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July 30, 2024

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

Subject: Transcript of the conference call with Analysts/ Investors held on July 25, 2024

Dear Sir / Madam,

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 Thursday, July 25, 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.

Thank you,

Yours faithfully,

For Hitachi Energy India Limited

Ammatanda Chinnappa Poovanna

Digitally signed by Ammatanda Chinnappa Poovanna
Date: 2024.07.30 22:03:57 +05'30'

Poovanna Ammatanda
General Counsel and Company Secretary

Encl.: as above

Hitachi Energy India Limited Q1 FY25 Analyst Conference Call – July 25, 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 Hitachi Energy India Limited Q1 FY '25 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 "*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. N. Venu – MD and CEO, Hitachi Energy India Limited. Thank you, and over to you, sir.

N Venu: Thank you, Yashashri. Good afternoon, everybody. Thank you for joining us for the Analyst Conference Call.

And I hope all of you are fine and doing well. So, yesterday, we announced our Results for the 1st Quarter of FY '24-'25. And over the next 20 - 25 minutes, we will take you through these results in detail. We have uploaded the slide deck in the BSE and NSE portal, and I will refer those page numbers for ease of your understanding in case you are joining through phone.

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

Throughout the last fiscal, our focus was on balancing operational complexity and efficiency, which has helped us in achieving a strong order intake, resulting in a record order backlog in the 1st Quarter of FY '24-'25. As energy transition gathers pace, investments in the power sector, especially in the renewable and grid connections continue to grow. And with the backdrop of Union Budget '24-'25 announced on Tuesday, in which energy security is a key priority, we expect more traction in terms of opportunities, in the coming quarters. So, let me start my presentation and moving to Slide #3.

So, as you know that safety, integrity and quality are our license to operate and are a fundamental part of our day-to-day operations. As we review the quarter, I want to start with the good news that Hitachi Energy has been accorded with the Prestigious International Safety Award from Royal Society for the Prevention of Accidents, Gold 2024 for our Mumbai HVDC project, which is under execution.

Human capital is at the heart of all decisions and employee wellbeing is paramount to us. So, this quarter, we have organized multiple awareness sessions, health camps, training sessions across our offices, facilities, project sites, for the welfare of our employees and workman. To mention a few, we had a session on tobacco cessation, pain management, mental health. In light of the extreme summer temperatures in this quarter, we also had multiple sessions to prepare employees for the heatwave, across our offices, factories and project sites. At Hitachi Energy, safety, integrity and quality is entrenched in our DNA, and we are committed towards implementing the same in all spheres of our work.

Moving to the Slide #4, Sustainability:

At Hitachi Energy, our purpose is to advance a sustainable energy future for all. Towards doing so, we have been building on our internal sustainability initiatives. So, similarly, you have also seen that previously, we announced our Sustainability 2030 targets. As part of that, we want to be carbon neutral in our own operations by 2030.

Across facilities, we have implemented projects to reduce emissions and managing water and waste. And these help us keep track of our greenhouse gas emissions, energy consumption, usage of freshwater and waste management, ultimately, what gets measured gets done.

Some of our key actions from this quarter include replacing furnace oil, and upgrading to biofuel boiler at our Mysore unit, to reduce fossil emissions. Furthermore, to conserve rainwater, several rainwater recharge wells are put to use and reduce freshwater usage, STP treated water is used for watering gardens in our locations.

Also, at our Peenya facility, 15 water meters were installed to monitor water consumption and reduce wastage. In terms of waste management, we have stopped the regular use of single-use plastic bottles across all locations. We have also devised plans to reuse metal waste and packaging material at our Doddaballapur and Peenya, respectively. These are a couple of examples, what's happening throughout our organization. As you can see the right side of the slide where in addition to drive our financial KPIs, our leaders are also being monitored on these KPIs, in-house gas emissions, energy consumption, freshwater use and waste generated, as well as well waste disposal. These KPIs are tracked, like how we track our financial KPIs.

Moving to the Slide #5, I think on the left-hand side, probably you know a lot about it, but let me just go through that:

The Indian growth story continues, as the country is on the right track for a $5 trillion economy in the coming years. According to government reports, India's GDP is estimated to grow by 8.2% and Indian industry IIP supported this trend growing 5.4% for this quarter, '24-'25. With an objective to further boost the renewable sector, the government in Union Budget 2024 allocated Rs. 19,100 crores to the Ministry of New and Renewable Energy against the revised estimate of Rs. 7,080 crores for the budget, '23-'24.

In the transmission segment, now you can see that the Gujarat Energy Transmission Corporation plans to invest almost a Rs. 1 lakh crore for the development of transmission infrastructure in Gujarat, in the next 7 years. This is like we have seen previously the inter-state transmission network. And now we are seeing more and more state transmission utilities are coming up to invest in the grids of the state.

The Ministry of New and Renewable Energy has sanctioned the implementation of the Strategic Interventions of Green Hydrogen Transition program. Comprehensive the scheme has been allocated a substantial budget of Rs. 13,050 crores. And a budget of 2.5 lakh crore is earmarked for Indian rail modernization and network expansion, where our company is well positioned in this sector. And Rs. 50,000 crores capital expenditure is expected over the next three years. Also, discom upgradation, modernization, RDSS Schemes will be attracting more investments as and when that happens in that.

Moving to the Slide #6. We are customer-centric and are committed to building trust, the long-term partnership. This quarter also we engaged with our customers, starting with our team meeting the high-profile delegation at Sri Lankan Ministry of Power, to reaffirm ties and discuss future areas for collaboration.

Another highlight was a full day seminar at Dhaka for Power Grid Corporation of Bangladesh on innovation solutions and control protection, substation automation, telecommunication systems, etc. On the occasion of the visit of our global CEOs, there was a power-packed thought leadership evening on the energy transition in Bengaluru with government delegates and industry leaders.

Our flagship initiative Energy and Digital World (EDW) was kickstarted in Hyderabad followed by the second event at Bellary. Both events saw enthusiastic participation from customers and partners.

If I move to the Slide #7, as part of year-long celebrations of our 75 years in India, we initiated a new platform called TechTalks, which will allow our employees to direct access to top minds in Hitachi Energy, to understand industry and technology trends. The first TechTalks webinar witnessed participation by almost 1,000 plus people.

The ExcelHer development program is specifically designed for our high potential women leaders, and we closed this year cohort on an encouraging note.

Other upskilling programs this quarter included a Value Persona Sales Workshop, that drives home the focus on customers and improving the overall experience as we embark on the energy transition. And in preparation for the next generation of energy transition talent, we participate in career fairs organized by renowned institutes, to spot potential and to showcase our organization ethos to prospective hire. This quarter, we were at Loyola College, Chennai, where we received an overwhelming response.

On World Environment Day, you see the last picture on the slide. We initiated a mammoth tree planting campaign, aiming to plant 75,000 saplings in 12 months, commemorating our 75 years of powering India. And it pleases me to say that our efforts continue to receive industry accolades with senior leaders being conferred with the prestigious award for their contribution to shaping the energy transition.

If I move to Slide #8. As a pioneering technology leader, we are committed to the energy security of the country through various projects undertaken by us. During the quarter, we have commissioned several projects, and I will highlight a few of them. We commissioned a 400/33 kV AIS substation, 350 kV and 432MW DC solar project in Bikaner. The team was responsible for design, engineering, procurement, supply installation, testing and commissioning. Another solar project that we commissioned was 100MW SECI solar project Banipura, whose scope encompasses, design, engineering, supply, testing, erection. The team also commissioned energizing the 220/33 kV bay extension packages.

For the MP Power Transmission Package-II projects along with design, engineering, procurement, supply, installation. Our project team is also taking care of our construction, along with testing, commissioning 220kV, 132kV, and 33kV substations. These are just a couple of examples of the projects commissioned in this quarter.

Moving to the next slide, Slide #9:

In the quarter ending June 30, 2024, we received orders totaling Rs. 2,236.7 crores, where Renewable led the pack from studies across utilities and industries to grid integration projects, along with the several power quality projects. The quarter witnessed order

growth of 112% year-on-year and 73.2% quarter-on-quarter. Revenue was at Rs. 1,327 crores, up 27% year-on-year, but quarter-on-quarter, there is a decline of 21.9%.

Both profit before tax (PBT) and profit after tax (PAT) saw year-on-year growth of almost threefold. But on a quarter-on-quarter basis, PBT and PAT declined. The quarter closed with a record order backlog of Rs. 8,539.4 crores, which is the highest since inception of our company. Some key orders received in the quarter includes a large HVDC project order from Marinus Link in Australia. As you recall, we have set up our new greenfield factory in Chennai. And we have seen such demand coming up, not only in India, but also in other parts of our region, and we were early on to set up this factory in that.

In addition to the Marinus Link, two transmission projects, one through tariff-based competitive bidding 6x500 MVA ICT, 400kV SR in Gujarat for Adani, and other one is 400/220kV digital substations, CRP SAS retrofitting of existing substation, Kanpur. One renewable project for Renew power in Fatehgarh, and another noteworthy export order from Canada for 800 kV CT for Hydro-Quebec customer in there. We remain focused towards increasing operational efficiencies, while expanding our portfolio in the high-growth markets and continue to grow higher than the market.

Moving to the Slide #10, to provide some more color on the orders received this quarter:

This quarter, transmission segment emerged as a high-growth segment, with year-on-year growth of 567% followed by renewable, which is up by 553%. Industries also saw year-on-year growth 35%, whereas in Q1, we saw a year-on-year decline of 77% in data center segment, but it remains high growth segment in the medium term. The rapid growth of data center, electrification of railways and growing metro network throughout the country will continue to push these segments in the near future.

On the right-hand side of the slide, you can see order mix.

Projects took the lead in segment, whereas utilities and direct end user are clearer winners for sector and channels respectively.

Moving to the Slide #11 is the value creator, service and export, as you have been seeing consistently. We are talking about increase in the exports and the services, offering both service and digital. The climate challenge is, we always say it's a huge challenge. It's the bigger than one company, one team and one individual and our continuous effort is to enable many pathways to energy transitions across geographies and segments.

Exports contributed 27% to the total order book, not including the large HVDC export order we received from Marinus, because that's a large order. If we include that, the whole thing will be skewed, so we always keep out such large projects, while considering the export contribution to the total order.

We continue to trend in the upper band of our stated targets for the exports. Orders for transformers, power quality technologies and other key products were booked from the markets like Europe, Middle East, Australia and neighboring countries in South Asia. Apart from the Marinus Link order from Hitachi Energy Australia, we received orders from Hitachi Energy Canada, Portugal, Greece and Iraq for the multiple projects for our portfolio. Some of the key service orders for this quarter comprised of renewable studies from the private utilities, renewable generation companies, industrial houses, EPCs, emergency remote support to key data centers, et cetera.

And now I would like to move to the Slide #12, and then I will hand over to our CFO, Ajay to take us through the financials.

Ajay Singh: Thank you, Venu, and good afternoon, everyone, and I hope all of you are doing well at your end. If you see in this particular slide, our focus and proactive approach has helped us to maintain the order growth momentum, carried from the last fiscal year. During the quarter, the company booked orders worth Rs. 2,436.7 crores, up by 73.2% quarter-on-quarter, and 112% roughly year-on-year.

Revenue was Rs. 1,327.3 crores, which is also 27% year-on-year, up. And then also, if you compare with the previous quarter, there was a decline of 21.9% quarter-on-quarter, because of the cyclical pattern which has impacted and further impacted by the revenue mix with the traditional product buyers.

Profit before tax for the quarter was Rs. 15.1 crores and profit after tax was Rs. 10.4 crores, both up around as MD explained, it's roughly three times year-on-year, whereas operational EBITDA and operational EBITDA for the quarter stood at Rs. 39.6 crores and Rs. 61.5 crores, respectively.

And on the percentage terms, operational EBITDA was 3% and EBITDA, 4.6%. Our order backlog stood at more than Rs. 8,500 crores. If I go to the next slide, where I would like to share a little bit more details on how the movement happened in the particular quarter.

If you see our revenues Rs. 1,327 crores, obviously, previous quarter was exceptional quarter.

But if I compare year on year, Rs.1,043 crores revenue was there. So, there is a growth of roughly 27%. Material cost for the quarter was around 62.8%, and our personnel expenses was around 9.2%. So, historically, if you see Q1, there is a slow start for us, where we see a lower revenue and higher costs. And our other expenses, if you see, is hovering around 23.6% and then normally, in the 1st Quarter, it is around 23% to 24%. And towards the end of the year, we see that we are able to achieve 20% to 21% for the year.

Further, in the current quarter, if you see, there is an exchange… FOREX hedging impact at Rs. 9.4 crores, and depreciation and interests are more or less aligned with the previous quarter. So, this is how we are able to close this particular quarter, 10.4% PAT which is better compared to year on year on the lower base.

With this, I hand over to Venu.

N Venu: Thank you, Ajay. Moving to the last slide, Slide #15, yes. So, our priorities for the coming quarters and the financial year, '25, we remain committed to our 2030 strategy of maintaining leadership in core segments, shifting our core center of gravity towards service, export and digital and harness high-growth segments. On the business front, consolidated efforts will be made to leverage the large order backlog for revenue accretion and also profitability accretion. We'll have to drive productivity with an emphasis on operational excellence in all spheres of work, to achieve sustained double-digit margins going forward.

With the safety being entrenched in our DNA, we will continue to approach every day as a day one, in terms of implementing safety work culture, at all of our locations, whether it is the factory, offices or project sites. Furthermore, we continue to invest towards increasing our existing capabilities for sustainable future growth, be it for people through our cross-skilling or in terms of strengthening our footprint or expanding, all towards a seamless energy transition.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. We have a first question from the line of Apoorva Bahadur from Goldman Sachs. Please go ahead.

Apoorva Bahadur: Sir, two questions. Firstly, on the margin bit. Just wanted to know what caused the other expenses to increase almost by Rs. 50 crores year-on-year? And also, then what's our full year EBITDA margin expectation for this year? And second question is on the capital expenditure, essentially the part of 6 billion CAPEX that the parent has sort of allocated to energy transition. So, any clarity on how much of that is expected to be spent in India and some road map?

N Venu: Yes. Thank you, Apoorva. Maybe on the first one, I will ask our CFO to talk on that, but we don't give any guidance, forward-looking statement. What we have been talking about consistently is that we will enter double-digit EBITDA by end of FY '25. So, that's what we have been telling and we continue to do that. Maybe, Ajay, why don't you take him through the other expenses.

Ajay Singh: Okay. So, thank you, Apoorva. So, as I mentioned that traditionally, our quarter 1, we see the revenues are low and the cost base are high. But specifically talking about the other expenses, I would like to comment, including FOREX. So, let me comment in this particular quarter we had a FOREX hedging impact compared with the previous quarter, the impact was around Rs. 20 crores, and largely for the new project that we have booked. Then the second item is basically we have higher IT charges. As we have discussed earlier, we have migrated to a new ERP, during the 1st Quarter of '24-'25. And right now, we are on a parallel IT infrastructure. So, basically, this is where we got this higher cost, but we really expect the same to be normalized by the year-end.

N Venu: On overall full financial year basis, so we will be able to ramp up.

Ajay Singh: And the other element is basically on the higher overhead is on account of the royalty, which is, if you see royalty expenses in the current quarter is calculated based on the revenue numbers of the previous quarter as per the contractual terms. And that is how our previous quarter, as I told, was exceptional on the revenues. So, these are the three or four major items that has impacted other overheads.

N Venu: And all these things will be within the range on an overall year if you take it for.

Ajay Singh: Correct.

N Venu: So, on the second question, Apoorva is on the capital expenditure standpoint. Well, definitely, there will be, as I said, we would not like to tell at this point in time. We want to reserve it this for a later part of the year, for announcement.

Apoorva Bahadur: Okay, sir. So, as of now, the capital expenditure is, what the regular run rate that we have Rs. 200 crores?

N Venu: Rs. 100 crores per year.

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

Parikshit Kandpal: Congratulations on great order inflows during this quarter, sir. So, my first question is on when you say that you will achieve double-digit margins by year-end, but you've already achieved it in 4th Quarter FY '24. So, what do you mean by achieving it by year-end?

N Venu: When I said from entering double-digit means, we expect that in a sustainable manner. We will look at that. That's what we meant.

Parikshit Kandpal: Is it right to assume that maybe at some point of time where the revenue cross is Rs. 2,000 crores on a quarterly basis, then we'll be able to deliver that kind of number, because at Rs. 1,300, Rs. 1,400, you'll barely be at EBITDA positive. This is what I sense given the cost structures, you have at 37% gross margins and other expenses of 20% to 23% and 9% of employee expenses. So, you'd barely make any EBITDA at run rate of Rs. 1,400 crores, Rs. 1,500 crores of revenue per quarter.

N Venu: Yes, we don't want to make that kind of statements. It's up to you to calculate. But as I said, we don't give any forward-looking statement. Sometimes, in addition to what you're talking about, also mix will play a large part of the thing. So, the mix could also change quarter-to-quarter.

Parikshit Kandpal: So, my second question is on the orders. So, last quarter, you said that you have bid for some HVDC project and some STATCOM projects. So, if you can update us anything has been opened, where we are right now in the HVDC orders of Power Grids. So, if you can give some color on that.

N Venu: Yes. So, we have submitted our bid. At this point in time, since it's a closed bid, so we do not have any official information to share. All we can say is that we are engaging with the customers and providing all the necessary information sought by the customers on those particular tenders, both on STATCOM as well as an HVDC tender in that.

Parikshit Kandpal: We are not L1 as of now in any of these projects, right?

N Venu: There is not publicly opening of this, right, yes.

Moderator: We have a next question from the line of Mohit Kumar from ICICI Securities. Please go ahead.

Mohit Kumar: My first question is, a number of transmission orders in India got bid FY '24.

N Venu: Can you come close to the mic, Mohit?

Mohit Kumar: Is it better now?

N Venu: Yes.

Mohit Kumar: My question is number of transmission orders or let's say TBCB orders would have added to players, but we haven't seen any significant order inflow from India in Q1. What is causing this delay?

Moderator: Mr. Kumar, give me a moment please. We've lost the management connection. I will reconnect them.

Mr. Kumar, we have the management team back on the call. You may go please ahead. Sorry about this.

N Venu: Sorry about that.

Mohit Kumar: Should I repeat my questions, sir?

N Venu: Please do that.

Mohit Kumar: Yes. Sir, my question was a number of transmission bids were awarded in FY '24, right? So, our expectation was that Q1 will see a much, much larger order inflow for the industry. Why is there is a delay in finalization of these orders? And do you think that going forward, these numbers will pick up, especially from India business significantly?

N Venu: I think so. If you just look at in the last three to five months we had elections, maybe that's also one of the reasons maybe it slowed down. But there is bidding going on. As we speak, lots of bidding activities there. Yes, there has been a bit slow decision-making. I'm sure now with the new government, new ministries are in place, that should accelerate that.

Mohit Kumar: My second question is on the railway side. Last year, I think railway has updated guidance for adding locomotives and adding train set, and we also see a lot of Scott transformers opportunity coming up. In your opinion, and given what you see, are you seeing this activity much, much higher compared to last year in terms of pending activity?

N Venu: Yes. I think we'll look at the whole of last year. There's a lot of activity in the first six months that there was a bit of slowdown, not exactly slowdown. But the second part of the year was a bit lull. But if you really look at now, I think we see a lot of traction on the fast-tracking of some of the bids.

Mohit Kumar: Railway, are you seeing that?

N Venu: Railways, I'm talking about the railways.

Moderator: We have a next question from the line of Mahesh Bendre from LIC Mutual Fund. Please go ahead.

Mahesh Bendre: Sir, globally, there has been a shortage of transmission distribution equipment. So, although we have indicated that, maybe over a medium period, maybe 25% to 30% of our sales come from the international market. But given the current situation, do you think we will play more role on the global side, on TD equipment?

N Venu: Thank you for your question. It's a very important question. All we are saying is that we have seen a lot of demand in the domestic market, okay. Our first and primary aim is to serve the domestic market. So, we are expanding the factories. We are setting up the new factories. So, those things continue to grow on that. So, while doing so, we are also keeping enough provision in our factories, both existing as well as the new ones, to cater to the demand outside of India. And that's the reason we said our exports in the beginning was a 15% when we started our company. And we said it will, over a period of time, it will happen 25%. Now it's already in the range of 30%. And we will see in that 25%, 30% range, it will remain consistently, without taking any large orders like Marinus Link, even without that, we will be in the range of 25%, 30% in that. So, that's where we want to do because we have a huge domestic order, domestic demand, and that's where we will be concentrating on that, in addition to the export.

Mahesh Bendre: Sure. And sir, apart from transformers and switch gears, I mean some of the equipment like grid automation, reactors, STATCOMs, where we have edge over the competitors. So, do you think this part will become major going forward or substantial part of the business, maybe three four years down the line?

N Venu: Yes. I think if you really look at the whole renewable, renewable needs a lot of new technologies powered through the semiconductor, etc. So, that semiconductor things like whether it is HVDC, STATCOMs or power quality. And those are the things, we'll definitely have a bigger edge in new power systems or in the new grid stability related things like that. And we have seen this coming in, not only here but globally, and we are one of the first movers to invest in those technologies and put up our factories.

And the Chennai factory is one example. We are the first one, probably in the country, to set this up at that scale. From that factory, we have produced the very crucial parts, like what we call as HVDC valves for our Mumbai project, and then we have received now other major orders for another project. So, these are the things we believe that going

forward, will have quite a big traction, whether it is renewable integration or cross interconnections between the nations. Those are the things that have a huge opportunity.

Mahesh Bendre: And sir, last question from mine. We have guided that we will achieve 10% margin in the medium term. But going by the demand scenario, both in domestic and globally, do you think there is substantial scope to improve our margins, I mean significantly higher than what we have been guided, not now, but maybe over three to five years down the line?

N Venu: Again, I don't want to say anything, Mahesh. What I can say is that what we have committed. So, we want to come over there and probably then we will talk. You can make your own calculations. If the revenue is going up with the same cost structure, things like that, you can start making your own estimate. But all what we can say from the management standpoint, is that we said we will enter 10% EBITDA by end of FY '25.

Moderator: Next question is from the line of Prathmesh Salunkhe from PL Capital. Please go ahead.

Prathmesh Salunkhe: So, looking at the demand for the transformers in the country, just wanted to know what would be the market share of Hitachi Energy in terms of power transformers, especially about 220kVs, since that is the big boom right now?

N Venu: Prathmesh, thank you for your question. So, we normally don't give our market shares by product lines, et cetera, in that. But having said that, we are one of the largest producers of this large medium power transformers in this country, and also globally. And all I can say is that we have a very decent market share in our area of operation.

Prathmesh Salunkhe: Sir installed manufacturing capacity for transformers are reaching somewhere around 500 GVA by the end of '26. What do you think Hitachi Energy will stand in that sense, I mean in that sector?

N Venu: We have recently announced globally, this is for global, it's not for India, I just wanted to clarify. So, on the CAPEX, globally, we announced that $1.5 billion will be invested globally. Again, I'm stressing on that, so that you understand very clearly, further increasing the CAPEX of the transformers alone, okay?

So, that clearly shows that being one of the leading largest capacities globally available. So, we are investing in that. So, in India, also, we have been investing in the last three, four years, right? We have invested in the capacity expansion of our power transformers. We have expanded our dry bushing factories, new greenfield factory we announced. All those

things, we continue to expand it. And we have done that in the last 3, 4 years. We never stopped investing even during COVID time also.

Moderator: We have our next question from the line of Jonas Bhutta from Birla Mutual Fund. Please go ahead.

Jonas Bhutta: Just two quick questions. Firstly, if you can update us, what percent of the Mumbai HVDC project is complete as of now, as of this quarter?

N Venu: Yes. We are in the range of around 30% - 40% completed.

Jonas Bhutta: And as this quarter has seen an increase in the share of projects versus products in our order mix. If you can just remind us of what is the typical differential in gross margins between a product order and a project order. And as India or BCL sort of starts awarding the HVDC projects over the next one, two years, given that these will be project heavy, just wanted to understand from that angle, how gross margins would be there?

N Venu: Jonas, thank you for your question. We normally don't give margin by product line or projects taking that.

Jonas Bhutta: So, even a rough differential sir, would help.

N Venu: Yes. Again, always margin is a function of risk and reward, right? The more the risk, the more reward, and if you are able to manage the risk, then you have better rewards. And the products are sometimes very simple products. Without any risk, we do not have that much of a thing in that. So, it's a varying thing. It's not a straightforward answer I can give it to you in that. Again, when you talk about the project, you've to understand a couple of things, very important things. Like, for example, previously, the project when we used to do a couple of years back, that we used to do the project in a complete EPC manner, that is engineering, procurement, commissioning, civil everything.

Today, we don't do that. Our project team is only confined around our products, okay? We do engineering of our products. We ensure that the products have been supplied to that, and then we install and the commission. That's what we call as a project defined. So, unlike EPC, where the risk profile is huge, and there's a lot of unknown elements out there, how long it will take. Those things and all we don't know. The one which we have received, the Marinus Link, we call as a project, but it is more of a design engineering supply and commissioning of valves and some other associated products for that.

Moderator: Next question is from the line of Amit Mahawar from UBS. Please go ahead.

Amit Mahawar: I have two quick questions, sir. First is on the next two large HVDC projects, can you briefly share the status? And what is the competence of Hitachi there?

Ajay Singh: Sorry, the competition of?

Amit Mahawar: I'm saying on the next two HVDC large projects that are expected in the next 12 to 18 months. What is the broad status on both, because both are very different projects, very large ones. And broadly, what's our capacity or framework there, in terms of the financial and operating capabilities that we have?

Ajay Singh: Which 2 projects are you talking about, Amit?

Amit Mahawar: I'm talking about HVDC project.

N Venu: First of all, thank you, Amit. As you know, there are two projects of HVDC, which are, I would say, three projects. So, the one is 6,000-megawatt project, which is in the final stage of bidding. That's the one. And we hope that, that should get concluded in the next quarter or two quarters. And then thereafter, there's another of similar size for 6,000 megawatt Khavda project, okay? That's also another project, which has come for a bidding, and then we expect that bidding to be completed in the next two quarters or so. And then there's a third project, which is also Khavda, which is a VSC project, which is a 2,000-megawatt project. Recently we got notified about the project, but it will take time, maybe by end of this financial year, it will come up for bidding.

Amit Mahawar: Just to clarify, Hitachi is technically qualified for all the three? Or is there any different technology in any of the 3, where we cannot participate, sir?

N Venu: We have a complete technology, both the technologies, we have invented this and globally. And locally, 50% of the installations around the world, they run through Hitachi Energy technology. So, that the technical competency-wise, we are fully competent and fully qualified to bid these projects, when they are available for bidding.

Amit Mahawar: Very helpful. And second question is more on the sector, Venu, and a slightly longish one. If you look at last 20 years of transmission equipment market history in India, how do you think Indian companies, right, and I'm talking about the top four, five Indian companies, including the MNCs, who are operating out of India to serve the global market because China used to be a large exporter of transformers it gives for the world, right, at

$5 billion, $6 billion peak number a decade ago, which is no more a number for them, because the Western countries are no more buying from China. So, whether it's Hitachi or the four, five other players. What are those four, five factors do you think which are in our favor, which makes India one of the large potential supplier of transformers it gives to the world? This is more a qualitative assessment from your side.

N Venu: No, I understand that. But the ones which we announced project of Marinus Link, can give you one kind of sense for you, right? Now this factory, we set it up, okay? And this is the first time we did it. And we have seen this demand coming not only from India, but also from the rest of the region. And you see here and after resetting up of the facility, we are now even looking at what else we need to do, because the factory is already full now.

So, those are the things can give you a little bit of sense, for you. And yes, India can play a major role in going forward, in making this as a manufacturing hub, and because we have the talent availability in the country, we have the required resources, and those things should help us in a medium term to long term.

Moderator: We have a next question from the line of Apoorva Bahadur from Goldman Sachs. Please go ahead.

Apoorva Bahadur: Sir, I just wanted the share of services and exports and revenue, if you can provide that?

N Venu: Yes. So, on the exports, Apoorva, I think we have been consistent, saying that we got to 25% and now it is slightly trending upwards of 25%. So, this quarter, for example, if we removed Marinus Link, we are 27%. If you add Marinus Link, then we are 60%. Sometimes, those things will get skewed with a large project. So, we will always take a measure of a baseload orders from the exports, so we will be in the range of 25% to 30%.

Apoorva Bahadur: In the quarterly revenue as well, if you can provide a breakup?

N Venu: Quarterly revenues will be slightly lower, I would say, but it will pick up in the same range in the next 2 to 3 quarters.

Apoorva Bahadur: Okay, sir. In services?

N Venu: Services, a high single digit at this point in time. So, this quarter was a bit low, actually. Again, we had a large project due to that. If you take the numbers as a percentage, it

looks a bit low. But our strategy on the services is, if you take on a one full year basis, we are in the single digit, and we want to take it to the double digit.

Apoorva Bahadur: Okay. Sir, my next question is on the pricing power in the domestic market.

N Venu: What power?

Apoorva Bahadur: The pricing power in the domestic market, as the global markets are so strong in this shortage of transmission equipment. Are you seeing any improvement in your pricing power?

N Venu: No, I wouldn't say there's a dramatic improvement on the pricing power. But all I can say is that the T&Cs are becoming better, and then more and more projects are coming with the price variation clauses, those things are better, I would say in that.

Moderator: We have our next question from the line of Vijay Bhatia from Max ROI. Please go ahead.

Vijay Bhatia: Congratulations on a great set of number as always. I just wanted to ask, sir, CNBC carried in a story today at around 3 o'clock that there will be a block deal or a stake sale from the parent, since they already hold 75% in the near future. Just wanted your comments or thoughts on it, sir.

N Venu: Not that we are aware about of any of those block deals. All I can say is that the parent organization is very committed in the Indian market, and that's the reason we have been investing, and we continue to invest and expand our factories in that. So, we do not have any information, if we come to know, so we will always notify and inform all the authorities, stock exchange, etc. We do not have any information.

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

Parikshit Kandpal: Just this question for Ajay. So, Ajay, you've spoken about that 1st Quarter ERP system went live, and parallelly you had an IT system running. So, for, when your full captive system is online, what kind of savings do you think can happen on other expenses? Because if I see last year annual report, you had incurred about Rs. 128 crores of information technology expenses for the year as a whole. So, how do you think this number will settle down?

Ajay Singh: Thank you for the question. As I told you, right now, presently, we are running on it. Just now we have converted to the new system, S4/HANA. And for 1 or 2 quarters, we expect that there will be a parallel IT infrastructure that we need to do. So, compared to what we see right now on the percentage terms, we are definitely going to come lower at the end of the year.

Parikshit Kandpal: But this will move to depreciation, right? If you have IT assets and I can understand you will be amortizing. It's removed from other expenses to below EBITDA line, right?

Ajay Singh: The nature of the expense is not to be amortized, because it is expensed out as far as the project is concerned.

Parikshit Kandpal: My second question is last time you spoke about the high-speed rail and we're engaging with a large EPC contractor who has won this Rs. 10,000 crores of orders. So, any update on that? So, what's the score, what could be potentially the size we could get from the opportunity within the Rs. 10,000 crore pieces for us? And also, on the Vande Bharat, because last time, I think, you talked about Rs. 4,000 crores opportunity lies on the Vande Bharat side. So, if you can update us on that.

N Venu: You're talking about on the high-speed rail?

Parikshit Kandpal: One was on high-speed rail that Rs. 10,000 crores, I think, which went to L&T. And then I think in the previous call, you mentioned about that opportunity for Hitachi to play on Vande Bharat was about Rs. 4,000 crores. So, if you can update anything?

N Venu: Yes, those projects pursuits are still under discussion. So, we submitted our bids. So, when the bids are under submission, so we'd not like to discuss. Once it concludes, then we would like to tell you on that.

Parikshit Kandpal: Vande Bharat opportunity, I mean you still hold on to the Rs. 4,000 crore number, I think you had spoken about.

N Venu: I think so, yes. Based on the projections of the ministry, because we believe that's the available market for us.

On the previous question, if I may clarify to Mr. Vijay about CNBC news piece, which you talked about us, we saw that, that basically has nothing to do with the Hitachi Energy. It's a different Hitachi group, where basically commercial HVAC pertaining to residential and lighting commercial. We do not have any details, but this is what we have seen on CNBC.

Moderator: We have a next question from the line of Viraj Mithani from Jupiter Financial. Please go ahead.

Viraj Mithani: My question is on; can you give some color on data center opportunity for us?

N Venu: So, data center, as I said, the data center has quite a good growth potential for the sector as a whole. And we have been talking about for our portfolio, almost 15% to 20% of CAPEX dependent on the hyperscale data centers, etc. And so, the data center decision is not happening uniformly on a quarter-on-quarter, but we believe that it has a huge potential, and it can go and a more consistently ordering should take place on a quarter-on-quarter basis is that. But it has a huge potential. As you know that, there's a 900-megawatt worth of data center there. And in the short term, the expectation is that it is going to be doubled almost 1,500, 1,600 megawatts.

Viraj Mithani: What would be our size of the opportunity in this, in terms of numbers, if you can quantify?

N Venu: That's what I said. For every data center, our CAPEX is around 15% to 20%.

Viraj Mithani: And sir, my next question is on other expenses, which has seen a jump on quarter-to-quarter. So, can you give some light on what are the components that have led to this rise?

N Venu: Maybe Ajay, will you talk about? I think you already explained it, but once again you can explain it.

Ajay Singh: Thank you for the question. I think this question already I have talked about. But since you asked again, let me again. So, other expenses, including FOREX, I have talked. So, FOREX, we have done a hedging of our large projects. So, that is where compared to the last quarter, there is an impact. And then there we have higher IT charges. And again, as you must be aware, we have discussed earlier. We have migrated to a new ERP during the 1st Quarter of '24-'25. And right now, we are on a parallel IT infrastructure. And that is why, we see the caution there in this quarter, and we expect the same to be normalized by the year-end. And another important aspect that I talked about is on the overheads, is on the royalty, which is basically, if you see royalty expense in the current quarter is calculated based on the revenues, pertaining to the previous quarter, and that is just for the contractual terms. As you know that our last quarter was exceptional on the revenue side. So, that particular impact has come in this quarter. So, these are the major ones, as far as the other expenses are concerned.

Viraj Mithani: I understand again the expenses would come back that will be again reimbursed right to our account. Is this a nominal entry? Is that correct to say?

Ajay Singh: Yes. I think it's a notional cost and that's not actual cost. You’re right.

Moderator: Ladies and gentlemen, that was the last question for today. On behalf of Hitachi Energy India Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.