February 10, 2023

BSE Limited
P.J. Towers
Dalal Street
Mumbai 400 001
(Atten: DCS Listing)

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor
Plot No. C/1, G Block
Bandra-Kurla Complex, Bandra (E)
Mumbai 400 051
(Atten: Manager Listing Department)

**Ref: BSE Scrip Code: 543187, NSE Scrip Symbol: POWERINDIA**

Dear Sirs,

**Subject: Transcript of the conference call with Analysts/ Investors held on February 6, 2023**

Pursuant to Regulation 30 and 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the transcript of the conference call that was organized with the Analysts/Investors on Monday, February 6, 2023 and the same can be accessed at https://www.hitachienergy.com/in/en/investor-relations/analyst-section

Kindly take the same on your records.

Thanking you,

Yours faithfully,
**For Hitachi Energy India Limited**
(formerly known as ABB Power Products and Systems India Limited

Ammatanda Chinnappa Poovanna

Digitally signed by Ammatanda Chinnappa Poovanna
Date: 2023.02.10 17:56:03 +05'30'

**Poovanna Ammatanda**
**General Counsel and Company Secretary**

Encl: as above


**Hitachi Energy India Limited**
(Formerly known as ABB Power Products and Systems India Limited)

**Registered and Corporate Office:**
8th Floor, Brigade Opus, 70/401,
Kodigehalli Main Road, Bengaluru – 560 092,
Phone: 080 68473700, 080 22041800
CIN: L31904KA2019PLC121597
**www.hitachienergy.com/in**

# Hitachi Energy India Limited
# Q3 FY23 Analyst Conference Call

**February 06, 2023**

**Management:** **Mr. N. Venu – Managing Director & CEO, Hitachi Energy India Limited**

**Mr. Ajay Singh – Chief Financial Officer, Hitachi Energy India Limited**

**Mr. Poovanna Ammatanda – General Counsel & Company Secretary, Hitachi Energy India Limited**

**Ms Manashwi Banerjee – Head, Communication, Hitachi Energy India Limited**

**Moderator:** Ladies and gentlemen, good day and welcome to the Hitachi Energy India Limited Q3 FY23 Analyst Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. N. Venu – MD and CEO. Thank you. And over to you, sir.

**N. Venu:** Thank you, Aman. Good evening, ladies and gentlemen, and thank you for joining us. I hope you're all keeping well. We have published our Q3 Results on the stock exchanges and we have also uploaded the presentation which we are going to use for this call. In the next 20, 25 minutes together with our CFO, Ajay, we would like to take you through that, and thereafter we'd like to take your questions in that.

With me in the room today, I have the CFO – Ajay Singh, and the General Counsel and Company Secretary Poovanna Ammatanda and Manashwi – Head of Communications.

I'm just referring to the slide numbers which I have uploaded in the stock exchanges as well as I'm also sharing with this presentation.

Slide #3, In the quarter ending December 31, we received orders worth INR 1,222.1 Cr, up 31.3 percent YoY. This was a second consecutive quarter of double-digit order growth led by some key wins. From transportation and infra, utilities and industries, customers are understanding the urgency of the pace of change needed to reach Net Zero and carbon neutrality.

So, during the quarter, we bagged a large order for supplying 500MVA 765_400kV transformers and 110MVAR 765kV shunt reactors for establishing links for bulk power transmission in the inter-state green energy corridors that would support renewable energy evacuation. We also received multiple orders for Air-insulated S/S for wind & solar energy projects across the country.

We continue to support the Indian railways with our traction transformers and other offerings. During the quarter, we supplied transformers for the Vande Bharat initiative, Vande Bharat trains, and I am glad to share that it included our first order for V Connected transformers.

We continue gaining momentum in the datacenter and energy-intensive industries with customers seeking reliable power management and energy solutions.

Commodities Price Increase (CPI) coupled with Semiconductor shortage, and rising interest expense had its bearing on our profitability during this quarter. We will talk more during that section.

Profit before tax was INR 13.4 crore. Profit after tax stood at INR 4.6 crore at the close of the quarter. In the following presentation, we will take you through our journey for achieving sustainable growth in a challenging market.

As you can see also, despite a high growth of orders on year-on-year of 31%, we still have almost remain Rs. 385 crores orders where we are L1 and got delayed, we could not complete the necessary paperwork for us to book in the last quarter.

Moving to the Slide #4, "Sustainability through Collaboration." By now, most of you'll are familiar with our 2030 sustainability ambition i.e., we want to be carbon-neutral in our own operations by 2030. In pursuit of our targets, we achieved 100 percent fossil-free electricity consumption in our factories and offices in December 2021. In the last few months, we extended roof-top solar electrification and off-grid solar power for our project site offices cutting down on polluting diesel consumption. We also switched over to environment-friendly Piped Natural Gas (PNG) as fuel replacing diesel for certain energy-intensive processes in our factories especially transformer factories.

We believe that green infrastructure plays a key role in the development to support the growing urban population. To this end, we conducted renewable impact studies for over six industry players, along with national load dispatch centers, for regulating usage patterns across different geographies. Such initiatives provide further encouragement for industries to use green energy for their power generation needs.

Under our CSR initiatives, we provided electric vehicle infrastructure at NIT Warangal and conducted an urban afforestation drive in central parts of Gujarat. as part of our CSR initiatives.

Moving to the next Slide #5, "Noteworthy Steps Across the Spectrum." Hitachi Energy collaborates with customers, partners and policymakers to enable a sustainable energy future and have been progressing towards the commitment. In the last three months, amongst several orders won, we also secured orders for integration of over 1 gigawatt of solar generation capacity into the grid, and some key orders for digitalization of asset management. We also commissioned seven substation projects encompassing AIS & GIS technologies, spanning utilities & industries and also involving in one project a remote commissioning.

As the pace of industry and government events picked up, we returned to our traditional areas such as Innorail, and were active contributors to policy discussions at forums such as Invest Karnataka and India-Sweden Green Transition Partnership for creating a safer, green future.

The policy-driven support for increasing the power generation capacity for renewable energy is expected to be further complemented by the transmission system enabling higher rates of renewable adoption by 2030, which is encouraging for our business in the long term.

The Indian economy, though not immune to the effects of global fluctuations and disruptions, has been resilient in the face of headwinds posed by the pandemic and other geo-political events. However, demand constraints are a major challenge amidst the current environment. Semiconductor chips shortages have further compounded these issues as supply logistics take a hit, especially during a time when industrial activity is still low.

If you see, the generally discussed lead time for chips and electronics has been between 6-12 months, however, we need to also be aware that deliveries are rarely guaranteed. But analysts anticipate some easing of shortage by the end of 2023 considering the workarounds for easing supply chain constraints would start moving. Retail inflation or CPI-based inflation in India witnessed a decline with various containment strategies implemented the Reserve Bank of India to dampen it down further. Despite central banks' & governments' efforts, the impact of inflation remains to affect the commodity price.

While India continues to be one of the fastest-growing economies supported by domestic consumption, the potential conflicts taking place beyond our borders are causing significant economic repercussions worldwide impacting how business operations proceed.

So, as you can see from the slide against this backdrop, among the sectors most relevant to our business, such as utilities, transport, infra, industries, metals, mining hydrogen, there is a steady growth anticipated in the medium-to-long term.

Despite all these developments impacting in the short-term, the horizon looks, in our view, bright with a drive towards energy transition, creating various opportunities for our company portfolio, whether it's products, systems, services and software for us.

Moving to the next Slide #7, "Focus on Future Energy Networks." I'm sure you would have seen this particular information coming out of the Ministry of Power. So, here, energy projects are driving a new wave of growth across India. Amongst several capex focused initiatives, the government has prioritized the integration and transmission of 500GW+ renewable energy in order to bring clean energy to every household and it is enabling the 2030 goal of achieving net zero with a comprehensive plan to strengthen the country's transmission system. This includes an estimate of Rs 2.4 lakh crore to expand its Inter State Transmission System (ISTS) across 26 states and Union Territories, with an additional Rs 2.16 lakh crore needed to develop 268 GW on-shore renewable energy capacity, and Rs 28,100 crore for 10 GW offshore wind energy capacity.

Looking ahead towards 2030, when these projects are expected to come to full fruition, India is set to benefit from significant improvements in both its sustainability target and growing manufacturing muscle on the back of the policies such as the Inter-State Transmission System (ISTS) transmission plan and also the newly announced National Green Hydrogen policy -  a commitment of close of Rs 20,000 crore to boost manufacturing of green hydrogen production capacity of at least 5 million tonnes (MT) per annum and the research and development in this area, which is also announced as part of the budget now.

Ultimately, transitioning into a low-carbon economy through increased penetration of renewables is opening up huge, in our view of potential opportunities for the country, which is encouraging for our business as well.

Moving to the Slide #8, "Growth in Renewables and Associated Transmission Corridors.". During the quarter that ended December 31, the order growth was driven by renewables and transmission, datacenters and industries. As you can see here, it's a broad-based growth cutting across majority of the segments, as we are also talking about in several calls now high growth segments, which is yielding a very good result for us.

Notably, we grabbed some remarkable orders in Datacenter space, which grew by more than 300% YoY during the quarter as we develop our relationship with some of the major players in the country, dealing with the data centers market. Steps towards ensuring data security and stability across all networks, with Data Localization Regulations are supporting the Datacenter operators to build and expand their footprint in the country.

Additionally, India launched 5G technology to further strengthen our digital infrastructure and capabilities. Energy efficiency and reliable power management for power-hungry data centers remain a concern and we are supporting our customer with industrial power and automation solutions.

Renewables and transmission continue to be very important for us. With an estimated demand of 500GW in renewable sources by 2030, India is quickly transforming into one of the world's leading clean energy producers. As I highlighted before, during the quarter, we received cumulative orders for over 1GW of solar integration in to the grid

In order to achieve a carbon-neutral future, governments and industries are looking at decarbonizing through electrification across sectors. Along with these initiatives, Indian Railways has committed itself to target net zero emissions by 2030 and has also committed to modernizing its railway network with electrification projects such as 2 x 25kV electrification of High-Density Corridors. Apart from the Indian railways, looking ahead, 8-10 metro projects are planned to be awarded over the next 12 months for supporting economic growth with sustainable urban mobility solutions.

Given our positioning in these sectors, we are confident to bring home some orders from these upcoming projects.

With all these integrated efforts underway in various sectors towards digitalization, electrification, and the adoption of renewable energy as well as renewable intergation, we are looking at some positive growth on the horizon supporting clean energy systems for India and the rest of the world.

Moving to the Slide #9, "Growth Drivers Maintain Momentum.". We have been talking about the growth drivers of exports and service.

Given the global supply chain constraints, India holds the key to supporting this network with local manufacturing. We have been sprucing up our manufacturing for meeting local and global needs. Our global feeder factories have been gaining ground around the world helping us gradually expand our export markets.

Export is an essential part with our target to contribute around a quarter of the total orders. The 11% year-on-year order growth for our products is a testament to that. Specifically, we have provided components of electric transformers for Chile's public utility, advanced Industrial Systems (AIS) for copper mines in Congo, s/s equipment for Bhutan, as well as other goods throughout the world including emerging markets such as Africa and Asia.

Last quarter, we augmented our manufacturing and we continue to invest in people and technologies. Export has contributed to the growth of our engine with our product portfolio and customer service excellence.

On the service side, orders were steady year-on-year as our either lifecycle service partnerships continue to gain traction from providing first-factory repairs of traction transformers to making successful GCB's overhauling, etc., replacing third-party SCADA and controls to rendering lifecycle cervices orders for grid automation from heavy industry and utility customers. We have effectively provided comprehensive services in various segments. All this will help us contribute to the bottom line as well as build a strong market position for us in going forward in that.

With this I handover to Ajay Singh, CFO Hitachi Energy India Ltd. to walk us through the financials. and I've changed also to Slide #10, Ajay. Over to you.

**A Singh:** Thank you, Venu, and good evening to all our participants. So, this is Slide #10. If you see, during the quarter, the company booked orders worth INR1,222.1 crore, up 31.3 percent in comparison to the same quarter last year. The revenues were Rs.1,041 crores; the profit before tax in the quarter stood at INR 13.4 crore, and the profit after tax was INR 4.6 crore. Operational EBITA stood at INR 29.9 crore in the quarter.

We continued to face chips and electronic shortages, commodity and freight price increases, and foreign exchange volatility. However, with consistent order growth, the order backlog stood at INR 7,231.3 crore providing a visibility of roughly 20-months of revenue.

This year, while we were emerging out of the pandemic after close to two years, we were confronted with a myriad of "interlinked" challenges, as I quote the U.N. chief from his speech at the World Economic Forum, where noted that 'the world is in a sorry state'.

Over the last few quarters, we have been talking about the persistent challenges on the macroeconomic situation but let me take some time to run you through this particular slide a little bit in detail. If you see the particular chart, the margins are fairly consistent, the material cost quarter-on-quarter is hovering around 62%, 63% revenue mark and the personal cost also I will say is more or less steady.

But if you see the chart, that is a YoY bridge on the right hand side, it narrates the story of credible performance in a very, I would say, highly volatile market. Chips and electronics were the leading factors impacting our profitability. As shared before, despite reported lead times 6-12 months delivery of chips and electronics, deliveries remained uncertain and we took tough decisions on price vs faster delivery. Further to this, the commodity price, the FOREX and the interest expenses basically pulled us in this particular quarter as far as the bottom line is concerned.

With a strong cash focus, we are making strategic investments in high-growth segments, which we expect to help us strengthen our bottom line and cement our market positioning in the long run.

**N. Venu:** Thank you, Ajay. Moving to the Slide #12, "Priorities for Purpose Driven Growth in Financial Year '23.".  The world economy is facing as Ajay was talking about a tumultuous time. Navigating through the current chips and electronics crunch and lockdown disruptions poses a difficulty, however, exports and services can still provide growth opportunities. In addition to domestic market, we see a good opportunity on the horizon in our high-growth segments that remain central when it comes to sustainable recovery from the impact of market disruption. We have been working on a strategy to address the imminent commodity price increases by making sure their supply chains are flexible and adaptable enough to handle changes quickly. Additionally, we continue to remain cash focused with the aim of building our people and capacities for greater future success.

And we'd like to close this presentation and open for questions; however, before we start the Q&A, I would like to take a few minutes on the next Slide #13. If you remember, last quarter, we were talking about hosting a physical analyst meet in one of our largest world-class manufacturing facility at Vadodara on March 3, 2023 between 10 a.m. to 3 p.m. And this location is home to our transformers and high voltage factories, as well as our world-class customer experience center energy, technology experience center and training center. So, along with our management team, our global CTO also is joining this, and we will soon open for registration for you to plan your visit.

We look forward to hosting you and meeting you all in person. And I would now like to open the channel for questions. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on your touchtone telephone. If you wish to remove your cellphone request, you may press * an 2. Other participants are requested to use the handset for asking a question. Ladies and gentlemen, we will wait for a moment while the question you assemble. The first question is from the line of from Renu Baid from IIFL Securities. Please go ahead.

**Renu Baid:** So, you have highlighted 500 basis points impact on the EBITDA margin coming in from commodities, semiconductor chips shortages and logistics costs impact. So, broadly, now if you look at the remaining backlog that we have of Rs.7,000 crores plus, what could be the share of those loss-making of low margin fixed price projects, which may continue in the fourth quarter or in the first quarter of next year, which carry lower margin? And by when do you expect the impact of these chip shortages to recede in your operating performance? Basically, when are we expecting operating margins to be back in 8% to 10% EBITDA levels?

**N. Venu:** Thank you, Renu. As a company policy, we don't give exactly our forward-looking statements, but all I can say is that, if you really look at our bridge in the Slide #11, the bulk of that of is almost Rs.30 crores is basically on the chips and electronics shortage, right, because we have a policy of recognizing the revenue only when the revenue happens. While a lot of our manufacturing has completed in these panels, but because of some relays not there, so, we are unable to dispatch those things and able to gain revenue. While the cost has come in already, we were not able to gain revenue in those kinds of things. This particular thing, is a global challenge for semiconductors very focused to the energy sector, especially on that. Even though semiconductors for some other sectors has really improved, but in our things, we are taking a second phase, and we see improvement on those things, but it will be at least in a couple of quarters before it will come back to the normal level what we used to see in that. And when it comes to the low margin, I won't call any low margin or high margin, it's always a mix. And once we have this revenue out, then I'm sure we should be in a position to come back to where we are planning to.

**Amit Anwani:** By when are we expecting the completion of execution of this unfavorable mix?

**N. Venu:** We don't have any unfavorable mix in our portfolio as such. There are a couple of projects where have taken the orders on a fixed term basis and those execution happened and one or two projects remaining, I think the execution is ongoing on that. But, if you really look at our order backlog, bulk of our order backlog has variable contracts, etc., as part of that.

**Renu Baid:** Secondly, you did highlight quite a bit in terms of railway transportation orders coming through… and I think that has been a high growth market for us. Now, there are large Vande Bharat projects coming up for awarding in the coming quarter, so, from this segment of the market, how is Hitachi positioned to garner a reasonable share of their pie? And do you think the capacity expansion which we had done for traction transformers, or a similar portfolio would be for this domestic market opportunity and for exports as well or it's largely domestic-centric?

**N. Venu:** So, on the railways, as we have been talking about is one of our growth segment, we have been continuously looking at opportunities, and also looking to expand our factories, which we have been continuously expanding everything. Today, we have a major market share in loco transformer, EMU transformers or dedicated fleet corridor transformers, etc. The railways have announced a major tenders like a 9,000 hp tender, a 12,000 hp and Vande Bharat trains, EMU trains and we have a quite a big offerings in that. So, each project has quite a large portion of our offerings go into that. So, this is one aspect of that. And in addition to that, we also work very closely for all the metro projects, and in metro projects, we do the track side solutions like a grid integration, etc., on the way side transformers and as well as the SCADA systems. So, there are very, very big opportunities are there. As the railways have announced a large number of loco trains, we are now also looking at further expanding our transformer capacity.

**Moderator:** The question is from the line of Mahesh Bendre from LIC Mutual Fund. Please go ahead.

**Mahesh Bendre:** What we have indicated is that there was a production loss because of the lack of availability of the chips and other parts. So, what was actually a production loss that took place at the sales level, if these things had not come, then what would have been impact on the delivery side?

**N. Venu:** You can see that we have a revenue loss to the extent of Rs.100 crores.

**A Singh:** Thank you for the question. So, in this particular quarter, the impact basically on account of chips shortage is roughly approx. Rs.100 crores, that is we got impacted, and if you see in the bridge, roughly Rs.31 crores is the impact on the bottom line. So, if you would have not had this, probably there would be roughly in the range of 2% to 3% margin would be on the upside compared to what we are having.

**N. Venu:** At the PBT level.

**Mahesh Bendre:** Second thing is that, the logistic cost is also you have mentioned one of the reasons why profits have gone down. So, what we have observed typically now is that most of the companies that are declaring the results, they're actually benefiting, the logistic players have actually gone down on year-on-year basis. So, just trying to find.

**N Venu:** Here is what we are talking about is a logistics cost is, basically, we are talking about the export logistics cost, especially we have NCA as part of our strategy, we have increased our exports over a period of time, the export freight cost has really gone up substantially in many parts, and some of the things we are time-bound, we have to ship those things in a time-bound manner. So, that's where is our logistics cost is coming, while you're true that domestic transportation cost is in the same level or slightly lower than the last year level.

**Mahesh Bendre:** No, I mean, on exports side, we are hearing this from companies, they are benefiting and they're showing that the international cargo has become cheaper compared to last year. So, there is a drop of many companies reporting in the logistic costs, so, we are exactly opposite to that.

**N. Venu:** We can't comment about others, but many of these logistics is our global contract, so, we have very effective systems.

**A Singh:** One thing basically is what you're telling is correct. So, if you see on YoY basis, it is quite visible. But, you are right, if I go quarter-on-quarter, probably the impact has come down, but if you see from YoY basis… you are talking about the YoY, what railways is talking on those lines actually?

**N. Venu:** So, this bridge what you see in Slide #11 is basically YoY.

**Mahesh Bendre:** Sir, when do you think the situation will normalize now, I mean, when chips will be available and the execution will pick up?

**N. Venu:** This was the same question that Renu also was asking about it. While all the actions are there to see that the situation improves, so, we have taken several actions just to narrate, not only talking to the existing manufacturers, but also looking at an alternative supplier, at the same time, we're also looking at slightly modifying the design of our product so that the existing available chips can do that. It's not that all the chips are not available. To give an example, we need 1000s of components to make one a particular relay which is the very heart of the power system, right. In that it goes to hundreds of components chips to be required in that. So, we may be getting 80% 90% of that, but in the last 10% 15%, we are having problems. So, that's the reason all the actions are there. We see definitely signs of improvement from the lead time was six to 12 months and also not guaranteed, I would say. We are having a direct contact with not only our suppliers, but also the end chip manufacturers as well in that. At the global level, we are taking all the actions to see that whatever we plan we could do. On top of that, we are placing advance orders at least one year ahead of the curve. So, all these things in our view should help us to normalize in a couple of quarters progressively.

**Moderator:** The next question is from the line of Varun Basrur from Julius Baer. Please go ahead.

**Varun Basrur:** First thing is, has there been any penalties that have been imposed for short delivery or for short execution? I don't see anything in that PPT bridge on the Slide #11?

**N. Venu:** If you are talking about the LDs ?

**Varun Basrur:** Yes. Any penalty or any liquidated damage, anything that has been imposed in the current quarter?

**N. Venu:** As we have been very proactive with our customers, engaging with them, ensuring that they understand the situation, we are notifying them well in advance, and we are very close to them to see that, we find a workaround solution wherever customers are commissioning something like that, so, taking the existing installations to do that. All those actions are enabling us to be close to the customers and not to levy any penalties at this point in time. Because this is a force majeure, it's not of a delay of any organization or something like that, and customers do recognize, we have notified all the customers, like that this is a force majeure, and they need to recognize that as per the conditions of the contract.

**Varun Basrur:** Second question is, if I see the interest position, it has also increased, whether it's year-on-year or quarter-on-quarter, I'm assuming that part of this is higher inventory. Has there been any other increase in working capital or debt, can you say what is the next debt positions?

**A Singh:** So, the increase in the interest rate is primarily on this bank loans that we have taken during the particular quarter. So, as the interest rates now has increased; it's already around 7% per se. So, that is one of the major reasons where we see there is an increase in interest rate. Other than that, I think it's more or less streamlined. Currently, the debt level of our company has come down; so, last quarter we had closed Rs.315 crores, so, now we are at Rs.275 crores. But during the quarter because of the movement of the working capital requirement, that is what is basically, there's increase in the interest expense.

**Varun Basrur:** Sir, this Rs.315 crores is net debt or it is gross debt?

**A Singh:** Our debt is around Rs.275 crores, so, you can see the net is hovering around Rs.150 crores.

**Moderator:** The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

**Parikshit Kandpal:** My first question is on the railways segment. Besides, so, beyond this traditional railways segment, the new segment which is coming up in 9,000 and 12,000 HP and Vande Bharat, how big a market opens for us if you can quantify in terms of prospects there and what will be the products and services which you will be bringing in?

**N. Venu:** We are talking about around five projects which recently the Indian railways have announced of 8,000 hp, 12,000 hp, Vande Bharat, EMUs train sets. All put together, our accessible market is anywhere between 4,000 and Rs.4,500 crores. And what we are supplying basically in this is we're talking about a loco transformer and that's our major claim in that.

**Parikshit Kandpal:** Out of one lakh crore of ordering, it is expected to be about Rs.4,000 to 5,000 crores will be our addressable market, right?

**N. Venu:** I'm not sure about one lakh crore. I'm talking about the five projects which basically includes 9,000 hp, 12,000 hp, EMU trains, etc., What I told you, does not include high speed rail, does not include metro stations, does not include cross-country, those kind of projects.

**Parikshit Kandpal:** And this will get finalized in the next one year, sir?

**N. Venu:** The OEMs are bidding for it and it will get finalized in the next one year or so.

**Parikshit Kandpal:** So, you will be providing the support bid to the OEMs or once they get the tender and then directly the OEMs will award it to you on a competitive basis?

**N. Venu:** As we speak, we are providing our offers to the OEMs because they need to take our offer as part of the design parameters.

**Parikshit Kandpal:** Are we part of the Siemens win as Siemens got this 9,000 HP… have we given any support bid to that?.

**N. Venu:** We don't comment on a specific project, but you know for all the OEMs we have been actively in discussion.

**Parikshit Kandpal:** My second question on this Kudus Mumbai corridor project. So, any update on the execution, last time you were on the design stage, so, when do we see the revenue start kicking in, if we can get some sense on that?

**N. Venu:** As I told you, these are the large projects, normally the deliveries are in the range of 40 to 45-months and the first 15 months or so, it will be used for the design and doing the power system studies, etc., and then lot of approvals, engineering and simulations, etc., will take place and then the construction will start now soon and thereafter we will see that by middle of next financial year is what we will start seeing the revenues kicking in.

**Moderator:** Next question is from the line of Venkatesh Subramanian from LogicTree Investment Advisers. Please go ahead.

**V Subramanian:** My question is in terms of the opportunities. If I run through the presentation and when we look at what you emphasize in terms of 2030 vision of India Renewable Energy, broadly if I take a five year view on Hitachi Energy, what is the kind of broad growth rate that we can look at, some sort of a guidance, and how much of that would be service revenues as a percentage??

**N. Venu:** I lost you in between, Venkatesh, you are breaking up.

**V Subramanian:** My question is I broadly understand the vision of where Hitachi Energy India is going over the next 10-years, it's a decadal long call. In which if I split it into five years and five years, over the next five years, what kind of growth in terms of top line can we expect approximately over the next five-year period, and what percentage of that would be service revenue?

**N. Venu:** I think, Venkatesh, a very good question. So, let me just put it instead of top line, let me just decode your questions in a two-fold. One is that orders. So, if you really look at our orders, what we are talking about is the market is growing X-percentage, we said, we will grow higher than the market. So, this has been our strategy. And if you really look at our nine months cumulatively orders, and we have been at least more than 100% we are growing on the orders. And we are in a long cycle of converting orders into the revenue. So, revenues will follow after some time, right, in that. So, that's exactly is the thing. Our strategy on securing the order pipeline is, if want to grow cost in the market, if the market is growing x, we want to grow higher than x. And that has been consistently we are demonstrating for last several quarters in that. So, that's number one. So, what are the growth areas? So, one, you talked about the service. We also said, exports. One quarter of our orders will come from the exports. So, which is also orders, we are able to demonstrate that almost in the range of 20% to 25% orders for each quarter we are getting from the exports, and in a couple of quarters down, which also reflect in our revenue mix on that. The third one is service. We also said in one of the calls that service order potential what we have is Rs.2,000 crores in that. So, right now we have a high single digit as part of our service. So, our plan is to take it to a double digit over a period of time. So, this is how the broad growth strategy, which is a broad based and taking care of both domestic market, international market and our huge install base of service which we would like to leverage in that.

**V. Subramanian:** I'm trying to figure out, if the market is growing at x-percentage, so if you believe that the market is growing in a double digit growth rate over the next five to 10-years, we want to exceed that, that would be the right assumption, right.

**N. Venu:** You're absolutely right.

**Moderator:** The next question is from the line of Mohit Kumar from DAM Capital. Please go ahead.

**Mohit Kumar:** My first question is You spoke about making strategic investments. What are the kind of investments you're making over the next three to four years to grow the business, in which products and in which segment, and the capital expenditure if you can put a number to that over the medium term?

**N. Venu:** Thank you for your question. I think we have been consistently saying that, Hitachi Energy India is one of the key markets, not only for the market, but also using our existing manufacturing base to not only cater to the domestic market, but also the export market and the rest of the other things like that. So, this has been our consistent strategy and then we were also living up to the strategy. If you really look at in the last three years, including COVID year, we continue to expand, we built up a new factory for power quality in a Greenfield factory, power quality in Bangalore, and we also set up a dry bushing factory in Vadodara, and we expanded our feeder factories, and we continue to expand those kinds of things today, more than 80% of our global portfolio we manufacture here locally. So, the reason for that is we want to be competitive here, we want to localize the products here and we want to increase our skill sets, not only for the domestic market, but increase the market. So, over the last three years, we spent around close to Rs.300 crores in the CAPEX, and we believe that will continue to be there in the coming quarters, we are looking at expanding in our traction transformer facilities to cater to the new demand coming out of that. So, those things will be as part of our strategy going forward. We continue to expand the new growth opportunities arising out of the transmission systems, etc.,

**Mohit Kumar:** Second question is on the Slide #6. You're talking of 40% increase in production. Is that pertaining to semiconductor supply?

**N. Venu:** Which slide you're talking about?

**Mohit Kumar:** Slide #6, 40% increase in production. What does this signify?

**N. Venu:** On Slide #6, 2023 sees more than 40% increase in the production of semiconductors, not our production, what we are talking about is the industry there. So, how we are going to come out of this is, we also got the feedback from the industry is that they're also increasing the production of that particular area.

**Mohit Kumar:** Last question, Of course, you spoke about intrastate transmission, CAPEX going up to 2.4 trillion. Do you see intrastate transmission picking up and what are the kinds of offerings we have in the segment, is that offering different from the interstate CAPEX?

**N. Venu:** Absolutely, this is very important and this is our core operating, interstate transmission things include HVDC, include FACTS, include start coms and includes 765 transformers and reactors, 765AC transmissions, all these things is part of our offerings over there.

**Mohit Kumar:** Within the state CAPEX, Intrastate CAPEX?

**N. Venu:** Within the state, as you know, some states are going up for the expansion of 400kV substation, 220kV substation, so that is also part of that, but then like HVDC projects, what you're talking about, that is primarily for ISTS.

**Moderator:** The next question is from the line of Priyank Chheda from Vallum Capital. Please go ahead.

**Priyank Chheda:** My question is regarding the transmission project of Leh Ladakh. Is this at what stage, and in case Hitachi goes for it, what can be the opportunity for the Hitachi?

**N. Venu:** A very interesting question. If you have gone through the recent budget announcement, so the budget has provided Rs.8,300 crores grant for this particular project. So, we believe that this will help us to accelerate this project for both HVDC and all of the things. It's big opportunities for us and right now we are working on this to look at various things, including, manufacturing, those kind of things, it's a quite a big project.

**Priyank Chheda:** So, the bids are out for this project?

**N. Venu:** Not yet, there's a consultancy bid they have been asked for it, which we have submitted, but the main bids in our view is that now that budget has given the grant and after that it'll accelerate.

**Priyank Chheda:** So, you mean that this project should be fructified in the current year?

**N. Venu:** Coming year.

**Priyank Chheda:** On overall HVDC order pipeline, if you can brief us on that, because we had envisaged of winning at least one HVDC project every year, how do you see this fairing up?

**N. Venu:** Absolutely, so, we have been talking about previously. If you really look at previously, India is to have one HVDC project for every five or six years, and we said that, we envisage one per year, which is in line with our envision, in line with our thought process is coming out. Now, we see that one project has already aborted last year and now in addition to the Leh Ladakh project, we also see a project of Khavda is coming up, and then another project is also coming very clearly. So, three projects, as we speak, is in a very active stage about to come for a bidding.

**Priyank Chheda:** Last question, in the last call, you had alluded about the royalties fees coming down from the current levels of around 3.5%. If you can help us, where are we in that process and what can be the percentage royalty that we should be paying over the coming years?

**N. Venu:** I don't think we have said that will be coming down but let me just give you an overview and then Ajay will talk about the percentage. As you know, the whole ecosystem of energy transition is really shaping in a very big way. So, that's exactly the reason why we organized this analyst meet in our factory on 3rd of March. If you could take time to attend it, then you will understand how this is transforming in a big way. This needs a lot of investments in the technology standpoint, this needs a lot of investment in R&D, innovation, etc., to bring this technology latest up to date in that, it needs investment. And we believe that by paying the royalty, we are accessible to this latest state-of-the-art technology to be able to support our customers in India. So, over to you, Ajay, on the percentage side?

**Ajay Singh:** On the percentage side, currently, if you see, our royalty expenses have been hovering between the range of 3.5% to 4%, but as we speak today currently, we are at that level of 3.5%.

**Moderator:** The next question is from the line of Anish Jobalia from Greek Capital. Please go ahead.

**Anish Jobalia:** You've mentioned about Rs.100 crores of revenue which we're not able to book in this order. But, if I were to add that Rs.100-odd crores, we have been flat versus the last quarter in FY'23 as well as FY'22. What I'm understanding is that –

**N. Venu:** We are not able to hear you properly.

**Anish Jobalia:** My question that is, you mentioned about Rs.100 crores of revenues being lost in this quarter. But, if I were to add that back to Q3 numbers, so, we are still flat versus the last quarter which is Q2 of FY'23 as well as Q3 FY'22, but my understanding is as I see from the numbers like typically in H2, our execution is better than H1. So, how should we think about, what would be the other factors which have led to the revenue being much more benign then as compared to the order inflow growth that we have already seen in this first time?

**N. Venu:** I think Ajay will also add to this. As you can see, we had Rs.100 crores, so, we would have been Rs.1,141 crores, is compared to the that we are in the range of 4%, 5%

growth. But that's only one, there are also other constraints, etc., we have also very robust revenue recognition policies especially on our imported items, all those things have contributed I think in that, so project-specific for example in those kind of things. So, if really take nine months-to-nine months, and then you can see our revenue, we have a growth of 13%. Yes, it is definitely not as the same level of order growth, but as I told you previously, so there is always a lag from our conversion in order to the revenue, so that is a couple of quarters over there in that.

**Anish Jobalia:** My question is that, we have been continuously now seeing employee benefit expense of Rs.100-odd crores and then there's other expenses of Rs.230-odd crores. So, is it possible for you to define I mean to quantify how much of this say Rs.330 crores is fixed in nature and how much would be variable, like, I'm not talking of the other charges which are subcontract and the cost of raw materials, because they are obviously variable, but within this it would be great if you could quantify between fixed and variable expenses?

**Ajay Singh:** Basically, as you rightly said, employees cost is mostly fixed in nature that we can say, but other than that, I'll say royalty and the group charges, that is more fixed in nature, only variable portion will be basically the freight, power and fuel, that is totally dependent upon basically the volume that we do, and to some extent now that we have increased in the traveling and services for the third-party is one that is basically there, and on top of it, the exchange rate fluctuations also is variable. Other than that, more or less I think it is consistent.

**Anish Jobalia:** One last question, we pay some IT infrastructure fees to our ex-parent which is ABB India. So, I think we are developing our own technology and reduce our dependence on ABB India and not pay that particular IT fee. So, where are we in the journey for that particular expenses actually trickling down to our profitability level?

**Ajay Singh:** So, here on this IT part, yes, we are currently running a transformation project, and we are working on upgradation of STP system. So, right now, we are in the mid of this journey. And for some of the IT services which are taking from ABB, we are having this, we are calling it as transactional services agreement, which we think that it will continue till this year. Our target was to close this as early as possible, maybe in this particular year only, 2023 should be the year where we should come out of this, as we are progressively building our own infrastructure, and we are quite ahead in that particular direction.

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

**Renu Baid:** Just wanted your perspective and developments on the penetration of the industrial automation solutions that we were doing through Lumada platform, so any developments or numbers to share in terms of penetration with the existing installed base that we have in this segment of the business?

**N. Venu:** Renu, thank you for the question. As you know, ever since we become part of the Hitachi, so, we are looking at synergies between Hitachi Energy and Hitachi, and you know that Hitachi has invested quite a big amount of thing on the Lumada platforms, Lumada is one of the leading IoT platforms, so we started offering our enterprise software solutions on Lumada platforms in that. We are doing a lot of pilots in the major industrial customers as we speak, and we are getting, what we call, a couple of wins on every quarter as I talked about in my highlights, you can see some of them, we got it. But at this point of time, as we speak, our digital offerings are a high single digit. So, even though it's a low base, but it's a single digit offerings in that. But, we see a lot of opportunities, a lot of synergies with the various customers, several pilots, we are running with the, co-creating the various opportunities in that.

**Moderator:** Ladies and gentlemen, that would be our last question for today. I now hand the conference over to Mr. N. Venu for closing comments. Thank you. And over to you, sir.

**N. Venu:** Thank you, Aman, and ladies and gentlemen, thank you for your keen interest and taking your time on a busy schedule and attending this call and asking us questions. And as I told you that, we're really looking forward to host you on 3rd of March in our state-of-the-art manufacturing facility. Primarily, this is to take you through how power systems and the various elements of the systems are evolving it and how Hitachi Energy is getting ready in this big transition phase especially on the technology standpoint in that. So, with that, thank you and take care and have a nice weekend.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Hitachi Energy India Limited, that concludes this conference. Thank you all for joining us and you