisfied with. Operational excellence and execution will remain key to achieve incremental revenues and profit margins. There is a huge focus on Llean within the company. Various measures and initiatives are being taken in order to drive improvements in working capital and drive cost efficiency. In coming quarters, you will see these initiatives taking center stage in our bid to improve operations from a margin standpoint.

With that, I will hand over to my colleague, Siva, to talk on operational highlights of quarter three.

M. Sivaprasad:

Thanks, Pitamber. And good afternoon to all of you. So we had various challenges in the project execution last quarter, mainly due to the external factors. However, the team has been able to deliver many critical projects, and I will take you through the brief highlights.

We have commissioned 400 kV and 220 kV Power Grid substation in Bhuj, Gujarat, which is a high priority project for renewable evacuation. We have also commissioned 220 kV AIS at Rejinagar for West Bengal Electricity Board. 400 kV GIS for Wangtu at HPPTL. We have also commissioned 400 kV GIS substation at Prithala, Haryana for Sterlite Power, which is one of the largest TBCB projects under execution, in a very short time and before schedule. Commissioned 220 kV AIS substation at Motipur for Bihar, 400 kV AIS substation at Bibiyana for Bangladesh, L&T Power. And then we have also commissioned 400 kV Inter Connected Transformer and 132 kV GIS substation for hydroelectric plant in Bhutan. So we continue to deliver critical projects across India and neighboring countries, and the focus continues on delivering our commitment to the customers.

Thanks and over to you, Sandeep, for Commercials.

Sandeep Zanzaria:

So thank you, Siva. So as Pitamber has said that the quarter three of 2019-2020 was primarily driven by TBCB market as well as part of the renewables market. And we had quite a good success in TBCB as well as the renewable market. So we could win a deal from Sterlite, quite a big one



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for the Green Energy Corridor for a 765 kV GIS extension at Vadodara, and 765 kV AIS at Lakadia, along with shunt reactors. This is the first 765 kV GIS in private sector under a TBCB scheme, one that the company has won.

And for JKPDD, we have been discussing for past few quarters where we were the lowest bidder. And finally, in the Q3 we have been able to secure the SCADA ADMS project from Jammu & Kashmir. The company has also secured a 765 kV GIS extension under TBCB from Phagi. So this is the company's first success for 765 kV GIS from Power Grid. So we already have some 765 kV GIS under execution, but from Power Grid this is the first contract.

And then, again, continuing the success with other developers, apart from Sterlite and Power Grid, the company has won the package from Adani TBCB for Khetri as well as the 765 kV shunt reactors at Banaskantha. I think with this, this is the fourth deal -- fourth or fifth deal with Adani what we have won for the ongoing year in TBCB projects.

Then we move to renewable sector. So under solar, the company has secured two major orders from Azure and Avaada. So now the megawatt scale of solar project is increasing, for example, 600 megawatt or maybe 1,000 megawatt, there is a 400 kV or 220 kV evacuation need. So a new market is getting developed and the company has achieved a good success in these projects as well. And continuing the success of the automation business, the RT DAS for 623 towns project what we have won for UPPTCL for five DISCOMs which are there. So, mainly the success is driven by automation, TBCB and renewable space for the company.

If you look at the order intake for the three months, definitely it is down as compared to the third quarter of 2018-2019. The third quarter of 2018-2019 was primarily driven by state utility, which was big in numbers like we had added from UP, Kerala, Jharkhand, etc. But the market from state was very, very lean in this quarter and also in the ongoing quarter of Q4. But a major part was offsetted by the TBCB and automation business. So the numbers landing is Rs. 1,254 crores for the three months, which is there.

And if you really compare in the nine months, apart from Rs. 690 crores of Q2, the company has been able to secure about Rs. 1,254 crores, so it was like a bounce back into the market, which we had. And as Pitamber said that the market size remains stable and the order backlog remains at Rs. 59.6 billion, which is close to about 1.5 years of our revenue.

So I now hand over to Sushil.

Sushil Kumar:

Thanks, Sandeep. We move on to the financial section of the presentation. Moving to the sales execution on Page 7. In this quarter, we had a revenue of Rs. 940 crores versus Rs. 1,167 crore in the last year same quarter. So the revenues are impacted by HVDC project, which is under near completion. The impact is about Rs. 65 crores. So last year we did Rs. 84 crore on the HVDC, whereas this year it was only Rs. 19 crore. And the rest of the impact is largely on account of delay



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in the customer projects that Pitamber highlighted, and Siva highlighted, and lower order book for the year.

Similarly, on a nine month basis, we have registered Rs. 25 billion of revenue versus Rs. 33 billion last year. So the impact of HVDC, which is visible on the page there is above Rs. 170 crore and the balance impact is coming due to drop in the revenue, again, for the customer project delay. The strategic decision that we took for the sale of one of the transformer units, and the lower order intake that we had during the year.

Moving to the Page 8, the profit before tax on the next slide. Last year in quarter three we had Rs. 88 crores of profit before tax, whereas in this year quarter three we have declared about Rs. 49.8 crores of loss before tax. So the quarter was challenging here due to many accounts. Firstly, the FOREX, which is more of timing in nature, where we had an impact of about Rs. 11 crore. Though we have the exposures duly hedged, but accounting-wise we have to take charge on account of mark-to-market front for our FX exposure.

The second being the true-up of IL&FS related exposure that we have communicated in the earlier quarters. The third is the pricing pressure that we have seen in our backlog leading to the lower margin realization, again, the impact of product mix traded during the quarter. And the last being the reassessment of the inventory carrying cost of the transformer unit being divested.

So on a nine month basis, we declared a loss before tax of Rs. 121 crore. So this had an exceptional onetime impairment of the asset of the transformer manufacturing facility to the extent of Rs. 54 crore. Without the exceptional items, we had an operational loss of Rs. 67 crore. So impact is coming from the quarter three, the three points I highlighted earlier. And also, in the last quarter we highlighted one-off operational items of the LD for one of the projects and IL&FS provision of Rs. 7 crore done in the earlier quarter.

Now moving to the overall financial number on Page 9, these are again, the published numbers with the stock exchange. The revenue is lower by 20%, resulting into an operating loss of Rs. 31 crores. The one number I would like to highlight on this page is about the net borrowing position, which is now at close to Rs. 335 crores, net of cash with us, compared to roughly Rs. 428 crore end of September. So we have in a way improved about Rs. 100 crore in this quarter through cash collections that we had also highlighted and aimed in the last discussion we had with you.

So we will continue to work in this direction. With this, we will open up for questions.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the questions-and-answer session. We have the first question from the line of Renjith Sivaram from ICICI Securities. Please go ahead.

Renjith Sivaram:

Sir, regarding this provision, if you can quantify like how much of provisions which have been made in this quarter?



- Sushil Kumar:** Provision for what?
- Renjith Sivaram:** LD related issue.
- Sushil Kumar:** LD issues that I talked about was more from a nine month basis, and this was close to Rs. 25 crore that we highlighted in the last quarter.
- Renjith Sivaram:** Okay. So this quarter, there was no LD related provision?
- Sushil Kumar:** Not that significant. There may be couple of cases, but that was the one-off large project that we highlighted in the last call.
- Renjith Sivaram:** And in terms of IL&FS or anything else, we have done any provision in this quarter?
- Sushil Kumar:** Yes. So if you look at the notes to account, in this quarter we made or trued up Rs. 5.4 crore of IL&FS related provision.
- Renjith Sivaram:** Okay. And last quarter you had mentioned that we had lost some Rs. 100 crore to Rs. 150 crore of revenue due to some client related issues. So, is that issue still continuing?
- Sushil Kumar:** Yes, that continues for the quarter.
- Renjith Sivaram:** Okay. And this is basically what we have made to understand is the Essel project, right?
- Sushil Kumar:** Yes.
- Renjith Sivaram:** Okay. And of the current order book, if you can break up into how much is from solar, how much is grid automation, if you can give a broad percentage wise breakup, it will be helpful. Or if you can give it in TBCIL private SEB?
- Sandeep Zanzaria:** So I think there will be some overlap in numbers, which I can tell you. For example, from solar customers and all, it's like close to about Rs. 175 crores. For private, this includes even the TBCB and also which includes, for example, the renewable customers, etc., it's like close to about Rs. 740 crores, and balance would be around state, and Power Grid put together.
- Renjith Sivaram:** So this Rs. 175 crore is pure solar project, right?
- Sandeep Zanzaria:** Pure solar, it means that the evacuation substation of solars are included, like 220 kV substation or a 400 kV substation, which is required for evacuating the power which is getting generated, which is part of our core business.
- Renjith Sivaram:** So this is solar generation plus evacuation?
- Sandeep Zanzaria:** Yes.



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- Renjith Sivaram:** And the Rs. 750 crore is?
- Sandeep Zanzaria:** That would include, like for example, TBCB what we would have done from Sterlite, Adani, smaller product deals that we have taken from private sector, EPC contractors.
- Renjith Sivaram:** Okay. And how much will be Power Grid in our order book currently?
- Sandeep Zanzaria:** In the backlog or in the order which has just been taken for the quarter?
- Renjith Sivaram:** In the backlog.
- Sushil Kumar:** So in the backlog, the central utilities are close to 15% to 18% of the backlog.
- Renjith Sivaram:** And state?
- Sushil Kumar:** State will be close, in the range of 25% to 30%. So all state and center put together is 40% of the backlog.
- Renjith Sivaram:** And rest will be private, right?
- Sushil Kumar:** Yes.
- Renjith Sivaram:** And what will be the execution cycle for this order backlog which we have?
- Sushil Kumar:** So this backlog is slightly above 1.5 year of our annual revenue.
- Sandeep Zanzaria:** So the orders what we have taken for Q3, you are talking about that?
- Renjith Sivaram:** Of the current order book, whatever we have.
- Sandeep Zanzaria:** So that would be close to, I think, about two years.
- Renjith Sivaram:** Okay. And what is the visibility? For this fourth quarter also do we expect similar kind of order intake? Are you seeing a more subdued environment, how will we look at in terms of 4Q in terms of order intake?
- Sandeep Zanzaria:** So we are looking at slightly subdued as compared to Q3 because not much of an activity is happening, neither at Power Grid nor at state. So the customer end side is like subdued. Probably we are seeing that there's a lot of TBCB packaging, which are not getting announced. So probably, it will be like Q1, Q2, where the ordering is going to pick up.
- Renjith Sivaram:** And sir, lastly if I can. When we look at our raw material to sales, it is at 75%. So that has increased very high. So what is the reason for this increase in raw material to sales, because that is not



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depending on our order book growth, it's largely to do with the kind of orders we are executing. So why it is so high and how do you see this?

Sushil Kumar: For the quarter if we talk about, so compared to last year same quarter there is an increase of 8%. So out of this 8%, about 3% is inventory reassessment that I talked about. About 2% is the project cost overall due to the prolongation of the projects that we mentioned. And the rest 4% is the price and mix. But I will request that instead of focusing on the quarter numbers, just evaluate more on a long-term nine month kind of basis, where the number is close to 71% of cost of goods sold, and the gross profit is 29%. So that more gives the average view.

Renjith Sivaram: So is that kind of a sustainable number, which we should be working at or do you expect this to -
-? What sustainable number which you feel from the current order book, which we can do?

Pitamber Shivnani: So basically, we are working towards reducing this percentage by various actions, like value engineering, sourcing negotiation and lean manufacturing and also taking care of the administrative cost. So our main focus is to reduce the cost part actually going forward with these actions.

Moderator: Thank you. We have next question from the line of Subhadip Mitra from JM Financial. Please go ahead.

Subhadip Mitra: Sir, two, three questions from my side. Firstly, part of the order book, what part of the order book do you see as slow-moving? And also, do you see any possibility of further provisionings from any such troubled projects?

Sushil Kumar: So as we communicated in the last call, we have slow-moving orders of close to Rs. 200 crore, the project is also disclosed and shared with you, it is mainly the Essel project. As of now, that is the main thing. But having said that, we will closely monitor the liquidity position of our project and the customer's project that we have taken. And depending on that, if there is any change, we will be communicating to the team.

Subhadip Mitra: Okay. Secondly, how do you see the addressable market over the next, say, two to three years, whether it's from TBCB or intra-state CAPEX and so on and so forth? And how do you see the market size and market share panning out?

Pitamber Shivnani: So we expect the market to continue at US\$ 3 billion, and we expect there are a lot of packages, direct tenders expected to come from Power Grid and also TBCB packages.

Sandeep Zanzaria: Sandeep here. So apart from that, even the renewable states like Gujarat and Rajasthan will also be going for an increased capacity enhancement in the transmission sector. In the coming year 2021 I think there will be a huge investment plan for Rajasthan, which is getting formulated because of the new policies of renewables they have come out with. And apart from that, we also see other utilities, state utilities also expanding, for example, like Orissa, Assam, Northeast there



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is a lot of investments which are planned on that side. So, market stability point of view, at least for next two to three years, we don't see a challenge. Also that with Leh-Ladakh moving and also with other projects moving, possibly, there will be a big uptick on HVDC also maybe in the coming years.

Subhadip Mitra: So the US\$ 3 billion is the annual market size, around Rs. 20,000 crores, Rs. 21,000 crores. Now of that, your target order inflow would be still around the Rs. 5,000 crore, Rs. 6,000 crore number or how should we look at that?

Sandeep Zanzaria: See, for example, if you today look at the \$3 billion market, there is a number of players which are there in \$3 billion that is like maybe 60 crores, 70 players on a regional basis, etc. So we will be targeting, difficult to give a number going forward, but yes, I think we should be targeting a leadership position in that number, that is the target of the company.

Subhadip Mitra: Okay. Right. Just another way of asking the same question would be, is there any target order inflows that one should look at or a guidance that you would give for, say, in FY21?

Sandeep Zanzaria: We would not be able to give the guidance.

Sushil Kumar: So just one clarification, our order intake has never been to the range of Rs. 5,000 crores, Rs. 6,000 crores. We have historically been in the range, if you look at the average of the last three quarters, it is close to Rs. 800 crores per quarter. So while we work on towards improvement from this number, it cannot be substantially higher than where we are, because the number of Rs. 5,000 crores, Rs. 600 crores is too high.

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

Renu Baid: Sir, my first question is just if you can give some perspective on the working capital, probably I missed the initial remarks. So how has been the working capital situation? And with execution improving in the current quarter, how has the short-term debt on our books moved?

Sushil Kumar: On working capital front, we made a net improvement of close to Rs. 100 crore. So our debt position, if you look at the Page 9 of the presentation, had come down from close to Rs. 435 crores in the last quarter end to Rs. 328 crore in this quarter end. This improvement is driven by better collections and turnaround of inventories. And as we communicated in the last call, we continue to make progress on this area, that is one of our aims. And we aim for like to be debt-free in the financial year 2021. Having said that, every quarter may not be positive to that extend because we may need to invest in couple of quarters to execute our business. But our long-term aim remains to be debt-free by the end of financial year 2021.

Renu Baid: Sure. Sir, second question, if we see, for the last almost two years, our comments on the competitive intensity and pricing has been fairly, I will say, cautious or negative. Now that within, say, at least the transformer market if you see, there has been reasonable amount of consolidation.



A couple of players are out of the market. A number of players are fairly limited in terms of high-voltage, extra high-voltage space.

Similarly, on the switchgear side, we have seen fair amount of market consolidation happening, medium and lower voltage switchgear segment. So what would be our take in terms of the competitive intensity panning over the next 12 to 18 months? And the likely impact on the pricing environment?

Sandeep Zanzaria:

So I think, Renu, what you are saying is right, that maybe one or two players are out of the market. But in the last quarter and in the 2018 results, we have not seen a similar trend coming out, like an improvement in the prices. The prices still, for switchgear and transformer, still remains to be quite competitive. But I think we expect that probably with many packages of TBCB and other with short delivery renewable projects coming in, so on the transformer side we see a slight uptick in the price, price improvement happening. But switchgear and all, because there is a huge shift in the market from AIS to GIS, so AIS still remains a challenging market because of the overcapacity or the over installed capacity in the market.

Renu Baid:

Correct. And Pitamber in his recent comments had mentioned that broadly the outlook is looking at flattish kind of transmission market for the next 12, 15 months. So, when we look at the flattish kind of market environment, it would be a combination of some of these Green Energy Corridor, TBCB and that uptick in the state market which you mentioned. Or there would be any exclusions which could add upsides to this end market growth?

Pitamber Shivnani:

You see, normally, when we see the next year ahead, we see a lot of opportunities. But some of the opportunities get dragged to the next year, actually. So even if today we see lot of opportunities of 765 kV, but it is not necessarily all opportunities of 765 kV of TBCB will get decided in 2020, 2021 actually. So we expect that state utilities and basically TBCB and Power Grid, almost a complete basket of the business may remain at US\$ 3 billion, actually.

Renu Baid:

Okay. Right. And sir, coming on the cost side, two questions here. A, for the current quarter, there was a footnote also which mentioned that there have been ECL provisions for delay in receivables on a stuck project which is stuck for almost 12, 15 months, 12 months now. Now one of your other co-project executor in the recent conference call was pretty confident that the project is very well moving and, I mean, there have been activities and the project should be moving by March.

So if you can give a bit more insight in terms of what exactly is happening on the Essel project? And what was the quantum of ECL impact in the third quarter numbers that we have recognized on our books because of this issue? And is it just more of a timing delay, and when probably things start moving in next quarter or so, could we see a reversal coming back?

Sushil Kumar:

So the ECL provision is in the range of approximately Rs. 5.5 crore. Regarding the project status, what we understand is that it is under the approval from the government authorities. And once that



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approval comes, which is expected in this quarter, then the project will start again with the new sponsors. And we are also hopeful that the approval comes.

Renu Baid: Okay. So probably it's more of a timing matter now that we were within the time zone of delayed payment, and hence we had to recognize it. Otherwise, it doesn't seem to be more of a bad debt provision or any of those elements, right? Or is to the structural risk to the entire receivables as of now?

Sushil Kumar: No. So on this project, as of now we can say that, yes, we hope that the project will move on, and we are also waiting and dependent on the approval of the government authorities. However, as we said, not only for this but the overall portfolio we will continue to assess the project financing of our customers and the liquidity profile thereon. We are very well aware of the liquidity challenges that the companies and specific companies in the infrastructure sector have. And any impact at any point of time then will be evaluated accordingly. But as of now, we are adequately provisioned for whatever is required .

Renu Baid: Sure. And sir, my last question is, if you look at financial 2021, probably this year is broadly done. Just another two more months to go. But given the fact that our market outlook is expected to be broadly flattish, inflows have been a bit weak this financial year, and we have had execution headwinds across projects and on the cost side as well. So does FY21 relatively on now these days looks better off in terms of execution, margin profile? Or you probably see there could be certain headwinds going forward in FY21 as well or probably worst could be behind for the company in the financials there?

Sushil Kumar: So generally we don't give a guidance figure in terms of financial...

Renu Baid: More of a qualitative judgment than numbers. No numbers.

Sushil Kumar: Yes, exactly. So, what I am saying is that we don't give guidance, but clearly our priorities which have been communicated in the last call also are, growing orders, improving cash. So in this quarter if you see, we have done relatively well on these two fronts. And the third point is definitely improving the revenue and profitability, which was a challenge in this quarter. Now you understand this is a long-cycle business and whatever cost and liquidity that Pitamber talked about on the productivity we are working on, there will be quarter-on-quarter improvement on that front and we are working towards that. I believe very difficult to give a guidance, we generally refrain from such kind of guidance in the market. So I am definitely sure the whole team has been working towards improving from here on.

Renu Baid: Sure. Thank you so much and all the best. And just to mention, welcome Pitamber on board.

Pitamber Shivnani: Thank you very much.



- Moderator:** Thank you. We have next question from the line of Abhishek Puri from Axis Capital. Please go ahead.
- Abhishek Puri:** I am just trying to understand, on the gross margin front, if you can separately list out what are the one-offs. So if I am looking at the nine month trend, we are at close to 29% gross margin as against 33% last year. So we are trending at least 400 to 450 basis points down versus last year. You mentioned separately, so if you can just quantify on the one-offs, the FOREX impact. ECL is Rs. 5.5 crore, FOREX is Rs. 11 crores, if I am wrong, and LD is Rs. 25 crores.
- Sushil Kumar:** So, Abhishek, the ECL impact comes in the other expense line item. And same is the case with the FOREX. So those are not the ones which impact the gross profit. On the gross profit side, while we call them has one-off, they are again operational items, not one-off, significant ones that you were highlighting. So in the last call, we highlighted about the LD provision for one of the customers to the extent of Rs. 25 crores. In this call, we have highlighted the inventory and the cost reassessment for the transformer business being divested. And some of the projects cost overruns due to prolongation of the cost point of it. So all put together I would say, is roughly 2% of the gross margin impact in the nine months.
- Abhishek Puri:** And that 2% is all put together with LD and with the cost overheads?
- Sushil Kumar:** Yes.
- Abhishek Puri:** And the reassessment of the inventory as well? Hello?
- Suneel Mishra:** Just hold for a second, Abhishek.
- Abhishek Puri:** Sure.
- Suneel Mishra:** So there was an announcement happening, so we just had to put you on mute. Yes, you are right, the 2%... you need to hold for one more minute please, sorry for the interruption.
- Sorry, Abhishek. So all put together 2%, these one-off margin impact, and rest 2.5% is the pricing pressure and the mix of projects in the portfolio.
- Abhishek Puri:** Right. Okay. That's quite clear. In terms of the opportunity size that you spoke about when we look at the Power Grid investment approvals, they are down very sharply in the last two years to almost Rs. 3,500 crores, Rs. 4,000 crores on an annual basis. Whereas in the current financial year, FY21 or FY20, they have increased sharply to about Rs. 11,000 crores to Rs. 12,000 crores, including some of the TBCB bids that they have received. So from a Green Energy Corridor perspective, are you looking at better opportunities on this \$3 billion number being a standard number every year or can it move up and down?



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- Sandeep Zanzaria:** I think, definitely this is an assessment, but this can move up and down going forward, depending upon the maturity and the timing the projects are coming. Because at times we have seen that in TBCB projects also, after the projects have been declared, and finally the bids get awarded to these developers, the time cycle sometimes exceeds like about 8 to 12 months also. So we still wait and see. For example, the cycle which it takes for qualifying of the bid and then the bid is benefitting and ROA happening and things like that.
- Abhishek Puri:** Okay, fair enough. And lastly, in terms of working capital, the reduction of Rs. 100 crores is largely due to better collections. There is no payables that have increased for you in the current quarter.
- Sushil Kumar:** So we work on all the fronts. I don't have the numbers between payables and receivables right now but largely it is collections from the accounts receivable.
- Moderator:** Thank you. We have next question from the line of Bhavin Vithlani from SBI Mutual Funds. Please go ahead.
- Bhavin Vithlani:** At the outset, I would like to welcome Pitamber on board. I also had a few questions, one is a clarification from the earlier question, because you mentioned earlier on the gross margins, there is a 2 point impact due to inventory adjustment of lining and 2 point impact due to cost overruns, which means a 4 point impact. I wanted to clarify on this.
- Pitamber Shivnani:** Your question is for the quarter or for the...?
- Bhavin Vithlani:** Yes, for the quarter. For the quarter, where you mentioned 8 point decline in the gross margins and you said 2 point is inventory adjustment for lining and 2 point is the impact for the project cost overruns.
- Pitamber Shivnani:** Yes, you are right.
- Bhavin Vithlani:** So it's totally 4 points?
- Pitamber Shivnani:** No, I will explain again. I said 8 point of change, 2% is related to the inventory reassessment, realizable value reassessment. 2% roughly is the project cost overrun due to prolongation of the project. And the balance 4% for the quarter is due to the price and the mix.
- Bhavin Vithlani:** Sure. Of which you said price is 0.5 points?
- Pitamber Shivnani:** No, I said balance 4% is combination of the price pressure that we did talk about in the earlier call and in this call. And the mix of the portfolio, the low-margin projects getting executed in the quarter versus the high margin projects.
- Bhavin Vithlani:** Sure. Could you talk more on the export side, what's been the export during the quarter, nine months as a percentage of sales or Y-o-Y growth? And how should we look at exports going



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ahead? Because in earlier calls you mentioned about opportunities opening up in SAARC and Africa and some export opportunity that you see in Latin America?

Pitamber Shivnani: So in this nine month period, the export revenue is close to 17% of the total revenue that we traded. This is higher than the average for the last year, where we had close to 14%. So we continue to work in the direction of changing portfolio to the export opportunities wherever we can. I will let Sandeep talk more on the SAARC opportunities. But it's a continuous process of shifting to the export market realizing wherever we can the better margin export of our assets.

Sandeep Zanzaria: So I think that the SAARC opportunity, Bhavin, we had some very large packages in Bangladesh where we had participated. And there were sizable packages. So they were looking, like for example, overall volume was close to about \$300 million to \$400 million. And we had participated in consortium with one of the Indian partners to bring competitiveness. But unfortunately, the local companies along with Chinese consortiums have been successful there.

But of course, that has happened in this quarter, the bids have opened in this quarter and not in the last quarter. But that was like we were trying to increase our footprint outside India which was there. But in the last quarter, definitely, on the grid automation side, we made a big breakthrough of a not a very large project, but a reasonable sized project in Nepal that was there. But our consistent business of product in the Africa market or Latin America market, that uniform business remains as it is. So there is, I would not say that there is any positive or negative disturbance in that side.

Bhavin Vithlani: Understood. And the last question is one of the EPC companies in their earnings call spoke about significant opportunities coming up by the SPCs and the STATCOMs where they guided that fiscal 2021 and 2022 could see large ordering. Any color from your side on this would be helpful.

Sandeep Zanzaria: Yes, definitely with renewable projects getting added, the requirement of these type of technologies will be mandatory in order to balance the grid. So I think we see the combination of STATCOM and TCR projects or maybe SPC we can say would be coming up. And these projects are also under our radar, because some I am sure will get directly allocated to power grids, some of it will be through TBCB and also some of it will come through the state. But we are constantly monitoring these projects. But time line still remains a challenge, but definitely it's not in the next year, one year down the line, definitely it's going to be a sizable market.

Bhavin Vithlani: How large could the opportunity be?

Sandeep Zanzaria: Maybe if I try to put everything together, whatever we have on our horizon, it might be in the range of about total opportunities put together what we foresee today it's close to about between \$300 million to \$400 million.

Moderator: Thank you. We have next question from the line of Ashwani Kumar from Nippon India Mutual Funds. Please go ahead.



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Ashwani Kumar: My question to Mr. Pitamber is, what are the fundamental steps being taken to really enhance the turnover of the company? Because for a very long time you have been struggling between Rs. 3,000 crores and Rs. 4,000 crores per annum. And there are a lot of adjustments which are adjustments in the sense write-offs which are happening. So what are the clear steps which are being taken to really enhance because when we look at the other companies in the same sector, although India is growing slowly and in some cases negative also, what is the real step which the company is taking to really take it to the next level?

Pitamber Shivnani: Yes. So basically, we are working towards the cost side in order to be more competitive. So that is why we are taking up value engineering, design-to-value basically sourcing negotiation, Lean administrative so that we are more basically competitive in the market and are able to grasp more order intake. That is the steps we are taking. And then we are also working towards Lean concept on manufacturing side, that will enable us to be more competitive and get the better market share actually.

Ashwani Kumar: That's right. Sir, I mean, in terms of exports, even, I mean, this is such a small company in terms of total size. So if you are doing 17%, if it is Rs. 500 crores, Rs. 600 crores, Rs. 700 crores, slightly more Rs. 800 crores, probably. Now in a situation when the parent company also is in trouble, the parent shareholders also are in trouble, this will at some point in time offer you a bigger opportunity than this \$200 million, \$300 million, \$400 million. So what is the real strategic thinking towards exports? Because you can raise it to Rs. 200 crores, Rs. 300 crores, Rs. 400 crores, but the real opportunity could be bigger. So can you elaborate on this, sir?

Pitamber Shivnani: Yes, we are also looking at the various product lines where we can enhance export and if we can get the additional markets, actually. So we are getting lot of help on that from our global colleagues, actually, and we are working on that.

Ashwani Kumar: And if you could just spare a minute on services business. How big is the opportunity? And how much you are into it today. Because your competitors are taking, although they have a difference, slightly different product profile, but they are using services business also as a tool, so if you could help me understand that?

Pitamber Shivnani: Sushil, can you reply on service business?

Sushil Kumar: Services share is in the range of 6% to 7% of total for us.

Ashwani Kumar: Yes.

Pitamber Shivnani: So I think for service business, probably Indian market, so we are constantly tracking our installed base of service market. But when we come to, for example, if we really look at our installed base, which is primarily driven by utilities and customers like which are state-oriented. So they have a tendering process under the services market as well. So probably, GIS, etc., where GIS or AIS solution where the components or where the service can be given only by OEM is a market which



we constantly track and then we work with our customers. But apart from that, for example, in like transformers, etc., the market is open and then anybody can quote for anybody's transformers for servicing, etc. So whatever is the service potential, we have a dedicated group for service, and it is completely we are exploiting.

Also in terms of growth of service business, we are coming up with newer solutions like APM, which is like asset performance management to digitally analyze the asset and then offer solutions of basically timely maintenance, predictability. So the digital solutions has already been launched and we are working with some two or three important customers for a large opportunity for service. Once that comes in, then that can be expanded to other customers as well.

Ashwani Kumar: Sure. What kind of time frame do you see basically for all the initiatives which you are taking to be reflected, let's say, in your perspective?

Pitamber Shivnani: So I think that, for example, 2020-2021 should be a time frame where we should be having at least one to two deals of APM coming our way. And the target is to showcase those models and then expand the APM offerings to other industries or other customers as well. So the target is to stay focused on order in 2021 and deliver the solutions for this to be scaled up in a bigger way.

Moderator: Thank you. We have next question from the line of Renjith Sivaram from ICICI Securities. Please go ahead.

Renjith Sivaram: Sir, most of my questions have been answered.

Moderator: Thank you. We have next question from the line of Bhavin Vithlani from SBI Mutual Funds. Please go ahead.

Bhavin Vithlani: This question is more on the ongoing virus issue with China. And there's nothing on the engineering side that can come without the components from China. But do you see a disruption on the supply chain side if this issue elongates? And are you also looking at alternative options given that some of the TBCB orders that you have taken are with stringent time lines?

Sushil Kumar: Bhavin, it's a bit early to comment. But we are still assessing the situation. And we do have some of the components being imported from China, but it's early to comment thereon.

Bhavin Vithlani: Would you have an alternative source that if these don't come from China, then quickly in a nimble footed basis, you can source from other markets where these are present?

Sivaprasad: Bhavin, I think for certain components, definitely, there are more than one sources and some of these sources are located outside of China. But for some components, definitely we are dependent on Chinese supplier. So we are still assessing the situation as of today. It's early time to tell, for example, when the recovery happens. But primarily, the teams and the factories are assessing this situation in totality.



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Moderator: Ladies and gentlemen, that was the last question. I now hand the floor back to Mr. Suneel Mishra for closing comments. Sir, over to you.

Suneel Mishra: Yes. Thank you Bikram. Thanks, everyone. On behalf of management, we thank you to attend this important conference call and if you have any questions, then please feel free to either contact me or to our communication leader, Mr. Anshul Madaan. Thanks, again.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of GE T&D India Limited, that concludes this conference call. Thank you for joining with us. And you may now disconnect your lines.