

May 31, 2023

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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 May 24, 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 Wednesday, May 24, 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)

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
CIN: L31904KA2019PLC121597
www.hitachienergy.com/in

Hitachi Energy India Limited
Q4 FY23 Analyst Conference Call

May 24, 2023

HITACHI ENERGY INDIA LIMITED MANAGEMENT:

**NUGURI VENU – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER**

AJAY SINGH – CHIEF FINANCIAL OFFICER

**POOVANNA AMMATANDA -
GENERAL COUNSEL & COMPANY SECRETARY**

**MANASHWI BANERJEE – HEAD OF
COMMUNICATIONS**

Moderator: Ladies and gentlemen, good day, and welcome to Hitachi Energy India Limited Q4 FY '23 Analyst Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero 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.

Nuguri Venu: Yes, thank you, Faizan. Good evening, ladies and gentlemen, and thank you for joining the call for the analyst presentation. I hope you're all doing well. Today, we announced our results for the quarter 4 and for the fiscal year financial year '23.

So, in the next 20 or 25 minutes, I'll take you through our performance together with our CFO during the period ending March 31, 2023. And I will also take the reference of the slides just for ease of reference. So, I have our CFO, Ajay Singh; Poovanna Ammatanda, General Counsel & Company Secretary; and Manashwi Banerjee, who is Head of our Communications with me in the room today.

So, when we entered the fiscal year in April 2022, we did not have the visibility on the geopolitical tensions in some countries and the impact of COVID, their impact on the global economy parameters, like energy prices, supply chain constraint, nonavailability of some semiconductors, chips, etcetera.

However, as Hitachi Energy, we remained optimistic and focused towards increasing operational efficiencies while expanding our portfolio in high-growth markets and expanding our footprint, expanding our manufacturing footprint. As we navigate through the dynamic headwinds, ~~basically, I wanted to talk~~ ~~about~~ ~~in~~ Q4, especially, we have not only grown in terms of revenue, but also created value for our customers, stakeholders and society with the resilience in that.

So let me take to the slide number three. As we review the quarter, I want to recognize and express gratitude to our most valuable asset, that's our employees because employees have always been the centre of our strategy and our commitment to their safety has been unwavering from offices to factories, to project sites, on-site locations and the return this with their ownership and safety matters.

As a first step to commencing survey and on-site planning, we inaugurated the safety park and commitment campaign at our Mumbai HVDC site, reinforcing our dedication to a secure working environment. As you know, Mumbai HVDC kind of

projects take quite a long time being at the site, it's important that taking care of the people are the most important in that.

We also instituted the electrical safety awareness program across locations. We organized two-day training sessions for employees across locations from Kolkata to Faridabad to Maneja, focussing on safe and healthy work environment, which is our basic licenses to operate. Our consistent efforts were acknowledged and recognized for excellence in health, safety and environment practices by customers and stakeholders in the market across verticals, including renewable mining, mines and ports.

Moving to the next slide. Sustainability remains another priority for us as we continue to take action in this quarter towards our sustainability 2030 goals. You recall our portfolio, be it product, system services and software enable carbon neutral operations of our customers. So that's the reason we are accelerating our own operation sustainability 2030 plan.

At Maneja, our largest manufacturing location that some of you have visited during our last in-person analyst meeting. So, here we have initiated a 950 kilowatt, almost close to 1 megawatt, of planned solar power installation, furthering our pledge to adoption 100% fossil-free electricity in our operations.

Transitioning from diesel to piped natural gas for heating in our small power, traction, and instrument transformer factories have been another step toward minimizing our environmental impact, with a projected reduction of 33% in CO2 emission in our processes going forward.

We have placed sustainability at the heart of our purpose, advancing a sustainable energy future for our partners, customers, and stakeholders and also our suppliers. With all these initiatives since embarking on our journey towards Net Zero back in 2021, we have achieved 45% reduction in our carbon footprint to enable a sustainable energy future, but not only for this generation but those to come in there. So, 45% is a quite substantial across all our 19 manufacturing factories and several project sites, etcetera.

Moving to the next slide where we talk about performance. Performance in this quarter has demonstrated our focused strategy to diversify portfolio and relentless pursuit for improving the bottom line. We have seen a consistent order growth and progressive margin recovery. We remained optimistic and focused towards increasing operational efficiency while expanding our portfolio in the high-growth markets.

During the quarter, we received orders worth around INR1,262 crores, which is on a quarter-on-quarter basis is a 3.3% higher, on a year-on-year basis 20% to almost 21% higher. So mainly driven by utilities, transportation, and industries, while revenue improved to 28% quarter-on-quarter reaching INR1,336 crores for the quarter ended March 31, 2023. And as you can see from the year, the order backlog stood at INR7,071 crores, providing a revenue visibility for the coming quarters.

During the quarter, we continued to face headwinds due to the global chips and electronic shortage, coupled with increase in commodity prices that posed significant challenges impacting our profit before tax. The profit before tax quadrupled to INR65 crores, and profit after tax was up more than tenfold INR50.8 crores over a weak previous quarter.

For the full year ending March 31, 2023, orders were at INR6,817 crores, up 84% from the corresponding last 12 months, while revenue stood at INR4,483 crores, up 14% during the same period. Despite our short-time challenges, we remained optimistic, the high-growth markets remained robust, driven by accelerated energy transition towards renewable and electrification drive.

This shift presents medium- to long-term opportunities in the power technologies, particularly in our high-growth sectors, including renewable, high-voltage DC current, data centres, transportation, industrial applications, and rail transportation segments, etcetera, in that.

Moving to the next slide. We have been talking also during our in-person analyst meet, the energy transition represents one of the most significant opportunities over time. And we are, as Hitachi Energy, championing the urgency and the pace of change needed to reach Net Zero, with our pioneering technology and solutions, whether it is the product, systems, services, and software, we are helping to accelerate the carbon neutral future, improving quality of living for today's generation and those that come. By applying the intelligence of digitalization, we are enabling customers to plan ahead, make better informed decisions and create more value in a rapidly evolving landscape.

During the quarter, we expanded our installed base of digital solutions in the steel industry, demonstrating our commitment to make energy intensive heavy industries more sustainable and efficient. Our core quality solutions have been successfully commissioned across sectors right from cement to mines and ports.

We are taking lead in advancing a sustainable future for all by shaping strategies for the energy transition in our collaboration with customers, partners and policymakers and fostering inclusivity in the industries. We are showcasing our

technological progress at various events, industry-leading events such as ELECRAMA, India Smart Utility Week and gaining industry-wide recognition.

Our initiatives for promoting participation for women in STEM program kicked off its second chapter with another batch of over 100 students. We are seeking ways to replicate and expand this program to further reach and inspire more women to join core engineering fields. Our continued efforts have further cemented our reputation as a reliable partner and helped us in the recognition of Most Trusted Brands of India by Marksmen Group and the Golden Peacock Award for Corporate Governance by Indian Institute of Directors.

Moving to the next slide. This quarter marked a major milestone for us with inauguration of our high-voltage direct current and power quality factory in Chennai. This state-of-the-art facility underscores our commitment to manufacturing advanced power electronics, including HVDC Light, HVDC Classic and STATCOM with our MACH control and protection system.

This factory will serve both the fast-growing Indian market as well as the large global demand for clean energy solutions to integrate renewable at a scale at a speed that is needed. It is the latest HVDC factory built and the world's second testing lab of power quality control solutions.

It will cater to the rising number of high-voltage transmission projects in India and export to some support global HVDC installations. These technologies represent the future of energy transmission, playing an instrumental role in the integration of renewable energy sources, the bulk transmission of clean energy over long distances while also maintaining electrical grid stability. Hitachi Energy India is committed to providing business excellence in energy and power industry. As pioneers in the industry, the company has established a reputation for delivering high-quality products and services that meet the evolving needs of our customers across the segments.

Moving to the next slide. I think this slide you all know better than me, in fact. The Indian economy continues to demonstrate resilience in this fiscal year despite the challenges posed by the COVID-19 pandemic with a gradual spike in cases in several states for a certain time period, but IMF predicts the economy to perform well with several economic indicators looking stronger and healthier. The projected GDP growth for FY '23-'24 stands at 5.9%, and retail inflation has dropped to 15-month low of 5.6% in March 2023, which is a good news.

And the RBI have been maintaining interest rates and working on monetary policy to support the country's growth. Manufacturing Services PMI have remained in the expansion phase in February '23, as you can see from the chart, indicating a

favourable business environment. The cement production has improved for the second consecutive month in December '22, remaining steady there. And power consumption has been an upward trajectory since November 2022, showcasing an uptick in industrial and residential demand.

So, several measures with the support of government have seen the power sector recovering with the financial deficit that helped to 8% during FY 2022. But the rupee depreciation by nearly 7% against USD in the last 12 months has had an impact on import and export. So major factors remained robust. In the face of these macroeconomic factors, our quarter performance demonstrated adaptability as well as the resilience in that.

So, moving to the next slide, where other significant macroeconomic factors that have influenced our growth trajectory have been our high-growth segments. Firstly, renewable, various projects that are installing solar power plants under the 500 - gigawatt renewable generation capacity by 2030 are generating demand for grid integration technologies.

This is complemented by a comprehensive plan to strengthen the nation's transmission system with the green energy corridor to bring clean energy to households and industries have been driving robust growth opportunities for the company during the quarter.

We are already contributing to various projects and have made significant strides in this direction, securing cumulative orders for the integration of over 1 gigawatt of solar power during this quarter. And you have seen that we are almost in the same range every quarter we are contributing over several years. While data centre remains a high-growth segment in our strategy, hereon growth declined in this quarter, with the sheer potential of the market, we do not view this as a persistent trend, and there has been some decision delays, and we expect data centre market to pick up in the coming quarters.

Moving to rail and metro, Indian Railways commitment to achieve Net Zero by 2030, aligned with the electrification of high-density corridors have been another significant area of growth for us during the year and automation and product orders for enhancing metro rail systems performance too have helped strengthen order book considerably in that. So similarly, our segment focus and products, project services mix is going in line with our plan. And same is the case with serving the various sectors in that.

Moving to the next slide, our order mix reflects our diversified portfolio across our installed base and our focus on leveraging our key growth markets and capitalizing on market opportunity. So, we successfully secured key market wins, providing us

with a solid and steady momentum, especially in services and exports. You recall our export strategy as well as the service strategy. We are consistently performing in line with that strategy.

Service orders have continued to hold a positive trajectory with a certain key wins from a national utility for life cycle service support and remote operations for HVDC stations. We have also won bushing orders for both the national and private utilities demonstrating our strong position in these sectors, notably our digital offerings, RelCare orders from data centre customers and the transformer digitalization adds digital key wins.

Overcoming logistical and other challenges, we successfully commissioned remote operations and implemented projects such as the commissioning of 132 kV transformer bay at Udaipur Cement Works and successful replacement of 24 numbers of disconnector at Shannon Power site, this project helped continue with the growth momentum.

We also achieved our highest ever export orders, a milestone, and a testimony of our investments in augmenting our manufacturing footprint in the country. During the quarter, exports contributed 19% of our orders, were basically from the Middle East, Africa and Japan. Some of the key wins during the quarter was 72.5 kV with Circuit Breaker from Sweden for Saudi Arabia and order from 420 kV instrument transformer for Ministry of Energy by Iraq, and 72.5 kV, this Circuit Breaker for multiple projects in Switzerland and Sweden, etcetera.

We have been boosting our manufacturing capacity, understanding the evolving market dynamics, and proactively identifying the emerging demand. Today, 80% of Hitachi Energy's portfolio is locally manufactured in India, and to better serve our customers across locations and broaden our market reach, both the domestic and global markets, we have been enhancing our production capacity with our global feeder factories in that.

With this, now let me hand over to our CFO, Ajay Singh, to walk us through the financial slides, starting from the next slide. Over to you, Ajay.

Ajay Singh:

Thank you, Venu, and good evening all and hope you all are doing well at your end.

Well, we have been navigating the unstable market conditions using our long-term plan, which was set in place to counteract the global macroeconomic challenges. So, what we see during the quarter, the company booked orders worth INR1,260 crores, a modest increase of 3% in comparison with the same quarter last year. Revenues basically grew by 28% to INR1,336 crores, and the profit before tax

however showed a positive impact at INR65.1 crores, and profit after tax was INR50.8 crores over a week previous quarter.

Operational EBITDA stood at INR76.5 crores in the quarter mainly because of some of the factors that impacted last quarter got a bit loosened up. Even in the face of persistent difficulties, we have performed well, and we are optimistic of stronger growth in the long term. And with the consistent order growth, the order backlog at this stage stood at INR7,070.9 crores to be precise providing us a visibility of 20 months of revenue.

Moving to the next slide, Slide 12. If you see here, we have been discussing the ongoing macroeconomic issues over the past several quarters. And as highlighted in the previous quarter, I would like to share and update on how the numbers were during the last 3 months. Let me take a moment to walk with to the specific slides in further detail. The table gives you a clear picture of our relentless pursuit of improving the bottom line and a progressive margin recovery.

If you see the overall structure is compared to the last quarter, our structured material cost based on the product mix that we delivered in this particular quarter was 65%, slightly higher compared to the previous quarter. But if you see the expenses, we are quite there where you see there's a decline in the personnel expenses, overall expenses on a percentage terms, it has come down from the last quarter.

The chart below, if you see the table that features the bridge breaking down the chain, the PBT year on year. The main element that's affecting right now profitability are the chips and electronic shortage and which is followed by some additional commodity prices and other expenses, if I compare Y-on-Y. With this, I'll hand back to Venu for the closing slide.

Nuguri Venu:

Thank you, Ajay. Appreciate very much taking us through the financials, and we talk more during the question and answer. So let me talk about the last slide before we open the line for the Q&A.

As we look ahead for a new financial year, '23-24', our growth levers remain consistent, and we will continue to focus on our high-growth segment strategies that align with our core competencies and evolving needs of the sector. We are developing and deploying technologies that are needed to help make the world's energy systems, more sustainable, flexible, and secure by building capabilities of skilling our people and investing in capacity building to support our growth trajectory.

We are well positioned to capitalize with bringing operational ability and productivity by continuously optimizing our operations. We delivered significant customer outcomes of value creation and real impact while as a strong organization. We will continue to drive cash over revenue, ensuring stability and resilience in our business. With the eventual easing semiconductor crunch, as a supply of these critical component normalizes, we expect to see a positive impact on our productivity and bottom line.

Above all, as the partner of choice, together with our customers and partners, we collaborate to deliver innovative solutions combining world-class digital and energy platforms. Our purpose is driven by advancing a sustainable energy future for all, and we look forward to a productive and successful financial year '23-'24. Reflecting our performance this quarter, I would like to repeat the words of Peter Drucker, the best way to predict the future is to create it. And that's precisely what we are doing here, shaping a sustainable energy future, not only for today's generation, but those to come.

As I conclude my presentation, I would like to share that Nishi Vasudeva has resigned as a Non-Executive Independent Director with effect from May 24, 2023. Meena Ganesh was appointed as an additional director in the capacity as a Non-Executive Director term of 5 years with effect from today.

And she is the Chairperson and Co-Founder at Portea Medical and Services, serves on the Board of Pfizer, P&G Health, Axis Bank and many other boards. The appointment is subject to approval of shareholders of the company. With her wide experience from education, retail and also as an entrepreneur, adviser and investor to several recognized start-ups, we are confident that Meena Ganesh will bring invaluable insights to the Board and guide us on our journey towards a sustainable energy future while creating value for our stakeholders.

So, with this, I would like to close my presentation, and open the channel for the questions. operator, please...

Moderator:

Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star & one on their touchtone phone if you wish to remove yourself from the question que you may press star & two. Participants are requested to use handsets while asking the questions. Ladies and gentleman, we will wait for a few moment while the question queue assembles. Ladies and gentlemen In order to ensure that the management is able to address the questions from all participants in the conference please limit your questions to 2 per participant. Should you have a follow up question we would request you to rejoin the question que. The first question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Congratulations on a decent quarter, sir., My first question is on the Services segment. We had a plan of increasing it to INR2,000 crores, and are still somewhere around like a 6% mark this quarter is about INR78 crores or INR80 crores. So how has been the journey progressing on this front?

Nuguri Venu: What we have told you that there was a plan where we have installed our installed base. And since we are present here for more than six decades. So, we have been present here and creating a lot of installed bases, and we have that potential of INR2,000 crores, what you said. We also said that that has got a longer horizon. And whereas while the plan to create that eventually, that is getting there.

You won't see the traction now and also next year, but we're creating a lot of productization of our service offerings, digitalizing of our service installed base. So, a couple of examples which I talked earlier is exactly in that direction . So more and more the service offering we are productizing we are digitalizing so that our customers are able to quickly get into those kind of things in that.

If you ask me, the plan is a work in progress. It's going in the right direction, and we see a lot of traction even though at the low level, we see a lot of traction with the various industries across wherever we have installed base.

Parikshit Kandpal: And my second question is on orders. We have been averaging in the base orders at about INR1,000 crores to INR1,200 crores per quarter. Now we have been highlighting various drivers, decarbonization, sustainability renewables. When do you think on these 3 segments like utilities, industries and transport infra, getting ready where we'll see a marked shift or reset in these inflows. So how far are we in the future given the outlook we have been talking about in terms of demand drivers.

Nuguri Venu: You will have seen my slide where we started last year, we have grown the overall order at 84%, right? You know that the market is not growing at that level. If you really look at our strategy, since we have been focusing on these high-growth segments, the demand drivers. And we're taking a lot of upfront actions. We are also investing upfront. So that's the reason we said our aim is to grow higher in the market, and that's exactly what we have been growing it much higher in the market.

So, if you really look at our quarter-on-quarter, while we will be focusing on the base orders, but the large orders have a timing issue, larger also has various other elements to come in that, right? In my view, I think we are trending as per our strategic direction that grow higher in the market. We continue to leverage all those things and grow that. And you will see like last time, what you have seen, you will also see that growth coming in exactly how it came in the last year, right? We drive on a monthly basis, weekly basis, quarterly basis on the base orders, we drive that,

and that's extremely important for us to bring stability in our revenue growth. And at the same time, the large orders, or mega orders where we are focusing on that, which will come as for the timing of it.

Parikshit Kandpal: Okay. And then sir last question, sir, on this Vande Bharat opportunity, which you highlighted last time about INR5,000 crores. Just wanted to understand, is there any progress there? And whether this will be totally a new opportunity in terms of electrification in the lines we totally separate. So how will this opportunity arise for us?

Nuguri Venu: Again, Parikshit Thank you for the question. As I told you last time, we have 5 large railway tenders. One is a 9,000 horsepower, another 12,000-horsepower and then train sets, all those things, some of them have already finalized to some OEMs. And we are in discussion with them to supply our technology, our traction transformers with them. Those discussions are going on the same. We believe that those things and opportunities are intact for us. We are deeply engaged with the various stakeholders in that particular space.

Parikshit Kandpal: So, in next year, in FY '24, something will materialize or it's more like FY '25?

Nuguri Venu: Some, I think, some might materialize in the last part of this financial year.

Moderator: Thank you. The next question is from the line of Mohit Kumar from ICICI Securities. Please go ahead.

Mohit Kumar: Good evening sir and thanks for the opportunity My question is, sir, of course, we had a very good order inflow, but margins have been subdued for the last 4 quarters. Of course, in Q4, we have done better. But what is your aspiration of EBITDA margin? And are you more confident of achieving that EBITDA margin based on the current order book?

Nuguri Venu: No. Sorry, come again, your line was cut.

Mohit Kumar: FY'23 was a good year for the order inflow, but margins have been subdued. Of course, Q4 you have done better. But what is our aspiration of EBITDA margin going forward? And are we more confident of achieving that EBITDA margin based on the current order book?

Nuguri Venu: Thank you, Mohit, for your question. We have been very consistent saying the last whole of last year, the main challenges we faced is a huge challenge of the supply chain constraint, especially in the nonavailability of chip signed electronics, which is required for grid automation products.

We have been also very vocal in telling you that this problem is not going to go away shortly, there is a long-term effect. And that's what we have seen in the whole of this quarter. And in addition to the supply chain constraints, last year also was one of the most challenging commodity super cycle as we call. So that effect also has kicked impact. So having said that, the challenge of the chips and electronics, we have not overcome.

We are seeing some visibility but still not overcome yet, okay? In our estimate, it may take another quarter or 2 quarters in that range before it becomes normalized because there are huge backlogs, so that's what is the thing in there. But barring that, I think we are very confident of our strategic margin accretion progressively going forward.

Mohit Kumar: Understood, sir. Second question is on the high-speed rail ordering now that EPC is largely over. Are you expecting the high-speed rail equipment ordering to happen over the next couple of quarters? I think last year, you guided that it should happen in next 12 to 14 months.

Nuguri Venu: Yes. High-speed rail, as you know, the electrical part of the high-speed rail, I think the tender is now likely to come at any given point of time. We are working with EPC and the OEMs. And in my view, I think the tender should at least come in the next 2 quarters or so. That would be quite a large tender, so that should come at least in the next 2 quarters.

Mohit Kumar: And what could be our opportunity size, any rough ballpark, if you can just lay out the details.

Nuguri Venu: No, I think it's still a work in progress from the high-speed authority standpoint. It's quite a large tender, such a large tender comprising of several stations, right? In what form the tender comes, we will not be able to quantify at this point in time that.

Moderator: The next question is from the line of Subhadip Mitra from Nuvama. Please go ahead.

Subhadip Mitra: Good evening sir and thank you for the opportunity. My first question is with regard to the larger orders that you were indicating. And clearly, HVDC is one of those. Now what we understand from some of our other interactions with Power Grid, etcetera, is probably one of those lines Khavda is being rethought and that might fall out of the HVDC bucket. Do you see that in any way impacting the overall TAM for us? Or even if it falls in the HVAC bucket, it doesn't really move the needle?

Nuguri Venu: Yes. I think so these kind of discussions keep going up and down, in my view. I think the HVDC bucket at this point in time, I believe, is very, very strong. And

you've never seen these kind of opportunities on these lines in India. So there will be always some pulls and pressures to look at from the authority standpoint, whether it is CEA or the regulators, look at all the combinations, what makes most business sense for them.

So they would always do that, but our information is that both Khavda and other projects are going in the HVDC direction. Either way, we have opportunities when it goes for a 765 kV AC, we also have huge opportunities over there. So that's where the opportunity value might come down from HVDC to 765 AC transmission.

But in our view, at least our assessment that they need a strong HVDC for this Khavda line for strengthening the renewable penetration of that particular line.

Subhadip Mitra: Understood. And is it possible or has a guess in terms of what would be the addressable TAM for the market size for us in this particular bucket?

Nuguri Venu: No. The HVDC projects are quite large. Each project is quite large. It's very large of each of at least in the range of anywhere between INR 8,000 crores to INR 10,000 crores of each project size. So, depending upon what shape and what size seems like that comes. That's what is the size of the HVDC.

Subhadip Mitra: Understood. So typically, can one assume that roughly 50% of this can be the product supply component?

Nuguri Venu: Yes. It's more than that.

Subhadip Mitra: Understood. Understood. Sir, secondly, in terms of margins, I know you have answered the question on this earlier, but I couldn't hear that properly. So I just wanted to understand that are we looking at the current, let's say, level of gross margins and EBITDA margins for fourth quarter being the sustainable number going ahead? Or can things get better from here?

Nuguri Venu: No, what we are saying is that there's still uncertainty on the supply chain, especially on the chips and electronics, okay? The supply chains are not still stabilized, okay? So, on a quarter-to-quarter basis, we may have some challenges, but when we are looking at a whole on a yearly basis, we will definitely have better margins compared to.

Subhadip Mitra: Understood. Understood. And lastly, with regards to.

Nuguri Venu: I also said, not sure if you have heard or not, I also said that it will take a minimum 1 to 2 quarters before it gets the stabilization of these chips and supply chain.

Moderator: Thank you. Mr. Mitra, may we request that you return to the question queue for follow-up questions. We'll take the next question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Good Evening, Sir Congratulations for a reasonably good set of numbers, and I hope that FY '24 will be better. Sir, I have a first question on the profitability front that over the next, say, 2 to 3 years, assuming that we continue to do well, and such kind of growth continues in terms of the revenue, what kind of margins the company is looking at in the longer term at EBITDA level?

Nuguri Venu: Thankyou Rajesh, for your question. I think we have been consistently saying that we have strategies and strategies basically grow on our base orders and at service and digital offerings and exports is another area. And on top of that, leverage our high-growth segments like HVDC, etcetera. All these things will take us in a sustainable manner to a 10% operational EBITDA level by end of 2025. And we also said, but then we had a lot of challenges in between, right? We had the challenges of a geopolitical situation, we have Ukraine war, supply chain constraints. And those are the things are headwinds where we are beyond our control to do that. But assuming that those things are beginning in control and in a contained manner, then I think this is a direction we would like to go over there on the margin standpoint.

Rajesh Kothari: And from 10% to, say, 12% to 15% margin because for example, other multinationals, they are reporting 15% gross margin. Of course, the product profile mix might be different from one company to other company. But at the end of the day, for such a business where a good part of your business is a high technology-driven business, where you enjoy the significant moat within the limited players. The competition is between the restricted players. How to make sure that what is the potential that can we make it, say, 12%, 15% longer-term margin? I'm not saying 2025, but say, over 2-4 years, what is required to be done to make it a 15% plus EBITDA margins?

Nuguri Venu: Rajesh, Thank you for your question I think competition is very intensive here. It's not that competition is very restricted. We're having a lot of competition in our portfolio. the whole portfolio, if you look at our transformer or high-voltage substations, for example, as well as HVDC, maybe you may be right saying that we have limited players, but then the issue is that, again, our levers for sustainable growth are well defined, the levers are to increase more exports, increase more services and also the business models to have more projects with system integration scope, etcetera.

So those things are well defined, and we have been driving that net consistently in that. I think that's where you are seeing, step by step manner. I don't like to

comment on the 15%. I don't like to comment on other competitors what they've been doing it. What all I can say is that at this point in time, we have a midterm strategy to reach to 10% operational EBITDA, and that's where we are working and focusing on that.

Rajesh Kothari: And royalty, what we pay, that basically agreement is for how many years?

Nuguri Venu: Yes. So again, royalty, we continue to pay because the whole energy transition, Rajesh, to give you a perspective, it requires a huge amount of changes in our portfolio. huge amount of portfolio changes needs to be adapted to that. So, it's not possible to get with a lot of digitalization happening and a lot of renewables coming into it. It needs the strengthening of the grid resilience, or the grid infrastructure needs, our portfolio needs to be robust, our technology needs to be updated and that needs a huge amount of investment and that's exactly our royalty we are paying there to get our product, the moment any product is released anywhere on the same day, same time, we are offering to our customers here. So that is an extra benefit for us.

Rajesh Kothari: Okay. And last question from my side. It's the current order book what we have, typically, what is the fixed order book versus, say, where you have the short cycle and where is variable order book where have to basically pass through the both lower or higher commodity prices.

Nuguri Venu: Yes. If we're talking about how much of our order backlog has a price variation plus, if I understand, that's what is your question. So I could say that more than 65% of our order backlog does have this price variation clauses so any price impact will pass through that.

Moderator: Thanks, Mr. Kothari, may we request that you return to the question queue for follow-up questions. We'll take the next question from the line of Priyank Chheda from Vallum Capital. Please go ahead.

Priyank Chheda: My question is regarding the HVDC order pipeline. You have been guiding that we would be targeting at least 1 order per year. Where are we on that? There were three projects, which were in the active stage last time you did mention about that. If you can help us with the update on that? And the second part of the question is, have we started booking revenues from the Palghar Mumbai project? Given the capacity, how many of the HVDC orders can be serviced at the same time?

Nuguri Venu: Thank you for your question. So, what I was telling you previously is that HVDC is a market which is fast changing, fast maturing, we used to have a one HVDC project for every 5 years previously in India. Today, the situation is changing. We

may be having a requirement of 1 HVDC project coming into the market for every year. So that's what exactly I told.

So we are focusing, for example, we came last year, we booked HVDC project for starters, and we are also working towards another project and when it comes to the market this year, we expect either Bhadla or Khavda whichever is coming, and then we will be focusing on that in that. Again, coming back to how much we will do. We will not be able to tell you because it's our internal thing in that. When we look at our capacities.

As you know, we have built our factory last year. We have opened our factory to take care of this kind of demand that we are expanding our factories in the last 1 year, we have inaugurated three new factories. So those things will help us to do that and we will take our due share of these projects.

And the second question on the HVDC, whether the revenues have come in. I think we have just started, as you know, when we start the project sales and other things you have seen in the picture that we just inaugurated working on the site to the construction, which we will disclose or if it will happen by end of this year onwards, the revenues will kick in.

Priyank Chheda: Okay. And sir, I mean, how are we looking at the opportunity of Leh-Ladakh project, which is supposed to be one of the largest projects in the HVDC pipeline that we have seen, how are we looking at that project if you can...

Nuguri Venu: We are looking with equal interest, I think, as you know, we have already come in at Leh-Ladakh, PGCIL has come out with because it's a very challenging project. Thus, from both technology standpoint as well as a logistical standpoint. So, they came out with the consulting study to do a thing.

And then we have won one of the consulting study orders. We are looking at it from the technical feasibility standpoint. We have received an order from PGCIL on that. And so that study will be going on that and basis of the study, PGCIL will come out with the tender. And this study will take at least 6 to 9 months to complete.

Priyank Chheda: Okay. And last question, sir, you did mention that semiconductor shortage would ease out in the next 1 or 2 quarters. We had a shortfall of INR100 crores revenue because of the chip shortages last quarter, did we recover that? And any loss of sales that we had in Q4 also?

Nuguri Venu: Sorry, Ajay, can you answer this question?

Ajay Singh: Thank you for the question. Last quarter, we did mention that there was an impact of INR 100 crores of revenue out of semiconductor shortage. In this quarter, as you

know, if you see in the slides in specific bridge, we have mentioned that compared to the last quarter, the impact has come down. And basically, in this quarter, we see there is roughly around INR 50 crores basically the impact that we see on the revenues.

Moderator: Mr. Chheda may we request you to return to the question queue for follow-up.

Nuguri Venu: Just one comment on that. The semicon market is very dynamic, the supply chains have not still stabilized, and we are doing everything from our side to do that. Last quarter was an example how we came out of that. So, our estimate is a rough estimate is that it will take at least 2 quarters, but then depending upon, again, a lot of other headwinds.

Moderator: The next question is from the line of Harshil Shethia from AUM Fund Advisors. Please go ahead.

Harshil Shethia: Sir, going ahead, do you see any slowdown in large orders in the Indian markets?

Nuguri Venu: Harshil, I think if you really look at our pipeline, pipeline is very robust. So maybe there could be some decisions postponing it. But barring that, I think the pipeline is very, very robust on that.

Moderator: The next question is from the line of Mohit Kumar from ICICI Securities. Please go ahead.

Mohit Kumar: Thank you for the opportunity once again sir. My first question is how much is export order in the current order book?

Nuguri Venu: We are in the range of around 20% - 22% to 23%.

Mohit Kumar: Right. My second question is around the Scott transformer and reconnected transformers. I believe this is a.

Nuguri Venu: Come again, Mohit.

Mohit Kumar: Yes. My question is, sir, I heard that Scott and reconnected transformers, which support Indian Railways vision to achieve 100%. This seems to be a large opportunity. Is it correct over the next 2 to 3 years?

Nuguri Venu: It is correct.

Moderator: Next question is from the line of Kunal Sheth from Batlivala & Karani Securities India Private Limited. Please go ahead.

Kunal Sheth: Hi sir, thank you for the opportunity. I just wanted to check on, we did mention about our margin aspiration of 10% operational margin.

Nuguri Venu: EBITDA.

Kunal Sheth: Yes, sir. Any timeline by which we want to do this? Do we have in mind?

Nuguri Venu: Yes. I think, Kunal, we have been talking about, right, we have been developing our strategy our levers are getting into a very sustainable and profitable growth, that is focusing on high-growth segments and focusing on exports and bringing the exports to a level of 25% and then service potential, improve the service potential.

And all those things will get us and also operational excellence initiatives. All those things will get us with double-digit operational EBITDA margin. As you see, last year was rather challenging year, but year before, we reached 8.9% operational EBITDA. So we are looking at FY '25 is where we think that hopefully, all these commodity challenges, everything will stabilize and then we are in a better position to reach that level. So that's all plan.

Kunal Sheth: Okay. Great, sir. And sir, I'm sorry if this is a repetition, but the supply chain challenges that we talk about, are these behind? And what exactly are the supply chain challenges? Are they in very specific parts or.

Nuguri Venu: There are some specific to maybe our industry. Initially, if you have seen, you have heard about the semiconductor shortage, which was across the industry, right, for our industry as well as auto industry. So, after that, there has been some stabilization of that. The demand and supply gaps have been building that. But there are also like our thing where the chips and electronics are specific to our particular design and those kind of things where we are facing the challenges. But we see the improvement in that, but still we have not overcome yet.

Kunal Sheth: Okay, sir. Sure, sir. And best of luck for the future.

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

Nuguri Venu: Thank you, Faizan, once again. Thank you, everybody, for taking time from your busy schedule on attending to our analyst call. And as we have hosted, some of you have attended, as I see from the participant names today. We're very transparently, very open in communicating our quarterly results and also showcasing our technologies, etcetera in that. So, thank you once again, and please look forward to meet you, some of you. Take care and stay safe. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Hitachi Energy India Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.