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January 31, 2024

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Dear Sirs,

Subject: Transcript of the conference call with Analysts/ Investors held on January 24, 2024

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, January 24, 2024 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

Ammatanda Chinnappa Poovanna

Digitally signed by Ammatanda Chinnappa Poovanna
Date: 2024.01.31 13:00:00 +05'30'

Poovanna Ammatanda
General Counsel and Company Secretary

Encl: as above

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Hitachi Energy

Hitachi Energy India Limited Q3 FY24 Analyst Conference Call - January 24, 2024

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 of Communications, Hitachi Energy India Limited

Moderator: Ladies and gentlemen, good day and welcome to the Hitachi Energy India Limited Q3 FY24 Earnings Conference call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal the operator by pressing star and 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 of Hitachi Energy India Limited. Thank you and over to you, sir.

N Venu: Thank you, Darwin. Good afternoon, everyone. Thank you for joining us for the analyst conference call. I hope you all are doing well. We have uploaded the presentation for the Analyst call on the Stock Exchanges, I am sure you must have seen that. Yesterday, we announced our results for the third quarter of the financial year 2023-24. In the next 20-25 minutes, I together with my colleague Ajay Singh CFO, Company Secretary Poovanna Ammatanda & Manashwi Banerjee – Investor Relations will take you through the Quarter numbers and our performance during the period ending December 31, 2023. For your ease of reference, I will read out the slide numbers in case you are following via phone.

This quarter, easing supply chains and better order execution helped continue the growth momentum. The prevailing positive economic environment in the country has spurred India's energy transition pace, which will open up more opportunities in the coming quarters. With this, we remain committed to exploring new opportunities stemming from energy transition across geographies and creating a robust and sustainable clean energy ecosystem.

Starting with Slide 3 - which is our license to operate. As we review the quarter, I want to recognize our most valuable asset - our employees. Our commitment to their safety has been unwavering, from offices to factories and on-site locations, and they return this with their ownership on safety matters. This quarter, we had several employee engagement programs across locations, factories & offices focusing on employee well-being - shopfloor demonstrations, donation drives, and life support training for all employee groups.

At Hitachi Energy safety is our license to operate, we never looked other way. We reiterated this tenet as we observed HSE week in November 2023, themed "Do the Right Thing'. All teams were reached using multiple platforms and formats - both virtual and physical workshops. The focus was on celebrating best practices, and promoting HSE behaviors that drive us to world-class performance.

We continue to receive recognition and appreciation letters from our discerning customers for driving HSE culture across the energy value chain. Sustainable safety practices and quality are always paramount to us. We thank our clients & customers for their constant encouragement & continued support in enhancing the safety across all the locations.

Moving to the next slide #4. The journey to Net Zero by 2030 requires all teams within Hitachi Energy to be involved, contribute through innovative ideas and take the initiative. In the period under review, the Company focus was on improving waste flow management across five locations, to reduce water and air pollution, which directly affect many ecosystems and species. All the projects follow a very standard approach of DMAIC (Define, Measure, Analyze, Improve, and Control) in creating the framework which can be scalable and repeatable at many of our locations to address waste flow management.

Along with this, the focus remained on the timely implementation of various ongoing sustainability projects across locations, like water conservation project at Maneja, rainwater harvesting and recharge pits at Halol, installation of Roof top solar (609 KWp) at Doddaballapur to mention a few.

Furthermore, several sustainability projects are in the pipeline for the coming quarters like setting up of EV charging points, Battery Energy Storage System, electrification of equipment such as fork-lifts, etc. The whole idea is that we have been working towards decarbonizing all of our operations, factories, project sites and offices etc.

Moving to next slide #5. The Indian economy continues its growth momentum, as per the government reports, the Country's GDP is expected to grow by 7.3% for FY2023-24. The RBI has kept the rate of interest unchanged at 6.5% (post RBI Monetary Policy Committee meeting in December). But there is a slight rise in inflation, as it touches 5.6% in November 2023, because of rise in food prices.

On the power demand front electricity demand in India is expected to touch 277 GW and 366 GW by 2027 and 2032 respectively, up from 239.9 GW in September 2023. Whereas Industry growth (IIP) shows rise in India's factory output to a 16-month high in October. Also study by India's largest nationalized bank suggests that individual's average (weighted mean) income has risen 3.7X during FY14-FY21 from ₹3.1 lakh to ₹11.6 lakh.

All this means the growth drivers for Hitachi Energy remain intact and tracking upwards. As you would be aware, we need to add 30 GW of capacity annually to reach the 290 GW solar target by 2030. In wind - the first offshore tenders have been announced – 7GW to be auctioned by FY24. In the transmission segment already 35 TBCB tariff based competitive bidding projects were declared in current financial year and two HVDC projects are expected to be awarded in next 12 months. Similarly for industry the revival of private CAPEX is likely driven by government Product Linked Scheme. On the electrification standpoint Metro, High-Speed Rail, Rail Electrification, rolling stock upgrade are fueling the growth of transport segment, and so on.

Moving to the next slide #6. In our pursuit of advancing the sustainable future for all, we continue to lead industry discussion across the entire value chain of the energy industry in India and region at multiple forums and platforms.

We are happy to inform you that production for the Mumbai HVDC link has commenced in the HVDC and Power Quality factory in Chennai and the work we do continues to be recognized by customers and industry peers. Hitachi EnergyTEC Training & Experience center in Maneja was recognized by Central Electricity Authority (CEA) as category- I (Grade B) for imparting training in operation and maintenance of the transmission and distribution segment of power sector. Customers recognized us as valuable partners, and we continued to translate excellence along the value chain with channel partner meets that focused on the role of technology in the energy transition.

India has been championing the transition – through people, innovation and policy. It is what makes the country a key market in the Hitachi Energy and Hitachi Group universe, reflected in the recent leadership meetings held in the country with key stakeholders of both Hitachi Energy & Global

Moving to the next slide #7. During the quarter, we have commissioned grid connection projects for the 300MW hybrid renewable in Pavagada, Karnataka, transmission project for energy intensive steel industry in Kobra, Chhattisgarh. We also successfully commissioned a major datacenter project of 230KV/11kV GIS 2X75MVA Trafo Substation in Chennai. As a broad spectrum of society recognizes the urgency of energy transition, our continued efforts have further cemented our reputation as a reliable partner and a pioneer in power technologies.

Moving to the slide #8. In the quarter ending December 31, 2023, we received orders worth INR 1,235 crore, flat year on year. Solid order execution coupled with easing in supply chains resulted in YoY revenue growth of 23% to INR 1,276.4. Normalizing of supply chains also spurred YoY profit recovery in Q3FY24. Profit before tax stood at INR 33.8 crore, up 152 % YoY. Profit after tax was at INR 23 crore, clocking a recovery of 400 %t YoY on a low base.

As of December 31, 2023, the order backlog stood at INR 7,552 crore, providing revenue visibility for almost ~22 months. Some of the key order wins for the quarter are 220kV& 400kV AIS S/S for renewables, dry and power transformers for Chennai Metro Rail (CMRL), 2X 220kV GIS for data centers Substations, multiple export orders for renewables and utilities form Africa, Middle East & Europe.

Moving to slide #9. To provide more color on the orders received this quarter - Demand for solar and wind energy, especially from utilities, continued its momentum in Q3FY24. We are actively partnering on various renewable projects and have made significant additions this quarter as renewables witnessed a 54% growth in Q3FY24 vis-a-vis Q3FY23.

Datacenters remain a high-growth segment, thanks to the push for 5G, data localization regulation and data center policies. Data centers are a high growth segment in the Hitachi Energy strategy, and while the segment is nascent, we reported a 92% YoY growth in orders in Q3FY24. With the sheer potential of the market, we see this trend continuing in the future as well. While the orders for transmission remained stable, there was a slight decline in the order rail segment in Q3FY24 vis-à-vis Q3FY23.

Reflecting the nature of customer orders this quarter, projects and services took the lead, while sector-wise, utilities saw a rise, and EPC was the primary channel for orders.

Moving to slide #10. These are our long term growth levers i.e service and exports. Our order mix reflects our diversified portfolio across our installed base and our focus on leveraging our key growth markets and capitalizing on market opportunities. We successfully secured key market wins in services and exports, in line with our 2030 vision.

Export orders were up 61 percent YoY during the quarter, driven by transformers and high-voltage products and feeder factories – reaffirming our strategy of make in India for India and the world. Orders for transformers came from Europe and African markets, while demand for power quality solutions were from South and Central America, Africa, US and Europe.

Some of the key orders includes order from Azerbaijan for high voltage equipment like 330kV/145kV LTB/DS/IT, 3 X 80 MVA 220kV and 3 X 80 MVA 110kV, transformers order from France and GIS orders from Spain and Portugal.

Service orders saw a growth of 71 percent YoY during the quarter, driven by utilities and industries. Some of the key orders for the quarter, 400 kV RIP Bushings Replacement Order, 11kV Busbar Retrofit Order, repair of 63 MVA Transformer. We have also received orders from across the border which include training order from Maldives and Commissioning 8 units of CSD from Qatar.

So, these are just few examples to talk about how our long-term growth levers both service and exports are playing their role.

So, with this, I hand over to our CFO, Ajay Singh, to walk us through the next slides on the financial performance. Over to you, Ajay.

Ajay Singh: Thank you, Venu and good afternoon, and hope you all are doing well at your end. Let me give you a quick insight on the Company's financial performance in this Quarter. Excellent order execution and streamlining supply chain challenges have helped us improve our revenue and bottom line in this quarter The focused and proactive approach has helped us achieve better revenue vis-a-vis QoQ and YoY.

During the quarter, the company booked orders worth INR 1,235 crore, stable year on year, while declining QoQ mainly due to an exceptional order which we booked in the previous quarter. Whereas solid order execution resulted in YoY and QoQ revenue growth of 23 %and 3.9 %, respectively, revenue stood at INR 1,276.4 crore in the quarter that ended December 31, 2023. Easing of supply chain constraints has further strengthened the quarter earnings and improved the bottom line.

The same easing spurred YoY profit recovery in Q3FY24. Profit before tax stood at INR 33.8 crore, up 152 % YoY on a low base. Proft after tax was at INR 23 crore, clocking a recovery of 400 % YoY on a low base.

Operational EBITDA stood at INR 81 crore in the quarter with YoY and QoQ growth of 62.2 % and 24.6 % respectively. Margin has been improving sequentially over the past three quarters – from 3.0% in Q1, to 5.3% in the last Q to 6.3% in Q3 operational EBITDA. Our order backlog stood at INR 7,552.3 crore, providing revenue visibility for the next 22 months.

If I go on the next slide, let me speak more in details about the ongoing macroeconomic issues that we have been discussing in the past several quarters. I would like to share an update on how the numbers fared during these last three months. If you see the table, it gives you a clearer picture of our relentless pursuit in improving the bottom line and progressive margin recovery.

You see that the margin recovery and 23% yoy revenue improvement to 1,276 crores in the Quarter was mainly due to the good order execution. If you see the gross margins, they have fairly been consistent. The expenses have also been consistent in the current quarter as compared to the previous quarter and that is how at an overall level, we could reach PBT at 2.6% in the quarter.

With this, I hand over to Venu.

N Venu: Thank you, Ajay. Moving to the next slide i.e. slide #13. As you know India is becoming a leader in clean tech and our investments have made us a node for exports. Exports are a growth lever for the company, including through its related party entities and the company procures and sells products, components, systems, renders and receives services from related party entities. In this light, we anticipate a few transactions with Hitachi Energy Sweden AB, a related party entity, wherein the transaction amount is likely to exceed the materiality threshold of INR 448 crore as it applies to our Company as prescribed under Section 188 of the Companies Act, 2013 and Regulation 23 of SEBI LODR.

Based on recommendation of the Audit Committee, the Board of Directors have considered and approved issuance of postal ballot notice for approval of material related party transactions with Hitachi Energy Sweden AB, entered or to be entered for an aggregate value of up to INR 700 crore in FY23-24. Transaction with this entity has not exceeded the materiality threshold as of now and it is likely to exceed marginally. Shareholders' approval will be sought to remain in compliance with statutory requirement.

The nature of transactions includes sale or purchase of product, component, system, rendering and receiving of services to and / or from Hitachi Energy Sweden AB, Västerås, Sweden.

All transactions are in the ordinary course of business of the Company and at arms' length basis. The Company will be commencing a postal ballot exercise to secure the approval of shareholders.

Moving to slide #15. As we move ahead and enter into the last quarter of 2023-24 our growth levers remain intact. While maintaining leadership in our core segments we will nurture high-growth segments that cater to the evolving needs of the sector, harnessing new segments and markets and expanding the energy of the grids.

We are seeing the fruits of focusing on our capabilities in services, exports, and digital verticals, and will continue to strengthen the same.

In our operations, we will continue to seek to maximize the efficiencies in converting our significant order backlog to revenue and revenue accretion, while in the short-term staying agile regarding the evolving situation on trade routes, logistics etc. Nevertheless, such execution when coupled with operational excellence across manufacturing and functional processes will result in margin accretion going forward.

Our teams will reinforce their efforts through the last leg of transition in the coming quarter, as we enter the implementation phase of Reiwa - a multi-year project to upgrade our core ERP systems thereby integrating core business functions and processes in a single platform – thus helping enhance operational agility, quality and productivity.

Our purpose remains to advance a sustainable energy future for all, and we can sustainably deliver this if our teams are consistently safe, healthy, strong and agile. People remain at the heart of our operations, and we will continue to build and sustain stakeholders' value.

With this I close my presentation and open the channel for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press * & 1 on your touchtone telephone. If you wish to withdraw yourself from the question que you may press * & 2. Participants are requested to use handsets while asking a question. We also request that you restrict your questions to 2 per participant. We will now wait for a moment while the question que assembles. The first question is from the line of Mohit Kumar from ICICI Securities. Please go ahead.

Mohit Kumar: Yes. Good evening, sir. My first question is about order inflow. Order inflow is yet to see a healthy momentum. We were expecting that given the strong bidding activity for transmission projects in the last nine months, especially in the domestic market, my question is how has been the inquiry from bidders for the transmission equipment and can we expect a slightly higher order inflow as we enter calendar year 24?

N Venu: Thank you, Mohit. As I talked about it in my opening comments, I think we have a very strong, robust pipeline across the sectors, across the segments where we are operating. For example, the transmission is the one segment where you talked about. As I said, there are a lot of tariff-based bidding projects out there, including some of the STATCOM projects. And there are HVDC projects that are under pipeline.

There are also large 765kV projects. that are also coming up for bidding. I would say that there is a very robust pipeline in the coming quarters.

Mohit Kumar: My second question is sir; have you completed the study and submitted the reports for Leh-Ladakh for technical feasibility to Power Grid? And can we expect this project to progress in the next fiscal or this calendar year?

N Venu: So, again, this is a very interesting question. So, we have, as part of our agreement with our customers, to complete by 31st of March. So, we are on track. So, progressively, we have to submit various reports. We are already submitting a couple of reports in that. We are on track. We would be submitting our study report in line with that.

Mohit Kumar: How has been your experience, sir? If you can give some color.

N Venu: Which one?

Mohit Kumar: How has been the experience? Do you think this is technically feasible and this can be done at a reasonable cost?

N Venu: I think our customers will talk more on that. But from our standpoint, we do have technical solutions for that. And we have not completed all the studies yet. There are a couple of studies that we have done, but there are many more studies to be completed. And we still have a couple of weeks before we complete and conclude our study report in that. But we do believe that technical solutions are available.

Mohit Kumar: Understood, sir. Thank you for the opportunity. Best of luck, sir. Thank you.

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

Renu Baid: Good evening, sir. My first question is on the bullet train or the high-speed project. We were expecting finalization of few packages this last year end. L&T was announced bidder for more than INR 10,000 Crore of orders. So, what is now the opportunity size for us? Are we still in discussion with EPC contractors, partners? And what could be the timeline of receipt of such orders?

N Venu: Thank you, Renu. I think the question, you all know that the electrical package has been finalized on the EPC. So, we have also submitted our bids to the EPCs, including the winning bidder. We are in touch with them, and we normally do not mention the size of the projects until we know we can quote it. It depends upon the customer approach, what's the business model or how we are packaging. Those things will differ the size of the project. As we speak, we have made our submission.

Renu Baid: What are the timelines of award of these electrical equipment projects.

N Venu: Maybe one to two quarters is what we expect. One to two quarters.

Renu Baid: Sir, secondly, if you look on the broad basis, given the way domestic market has bounced back with respect to high-voltage transmission equipment, clearly supplies are in short and it seems that prices in general have improved. So, by when do we expect those better margin orders will start reflecting in our execution and our numbers? So how far are we? Is it just a couple of quarters away or probably our timelines and lead cycle of orders are different from the ones which are getting finalized.

Because while we have been consistent in the last couple of quarters on gross margins and cost structures, it still seems to be suboptimal when we compare it with the rest of the key large domestic players. So how far are we in terms of getting these better margin orders in our backlog? And also, any view in terms of -- because we also had a target to improve the operating margins to near double-digit level by next year. So, are we broadly on track or there could be some additional hiccups on the way?

N Venu: Again, it's a very interesting question, Renu. And we have been very consistent with what we have been saying on this. And we do have -- I think our portfolio -- our order backlog is very robust. It's, again, broad-based and our exports and service - which is also part of our portfolio - will definitely add to the bottom line in that. So, while we talk, there are also a lot of challenges, geopolitical and also the transport logistics. As we are improving on our exports, it's also important that our logistics on the exports is also robust.

And any kind of external factors do have a challenge over a period of time. And it's important that we need to navigate them. But having said that, if you really look at what we have been talking about, we said we have been sequentially improved and we continue to perform a sequential improvement.

In the last three quarters, so operational EBITDA, you take from a 3% in quarter one and 5.8% and now we came to 6.3%. So sequentially, we are improving it, and we also have a clear strategy to bring the double-digit operational EBITDA by end of the financial year is what we said. So, again, look at our strategy. We said that in exports, when we start about -- we are looking at in the 20%-25% range and then we have stabilized 25%.

And if you really look at the nine-month exports, we are already 30-plus percentage. So, the strategy has to fall in place and become a little more stable, and that's how we are doing it. And on the margins, will definitely flow in once we execute the order backlog, which includes the export, which includes the service, which includes other things.

Renu Baid: Sure. And lastly, if I can, what could be the status of the Mumbai HVDC? You did mention valves getting manufactured at Chennai plant. So, in terms of execution timelines of this backlog, how should we look at end of this fiscal and next fiscal specifically?

N Venu: Yes. So as part of our contract with our customers, we should complete anywhere between March 25 to June 25. I think we are on track both on the execution on the ground and as well as on the manufacturing of those various components, not only in India, but also in other places. So, we are very much on track on that.

Renu Baid: Got it. Sure. Thanks much and all the best.

N Venu: Thank you.

Moderator: Thank you. We have the next question from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Hi, Venu. Congratulations on a decent quarter. So, my question is again on margins. So, we had done 6.3% of operating EBITDA margins this quarter. So, we have a journey of 10%, I think towards the end of FY'25. So, every quarter, do we expect some improvement to bridge that gap of almost 400 basis points, at least to start with at least 10% by FY '25 end?

N Venu: Yes, as we just now spoke, Parikshit, so that is our endeavor. Our endeavor is to make sequential improvement while navigating the various challenges at the same time.

Parikshit Kandpal: Okay. Second question is on other expenses. So, when I compare with your other peer, I mean, who is almost half your size, and I see your other expenses, gross margins largely in line, but your other expenses are substantially higher. So, is there any component there? I mean, earlier we had this IT support from ABB India, so where we were incurring expenses. So, has that come down? Are we now on our own IT network? So, what could be the component that can be used to help improve our margins?

N Venu: Maybe Ajay, our CFO, would add to this, Parikshit.

Ajay Singh: Thank you, Parikshit, for this question. If you see our other expenses, you can see the current year results. We are consistent compared to the earlier quarter.

So, if you see YoY, our other expenses were 21.7%, now we are hovering around 19.4%. Having said that, on the IT cost, yes, the IT cost, currently we are not yet totally out of the ABB support. We are still running at TSA, and we are expecting that we will be out of this support mostly by the mid-next year. But even if you are out of this support, we will have our own infrastructure where the cost will come.

But overall, if I see the mix, I don't see any additional cost other than this that is popping up in the quarter. So definitely going forward, as the external impacts come down, we will be improving on the margins as such.

Parikshit Kandpal: Okay, so just the last question, If I may sir. So, this margin improvement, will it come from better pricing? Do we still have some under-absorptions of inflation on the pricing side?

Because on one side, we are talking about very, very strong opportunity on the demand side. Other players are talking about under-investment in capacity. So, it definitely builds a scenario for increasing prices.

So, have you already taken some price hikes over the last six months? If you can give some color on the improvement in margin tax streams, which will be the factors which will be driving this?

N Venu: Our margin improvement, Parikshit, is basically a factor of our improving our revenue accretion, and because we have a strong backlog and that will get into the revenue accretion over a period of time. And then we also said our two levers which are service and exports, will contribute. As export revenue kicks in, and also service revenue kicks in, then that also will do that. And in addition to that, as you know that we have invested heavily in the last 2-3 years and set up new green factories, and those factories are also filling up now.

One example is this, the Chennai power system and HVDC factory, where we started now producing valves on that. We also now filled with orders from other projects. So those things, we are able to leverage on those assets, and that also will add both revenue accretion as well as the margin accretion.

Parikshit Kandpal: What about the price hike, sir? Any color on the price hikes have you taken in the last six months?

N Venu: You should understand that India is a very competitive market, and we are getting a price increase, but also you should understand that the commodity prices also are equally increasing. So we are, whatever the increase is coming, basically for that. Then, yes, we are also looking at quality orders. So, we have initiated pricing excellence as a strategy to look at, you know, bring the more quality orders as part of the portfolio, and that should also help us to realize those things.

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

Mahesh Bendre: Hi, sir. Thank you so much for the opportunity. Sir, previous two quarters, we were mentioning about the chip shortages that was actually limiting your production and delivery. So, has that problem been solved or is there still some issue on that?

N Venu: Thank you, Mahesh. I think there, I would say that it has become better now. We are able to predict and upfront order those components. So, we are partly, I would say that we have mitigated and then, but with a better forecasting things and upfront ordering, so we are able to manage at this point in time.

Mahesh Bendre: And sir, if I look at last five to six quarters, apart from the HVDC orders, our order inflow has been almost constant for every quarter. I mean, when we look at the peers or other players in the industry, there is a growth, significant growth we are witnessing on ordering inflow side, but our side is remaining almost stagnant. So, what could be the reason for this, sir?

N Venu: I don't think our orders are stagnant. If you really look at our orders on a quarter-on-quarter, we are having a very good growth. And on top of that, if you really look at, nine months put together and if you take the last HVDC project out and then you look at the nine months cumulative.

So, we have a very strong growth. So, look at our numbers on a cumulative basis. And then I think we have a, we have a strong growth, even if we remove the HVDC project, because the HVDC project is there in the last year, which is not comparable for the same reason.

Mahesh Bendre: No, I was mentioning about the export orders that we are getting very high traction. So, if you strip them aside, so domestic side, we are still given the position we are into and capex that is coming up. So that seems to be low on that side?

N Venu: Yes, I'm not sure from where, what the number you're looking at it, even if we remove the exports also on the domestic demand, we still have a growth removing HVDC project. Mahesh.

Mahesh Bendre: Sure. Thank you, sir.

N Venu: And in the base orders, there's a 16% growth, YoY.

Mahesh Bendre: Sure. Thank you, sir. Thank you.

Moderator: Thank you. The next question is from the line of Umesh Raut from Nomura, India. Please go ahead.

Umesh Raut: Thank you, sir, for the opportunity.

Umesh Raut: Yes, sure. So, the first question is more of on the export side. So, when you are seeing strong demand on the export from various markets, I just wanted to know how much of these orders are coming in from parent entities and how much beyond parent entities?

N Venu: You're talking about the exports?

Umesh Raut: Yes, exports with Hitachi Group and exports with non-Hitachi Group?

N Venu: Yes, it's a ballpark in the range of, anywhere between 50% to 60% coming from our internal companies and the rest are coming from, direct exports.

Umesh Raut: Okay. And, sir, now this new proposal, which is under consideration.

N Venu: Again, just as a comment, here we've got to understand, for example, internal means we supply a GIS in a Europe, for example, okay, we supply GIS. So, since we do not have any, sales offices there, the GIS will be booked by the local Hitachi Energy office, for example, the one which we booked, and that will be, given as an order there. So that's also we consider as an internal order, even though we stand as a full-fledged thing.

Umesh Raut: And just wanted to hop up on the profitability side as well. So how is profitability different between these two segments?

N Venu: When you say these two segments means all the export orders, whether it is internal or external, it's arm's length only.

Umesh Raut: Got it, sir. And, sir, regarding this proposal, which is under consideration, regarding RPT transactions, now going up to about INR700 crore for full year '24. So how much of that has been booked in first nine months FY24?

N Venu: Yes, maybe Poovanna, you'd like to add to that, Poovanna?

Poovanna Ammatanda: Yes, sure, Umesh. Thanks for that. As of December, we've had invoice-level transactions of 68%.

N Venu: Yes, that is close to 68% has been booked.

Umesh Raut: Sir, second question is more of on your comment from the presentation, where you are referring that private capex or demand from industry side is also kind of looking up. But if I look at order inflow for third quarter, this is more of down, especially from the industry side. So where exactly you are seeing uptake in terms of industries and where exactly there is still downturn, which is kind of visible in the market?

N Venu: When I talked about industrial capex is reviving, is basically I'm talking about the broad base. In one quarter, we may have a large order booked in that, so which is not comparable. But we see a lot of traction on the industrial segment, coming from expansions, service standpoint, digital, and more. They are also decarbonizing of the industries.

So, these are the ones what I'm talking about in our thing, whether you talk about the steel, cement, industries, and data center. Anyway, we have a huge growth in that. So those are the things I'm talking about, Umesh.

Umesh Raut: Sir, last bit is more of clarification. So again, referring to slide number nine, where contribution from EPC channel has significantly gone up. So, was it fair to assume that this will add further pressure on profitability side, assuming that EPC channel would have relatively lower margins than the direct end user?

N Venu: When we talk about the EPC, we have a strategy that we will not be able to sell everything to direct end users. So, we need these channels. And that's how we have been doing it. Whether EPCs, OEMs, distributors are part and parcel of our go-to-market strategy. And having said that, just because our EPCs have gone up, not that we compromise our quality of the order. We have a clear strategy on those things, and then we are maintaining it. And as I said previously, we started the pricing excellence. The whole idea of the pricing excellence is to look at what is the value add. We look at it, whether we are selling to EPCs, we are selling to direct end customers.

We do not see any of those compromise taking place or any kind of dilution of our margins, just because we sell it to different channels.

Umesh Raut: Got it, sir. Thank you so much. And all the best.

N Venu: Thank you.

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

Priyank Chheda: Thanks for the opportunity. Sir I would request you to give us more insights on the levers to the margin expansion which you spoke. First lever is service and exports. If you can help us with the data on how much is the service and exports revenue as on date. The second lever was revenue recognition picking up. So, if you can help us with what would be the revenue recognition that you are looking towards FY25.

Would Mumbai HVDC project revenue recognition itself lead to a strong operating leverage? And the third lever that you clearly mentioned was utilizations. So, what is the current utilization level and what is the kind of a level that you are looking towards in the coming years? Thank you.

N Venu: Thank you, Priyank. I think we did not give any details on a project level and also, we did not give any forward-looking information on that. What will be the revenue coming in this quarter? So, all I say that we have a strong order backlog. And that order backlog is getting converted into the revenue and that's where the revenue acquisition is coming in.

So, on the levers about margin acquisition I have already talked about. I think I have nothing more to add to what I have already talked about in that. So, revenue accretion is the revenue growth is the function of what backlog we have and what is our existing book to bill orders. So that's what is what we are going to do that.

And having said that, let me also give you a couple of data points for you to understand that in export we are talking about in the range of 25%, right? So, we see export revenue depending on the quarter ranging from 20% to 23% or 24% in that. And the service is high single digit, which is moving towards the double digit slowly entering the double digit. So, that's how the thing what we are looking at in the margin accretion standpoint.

Priyank Chheda: In terms of your current utilization levels?

N Venu: Yes. Current utilization level is depending upon which factory it's varying anywhere between 75% and upwards close to 90%, 85%-90%. And some new factories, as you know, which have been inaugurated definitely has a low utilization ratio, but they are also filling up faster.

Priyank Chheda: Perfect. And just a data keeping question that I have on the operating -- operational EBITDA, which Hitachi reports is at around INR 81 crore, while the actual reported EBITDA is at around INR 65 crore. So, what's the – INR 68 crore. So, what's the INR 13 crore difference with respect to it? It may be related to FX or some other expenses, which you can -- if you would like to call out.

N Venu: Maybe our CFO, Ajay Singh, will add more.

Ajay Singh: Thank you for the question. And you're right. It is mainly on the FX part that delta is there.

Priyank Chheda: So, we have reported a FX loss on the tune of INR 13 crore?

Ajay Singh: If you see our results, you can see that in this current quarter, we have reported a FX loss of INR 9.8 crore that is there.

Priyank Chheda: Okay. So, if you can help us, what is the nature of this? Why do we -- why are we able to report the losses? Would it -- it's just an accounting entry which would get reversed in the coming quarters?

Ajay Singh: Yes, it is basically a restatement of this accounting entry. Yes, it's an accounting entry.

Priyank Chheda: Got it. And just to, again, clarify, Mumbai HVDC project was not recognized in the current quarter, right? We would be starting it from Q4, which is in the coming quarter. And also, if you can help us, the STATCOM order that we had received in the last quarter, by when would -- what's the timeline for execution of that, the starting period and the end period?

N Venu: Yes. Mumbai HVDC, the project has started. As the project gets started, the revenue also starts getting recognition based on the milestones being done, right, both at the project site and also some other things in that. But it is a slow start now. In the coming quarters, we see a lot of material, big items will be coming in. So that will have a much better, higher revenue from the HVDC Mumbai project.

STATCOM, we are supposed to complete in 24 months, and we have already started. And the first two quarters will be a lot of engineering approvals, etcetera, design and engineering approvals. And thereafter, we see the project is starting is starting with a revenue.

Priyank Chheda: All right. Thanks a lot for answering all the questions.

N Venu: Thank you.

Moderator: Thank you. The next question is from the line of Dhavan Shah from Alfaccurate Advisors. Please go ahead.

Dhavan Shah: Thanks for the opportunity, sir. So, my question is on the order book breakup. So right now, the order backlog is roughly INR 7,500-odd-crore. And if we exclude this INR 2,000 crore HVDC. So, what would be the order book breakup between service, exports and then the other industries like the data center and the other emerging one? Can you share the breakup of that? And what would be the execution timing?

N Venu: Roughly, you can take 25% of that is exports and close to 9% to 10% is service orders. And that's what is our ballpark figures.

Dhavan Shah: And the other industries, data center and the other emerging ones?

N Venu: We don't split that industry-wise utilities, industries, and data centers at this point in time. But we have not been giving that -- it's not that we don't split, we have not been giving figures so far.

Dhavan Shah: Okay. And as you said that the value-added segment, like the exports and the service revenue would go up in the coming quarters, which would help you to improve the overall EBITDA margin. So, what kind of gross margins do we do? And right now, it is roughly 40% odd. So, what would be your endeavor by FY'25? And what can be the gross margin? Because in the earlier years, we did roughly 45%, 50% also. So, is this achievable? Like 45-odd-percent gross margins?

N Venu: So, again, we will not talk about what's the gross margin. What we are talking about is what we are sticking to. We are sequentially improving on the bottom line, which includes our better order gross margins and also on the cost side and also various other measures. So, it's a combination of all that, we'll get into the 10% operational EBITDA by end of FY'25, assuming that all the headwinds normalize. So that's where -- that's what we are saying.

Dhavan Shah: Sure, sir.

Moderator: Ladies and gentlemen, we request you to please restrict your questions to two questions per participant. We have the next question from the line of Nikhil Abhyankar from ICICI Securities. Please go ahead.

Nikhil Abhyankar: Good afternoon, sir. Thanks for the opportunity. Sir, there are multiple projects already announced under the RDSS scheme. So, what kind of pipeline do we have remaining going forward? And are we selling it directly to the discoms or are we going through the EPC players?

N Venu: Again, these particular projects are a combination of various things, which includes the engineering, procurement and also SCADA and many other aspects of the digital infrastructure. And we would like to play in line with our strategy. We will focus on SCADA automation, DMS, EMS and more.

We are working with the partners. We are working with some of the EPCs and some of the projects we have received orders from PGCIL and also other places, in some places wherever it is meeting our strategy. So, we are also bidding directly on that. It's a combination of various things. But we are very actively pursuing all these projects to position our portfolio there.

Nikhil Abhyankar: So, what can be the pipeline, say, in next 12 months?

N Venu: Again, we don't quantify the pipeline for any of these segments, but the pipeline is very robust, Nikhil.

Nikhil Abhyankar: Okay, sir. That's it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Bhalchandra Vasant Shinde from Kotak Life. Please go ahead.

Bhalchandra Shinde: Good evening, sir. I would like to know on the longer-term perspective, like since we have started with the facility in HVDC, how the localization content versus our peers and cost advantage wise, how we have placed things like there are lined up HVDC orders. And do we see that competitive edge for us as compared to peers?

N Venu: This is a very interesting question, as you know, HVDC. So, we are pioneering this technology, and we will be completing 70 years of this technology globally as an inventor of the pioneering technology by Hitachi Energy and our predecessors. Right, so as we speak, we have globally as well as in India, almost 50% of our existing installation HVDC links run through Hitachi Energy technology.

So, we do have quite a robust end-to-end offering in India for example, we manufacture the converter transformer. We do the valves. We have the switchgear and we do also end-to-end engineering. That's also quite a big cost element in HVDC kind of projects. With that, I think we should be in a better position to offer our competitive solutions to our customers.

Bhalchandra Shinde: And ordering wise, as we mentioned that every year one HVDC order is expected. But this year we have not seen that kind of a, though tendering has happened, but still any end result we have not seen. Are we expecting anything in next six months or in this calendar year? Which orders we should expect to come in?

N Venu: You probably know the Bhadla is already tendered, and which is due now on the 1st of February. And if there is no extension, the tender will be submitted as per the due date, right, which is already there in the REC website. So, you can also look at the schedule of ordering, etcetera. They have already published in their website.

Bhalchandra Shinde: Okay. Thanks, very much.

N Venu: Thank you.

Moderator: Sure, sir. Yes, the next question is from the line of Teena Virmani from Motilal Oswal Financial Services. Please go ahead.

Teena Virmani: Hi, sir. Thanks for taking my question. I just have one question regarding this INR 700 crore cost with the related parties. Just wanted to understand, is it possible to localize these products which you are right now thinking of procuring from the parent entity over a period of time? Or just wanted to understand whether this cost will remain in future too for the company or over a period of time we can think of manufacturing these?

N Venu: Maybe I think we may have to clarify. This is not a cost. This is a related party transaction. Both the products we sell it to our thing and also some of them we buy there. So, it is not entirely we are not buying that it is both purchase and sale.

Teena Virmani: Total put together is around INR 700 crore.

N Venu: Yes, yes, exactly.

Teena Virmani: And whatever you are procuring from the entity, is it possible to localize those products or those products will continue to be procured from them only?

N Venu: Some of the products we continue to procure. It's not that the localization we have been doing to the extent possible today. For example, almost 85% of what we produce globally, we do it locally here. So, we already reached a very, very substantial level of localization and local manufacturing in that. The bulk of this, what we are talking about is the sale, what we do there.

Teena Virmani: Okay, so this will not come in your path to achieve that double digit margin trajectory, which you have highlighted by end of FY25?

N Venu: This is not a cost, as I said. This is basically we are selling our products from here to our Sweden factory and the bulk of that is our products we are selling to them. And some we are also receiving it because, for example, some of our HVDC, we have to get some components from there. So that is how it goes like that. So, it is for both sale and purchase. So, yes, sure. Ajay go ahead.

Ajay Singh: Let me give a clarification. So, this is just a regulatory requirement that we have to comply with. But this is a related party transactions with our entity Sweden, where the overall transition is going to hit the threshold. And threshold is 10% of our last year's revenue. And since it is crossing the threshold as a good governance, it is required that we have to take a prior approval from the minority shareholders.

And that is why we are going ahead with this ballot paper, where we seek approval from the minority shareholders in order to be compliant with the related party regulations.

Moderator: Thank you.

Ajay Singh: I hope I have clarified. Yes.

Moderator: I would now like to hand the conference over to Mr. N. Venu for closing comments. Over to you, sir.

N Venu: So, thank you very much, ladies and gentlemen, for attending to this conference call and asking very interesting questions. And as we navigate all the challenges and then continue to grow our strong pipeline, both the orders and also converting them into margin. And then finally, we are able to reach our goal on the margin.

And we are advancing sustainable energy future for all of our customers. And this is a journey, and we would like to continue this journey together. And thank you very much once again, taking time from your busy schedule and attending the call. Please take care and stay safe. Thank you.

Moderator: Thank you. On behalf of Hitachi Energy India Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.