SIEMENS

7th June, 2021

National Stock Exchange of India Limited
BSE Limited

Scrip Code –

National Stock Exchange of India Limited: SIEMENS EQ
BSE Limited: 500550

Analysts / Institutional Investors Meet - Transcript

Dear Sir / Madam,

Pursuant to Regulation 30, 46 and other applicable provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed transcript of the Company's Analysts / Institutional Meet held on 1st June 2021.

The transcript of the said Meet is also being uploaded on the website of the Company at: www.siemens.co.in/investorcommunity

Kindly take the above information on record.

Yours faithfully,

For **Siemens Limited**

KETAN NANDKISHOR THAKER

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Siemens Limited H1 FY 2021

Analyst Call

June 1, 2021

Management:

- Mr. Sunil Mathur – Managing Director & Chief Executive Officer, Siemens Limited
- Dr. Daniel Spindler – Executive Director & Chief Financial Officer, Siemens Limited
- Mr. S. Venkatesh – Head, Investor Relations, Siemens Limited
- Ms. Ramya Rajagopalan – Head, Communications, Siemens Limited

S. Venkatesh

Good day and welcome to Siemens Limited Q2 2021 analyst call. This is Venkatesh, Head of Investor Relations, Siemens Limited. I trust all of you and your loved ones are safe and in good health during these difficult times. The conference will be on listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. For this purpose, you need to press the hand icon within the participants' icon on the bottom right side of the page. Please note that this conference is being recorded.

On the call we have Mr. Mathur – Managing Director and Chief Executive Officer and Dr. Daniel Spindler – Executive Director and Chief Financial Officer of Siemens Limited. Before I hand it over to Mr. Mathur, let me begin with the safe Harbor statement.

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I now invite Mr. Mathur to begin the speech

Sunil Mathur

Good morning everyone and I hope you are all safe. Today, it's been a challenging over a year now. The first wave went, and we thought things were going to get better, before the second wave came in a much more forceful manner. So, I do hope all of you and all your families are safe and have been able to ride the unfortunate events in the last couple of months. It is positive to see that the trend now is going down and that hopefully we are slowly getting out of this sooner than later.

The presentation that we intend to do in the next couple of minutes will be in three parts. I will start with little bit explaining the business for the first half year of Siemens so that's a period October to March, followed by Daniel who will present the financial highlights of the last half year in particular also the last quarter. And then I will give an overview of how I see the future for our business and the market and the environment moving forward.

Let's just start with the macro view. We did see starting July last year onwards, that the economy started to rebound. And this went on at a pace actually which was much faster than we expected, right through starting from July, right through up to actually gathered momentum starting January. We were a little bit concerned after wave 1 or at the end of July, is this going to be a rebound or is it pent up demand or is this going to be sustainable orders that are coming in. And we had a visibility and pretty good idea of how the period October-December will look like but were not sure about how the January to March period would pan out. Reality was the demand began to pick up much faster than we expected, and the major indicators turned around very quickly, and we saw that reflected in our markets as well. Then came the second wave starting March. And I will talk a little about this later, but there was an impact on some supply chains around the country. Government spending did begin to slow down, but I will talk more about this element at the end of the presentation in my outlook.

The reality is today, while we have got visibility, we don't really know how to estimate the overall impact of the second wave. It's a little bit early days yet to see what the impact will be on the economy. So far, I can say we have got a mixed view of it. The short cycle business is doing pretty well. The project business, long cycle business which is primarily government related is getting pushed out. But again, I'll talk more about this towards the end. What has impacted a lot of the supply chain has been something that we didn't expect and that was the increase in commodity prices, the impact of shortage of semiconductors and all that the way it impacts the supply chain and actually delays buying behavior for many customers who are actually believing that the increase in commodity prices is a short-term phenomenon and they prefer to wait a couple of months hoping that it is going to come down and so on. It's a little bit of a mixed view, but as I said, I'll talk more about it towards the end.

Reality is however that all the businesses did pick up. So, we did see a turnaround in our industrial business. We did see a pickup in government spending, both in the states as well at the center. That is what was reflected in both private spend as well as CAPEX of government spend kicking off in the period October to March last year and that's what is being reflected in our numbers.

As we speak today, the opportunity pipeline stays healthy. There is no project cancellation. Our order book is still robust. There are some delays in finalization, not because the demand has gone down, but more because people are impacted by COVID. But there have been no project cancellations or rethinking of any investment decisions. Business continuity to a large extent has been maintained. We do not have any concerns in our supply chain either in our ability to supply or the ability of major suppliers to deliver to us. Our factories and most of our project sites are largely operational. There are regional impacts of one side, or the other being impacted for a short period of time because of labor falling ill or a customer not available. But broadly this is not really having a material impact on our numbers as we see right now and on our performance. Currently all our white-collar employees are working from home. Our factories are largely operational, some at a higher level than the others, but that's basically a function of maybe localized short-term lockdowns. But as I said, it doesn't really have a major impact on our ability to deliver or on the buying decisions of customers that are being revisited.

We continue to focus on health and safety, and because of that we have been able to maintain business continuity, taking care of the employees, both white collar as well as well as blue collar and our employees at the site.

On the 1st of March, we were able to close the C&S acquisition successfully. We now have, a management team in place. We have a board in place, and we are now focusing on the market and addressing the demand that is there. And as we stated in our primary purpose of doing the acquisition was export and that is beginning to happen already. So, we have started off well. March, April and May have been good, and we will continue down that path in our integration activities, in our efforts to really reach to synergy effects that we wanted and the targets that we wanted when we acquired C&S.

Moving on just some ideas of some of the large orders that we got in the last six months. And you would see here a mix of not only public orders or government orders, but also private orders. STATCOMs particularly in the solar area. We are seeing an increase in demand over there as solar. The focus on solar increases, there is an increased demand for power evacuation and STATCOMs and GIS substation will become a natural fall on from there. We are seeing a good increase or an interest in waste heat recovery projects partly due to intentions of customers to decarbonize, but also to increase the efficiency of plants by using the waste heat there. And a lot of interest here and particularly in the cement and steel sector and we are getting good traction over there. The lift irrigation project following the earlier one that made that we had got using our technology of the voltage source inverter-based drives that we have got is something that is also gaining traction as the water management activities on the government gain traction, we are beginning to see much more interest, much more demand coming in orders of this kind. We did one in the last financial year, and this is the first one in the current financial year. As also on mobility dedicated for freight corridor projects, Eastern dedicated freight corridor project here with signaling technology order that we won. The TBCB orders are also beginning to take off. Some of it spill over from the prior period, but also a clear interest in moving towards GIS substations and switching from AIS to GIS. Prestigious project that we got for the parliament building on our smart infrastructure where we are doing the electrical distribution, the fire safety building management, video surveillance and access control activities there as well.

So, you see it has been actually, these are not pent-up demands. A lot of these are demands that have come up in the last 3 to 6 months which has given us a lot of positive hope for the demand and the opportunity pipeline.

We had some real strategic initiatives that we were able to close in the last six months our partnership with Ola to build its upcoming electrical vehicle manufacturing facility will be one of the largest in the world. 2 to 5 million scooters, electric scooters will be manufactured there, and they will have accessed through this partnership with us through Siemens integrated digital twin design and manufacturing solutions which will help them really to digitalize and validate the product, the production and finally the performance activities as well. So this is a classical industry 4.0 approach to a Greenfield manufacturing facility.

We signed an MOU, a strategic MOU which Switch Mobility a subsidiary of Ashok Leyland today to work with them on delivering cost-effective E-Mobility solutions which will be available to commercial vehicle customers in India. Here Siemens will provide the charging infrastructure technology and the charging infrastructure management software solutions which will enhance the performance of the charging stations there. The infrastructure will be supplemented with a management software solution to enhance the energy efficient operation there and both Switch Mobility and Siemens will collaborate on introducing new business models, such as E-Mobility as a service or integrated depot energy management or vehicle to grid as well as the onsite-offsite renewable energy sources by leveraging batteries from commercial vehicles as well. So, it's quite an all-encompassing collaboration that we have signed off with Switch Mobility for the E-Mobility space.

Another one very strategic initiative was the CAPEX that we invested to localize Vacuum Interrupter, medium voltage vacuum interrupters, here in our Goa location and this is part of becoming much more competitive here in the country but also using this facility not only local for local, but as part of the global network through the localization and the cost benefits that we get out of this. We do believe particularly in the medium voltage switch gear area, that we will get much more competitive, not only locally but it opens up a market internationally for us as well and this rolled out commercially already on the 1st of May commercial production has started here.

I would like to spend some time to explain some of our classical digital successes that we have had. Now this is just reflecting the kind of bandwidth of digitalization activities that we do. For example, in the paints area, cyber security and here is where we offer the industrial anomaly detection systems, continuous threat detection, where really, we are helping the customer to visualize the future where multiple cyber security interventions can be implemented to ensure the safety of the entire operational technology there, the plant, the equipment to subsystems out there. This will ensure that the productivity is secured not only for this company, but these kinds of solutions can be scaled up for not only paint companies which we have done here specifically, but also for similar projects in other verticals, we have already started getting an interest. We are working with automotive companies now on similar solutions. On the food and beverage one, this is classical industry 4.0, where the company here had a heavy dependence on manual effort, a very limited data capture of their machines, the performance of their machines and very little transparency on their processes. So, a lot of the decisions about how to place the machines, what further efficiencies could be got, were more gut-based rather than data-based and so on. So based on the detailed digital maturity and gap assessment that we first did, we then introduced digitally integrated operations, where the machines get interlinked and we are able to enhance the performance of the entire set of machines, condition monitoring, energy analytics, all this was brought in, which finally brings a benefit to the customer in increase in the output, in production costs, in reduction in production costs, in unplanned downtime being reduced, in increasing the levels of quality and reducing the quality of rejections. And again, this is something that is not typical to food and beverages. We have the expertise in food and beverages, but we can expand this to pharma, to paints, to all the other verticals that we are operating in, so this has a huge scalability. When you come to pharma for example, once a drug has been discovered before you start manufacturing the drug in large scale, drug manufacturers need to do a controlled manufacturing in a pilot plant to figure out what the optimal parameters are for production. So, lot size, temperature, pressure, quality to ensure that you get exactly the right ingredients done over here. We did this through we introduced our software, which is actually the Siemens' gPROMS solution. Through this, you can actually reduce the need for the pilot plant manufacturing time through doing process modeling, simulations, etc. So, it increases the speed of your time to market greatly. Again, a classical solution which we do specifically for pharma, but it can be replicated in all the other vertical solutions. And then we have got solutions in building management, the classical manufacturing as well in industry 4.0. I don't want to go into too much detail here, but also in remote power management, where again customers can monitor the consumption and health of the low voltage feeders, particularly industrial customer sitting remotely for the entire plant and for multiple plants that they have. And here we have been able to help customers improve the availability, reduce maintenance time and manpower and improve the power quality. So, there's quite a lot of such kind of projects, a huge interest that has come up in the last six to eight months, a very large pipeline of similar projects where customers across multiple market verticals are now engaging with us to find solutions to their specific problems.

Let me now hand over to Daniel to go into the financial highlights. Daniel, over to you.

Dr. Daniel Spindler Thank you, Sunil. Good morning to everyone. Also thank you to everyone for joining us today to discuss our first half and second quarter results for Siemens Limited India financial year 2021. Just to recall our financial year range is from October 1st to September 30th.

Overall, I am very pleased that we delivered another outstanding performance and here my sincere thanks goes to all colleagues at Siemens India for all their dedication despite the harsh pandemic conditions.

Let me start with some general comments before going later into the financial details. So, from an Indian macro perspective, it is clearly visible that industrial recovery continued, which was obvious in key verticals as machine building, manufacturing, chemicals, also pharma, we heard it. Still would like to mention that part of the strong rebound overgrowth in our industries is still due to some catch up effects. Interestingly, I think we also had a GDP growth for the first quarter for financial year 2021 in India stands at 1.6% of the 0.4% previous quarter and overall, we observe a contraction in GDP for India for the full financial 2021 in the range of 7.3%. For Siemens India this led to a strong operational momentum driving profitable growth and excellent cashflow. At the same time, we will continue to manage risks and opportunities in a prudent way. Besides the pandemic related risks, we keep a close eye on stressed supply chain. Sunil mentioned it already. I believe I can say our teams have done a good job so far. They are working hard to further mitigate risks from shortages like semi-conductors and also significant price increases in certain categories like metals and amongst others, aluminum, silver, copper to be mentioned here. We also observe increased rate in transportation costs. On January 1st, we closed a divestment of Flender business known as mechanical drives, some important steps to focus our business. The sale was on a slump sale basis for a final consideration of Rs. 3.8 billion. And as a result, we recorded a total gain for the divestment of Rs. 487 million. pre-tax in the first half year reflected under discontinued operations. And noteworthy mechanical drives delivered a solid operational performance from October until closing.

Finally, our smart infrastructure segment closed the C&S electric acquisition for Rs. 21.6 billion and this is fully in line with our strategy to grow in India and adjacent markets, aim is to get access to a fast-growing low voltage power distribution market in India and at the same time C&S will serve as an export hub for further markets in the regions.

Now I will walk you through the financials of our fiscal 2021 quarter two performance on the next slide. And I would like to mention also that all financial figures that are now shown on this and on the subsequent slides are based on continuing operations, meaning without mechanical drives. So, let me start to give you a brief snapshot on the KPIs for Siemens Limited in the second quarter. Orders were up by 16.9%, key drivers here were Siemens Energy, Digital Industries, Smart Infrastructure, all up double digit. And now we will come to the segmental performance in more detail later. Revenue was up across all businesses by 29.6%. So, topline growth came in very strong and was broad-based. Profit from operations for our industrial business rose substantially to 11.6% of revenue, a Rs. 383 crores benefiting from topline driven productivity momentum. In addition, structural and operational improvements are paying off. Also, here more details later to follow. Altogether in considering interest income of Rs. 54 crores this leads to an excellent profit before tax performance of 30.1% of revenue or Rs. 433 crores which is a 95% increase compared to last year. After tax deduction, we achieved a profit after tax of 9.6% of revenue and this translates into a strong earnings per share of Rs. 8.87 and if we can include the Flender gain EPS which stands even at Rs. 9.22. Some words here on the gross margin, our gross margin was impacted by higher logistics costs as well as increased commodity and material pricing. This is partially due to weakening of INR versus Euro and US dollar, which led to increase in cost for imported goods. However, that negative impact was limited due to pricing actions and our stringent hedging activities, we put it under other expenses.

On the next slide, we have the first half year performance which is October to March. For H1 we recorded 17.0% in orders growth and 22.9% in revenue respectively with a very strong book to bill ratio of 1.06. Profit from operations stood at 11.1% and profit before tax 12.8 and after tax 9.4% of revenue.

I think I can say that Sunil and me are extremely satisfied of our progress to achieve a more consistent cashflow development and cash conversion throughout the entire year and Rs. 9.4 billion of cashflow in the first half year generated from operations is a very strong performance and the good results originate from ongoing initiatives that have been initiated in time. Our teams are more than ever geared to consistently and constantly drive cash conversion and our continuous focus on working capital management delivers impressive results now. So, our team is pulling all leavers to improve working capital, prioritize orders and billings, wherever liquidation is possible, as well as we have secured payment terms and continue to focus on receivables in collection of overdues. We talked about this already in our last call.

So, to summarize one of Siemens India powering strengths is our healthy financial positions, 44 billion cash in bank balance with a very strong net available liquidity unchanged also after the acquisition of C&S Electric for roughly Rs. 22 billion as we mentioned earlier.

So, with the next slide, let me tap into our order development in more detail. The graph shows the absolute numbers per quarter in orders over the last eight quarters and in the bubbles on top, we display the year over year growth rates. So, as you can see for the last three quarters, we recorded an order growth year over year and for the first time now in seven quarters we again see a double-digit growth in our second quarter. This is due to several major orders, Sunil showed some of them and it is also backed by strengths in short cycles products which led to the highest quarterly order intake over the last two years with a Rs. 33.1 billion. Clear reasons being is the ongoing recovery and catch up in key markets and therefore we were able to further increase our backlog to Rs. 126.8 billion and the remarkable order reached well above one year. So, quarter two orders we are also touching pre COVID levels of second quarter financial year 2019.

Now comes the overview on revenue on the next slide. After the huge dip last year during the COVID-19 related strict lockdown and supply chain disruptions, the revenue growth accelerated to 29.6% growth for the second quarter on the basis of stringent backlog execution and to some extent also compare the lower base from previous year. Again, the growth was broad-based across all our businesses except mobility. And again, more details on segment level will follow later. And also like in orders our quarter two revenue figures are back to pre-COVID numbers, meaning compared to second quarter financial year 2019.

Next slide is about the development of our profit from operations. In the light of our revenue growth that we have just seen, we have reported a profit from operations in second quarter amounting Rs. 3.8 billion. And to give you some more colour, let me mention the most important drivers here. Firstly, there's a rigid conversion on our strong revenue growth despite pandemic restraints. And in addition, we have further worked on a bundle of cost control measures. With the start of the pandemic, Company initiated a stringent cost saving program which we also alluded to in our last call to some detail already. The early identification of cost saving areas complemented by rigorous execution of structural and discretionary cost measures have been put in place. And in that context, were able to limit the adverse impact on our bottom-line and therefore saw only relatively modest loss last year during the lockdown, as you can see in the middle of the graph here.

Let me explain some of our cost measures in more detail now. To start with the continued curtailment or reduction of discretionary spend like travel expenses, also having less conferences, trade shows, training, seminars, etc., less cost as well. Secondly, we drive the optimization of fixed costs and overheads like reductions in office and building space with lower rent, low electricity, less maintenance, lower transport costs and so on. Employee related cost control measures resulted mainly from hiring freeze and lower headcount as well as lower payments, for instance, on incentives. While the amount of savings may not be fully sustained. We expect a significant push to save permanently also in the future. And that's a very important statement. Our discretionary spending continues to be on very low levels. However, this effect will decline to some degree. And why because if the ongoing progress in vaccinations to bring the pandemic under control as a country in India will reopen and travel and sales efforts will eventually pick up. We benefited well from FX and commodity hedging gains compared to last year. For the first half year this effect amounts to a delta of Rs. 1.4 billion, meaning we had losses of 900 million last year versus 500 million gains this year. And of this 1.4 billion approximately 1.1 billion we recorded in the second quarter alone. On the other hand, we experienced headwinds from supply chain disruptions as we mentioned already a few times. For instance, semiconductors, higher logistics costs and to quite some extent also unfortunately lower export incentives in the range of around Rs. 300 million for the first half year and Rs.200 million thereof in the second quarter. Now we are expecting the new scheme the remission of duties and taxes on export products to kick in.

Lastly stringent health and safety measures also led to additional costs. Now, as a material extraordinary effects apart from FX, commodity hedging and export incentives, to be noted here.

On the next slide, I want to throw your attention on our business portfolio mix. Currently on the left-hand side graph, we see growth in short-cycle product business, especially in Smart Infrastructure and Digital Industries segments pushing our sales mix towards products, rounded to products one third projects two thirds, as you can see. And with recent more major orders booked, also the project business will pick up eventually. Furthermore, we see some marginal increase in our export business in the middle of the slide with a share of 21.8% which typically gives us good margin quality. On the right-hand side when it comes to split into public and private business, then there's a bit of a shift towards private customers visible with a portion of about 83%, reason being as already said on the product side, it’s a strong push of private short-cycle product business.

With this let me now share further details regarding our performance across the various business segments. I will start with the performance of Siemens Energy which unchanged shows a strong resilience against the pandemic. We have done order growth of 8% and revenue of +16% for the first half. Very positive to mention here's the profitability of Rs. 3.1 billion +14.2% of revenue, a 65% increase year over year. Siemens Energy growth contribution comes predominantly from generation and service business, and we had some major orders from private and public customers like already highlighted by Sunil, waste heat recovery Ametha and Bikaner substation. Bottom line, we see an extremely solid operational execution Siemens Energy could gain from FX and commodity hedging in the first half year in contrast to some losses last year which partly however we have offset by lower export incentives. So, on a comparable basis, the margin increased by around 100 basis points to a level of 12% of revenue.

Next slide is about Smart Infrastructure. Smart Infrastructure business was driven in most of the sub-segments by further uptake in short cycle industrial and electrical product demand plus stronger demand in power distribution and data centers. Consequently, Smart Infrastructure delivered a solid performance across all metrics as you can see. Orders in total were up by 1% on tougher comps, we had a major order last year and revenues nicely up by 30% on admittedly pandemic related lighter comps. The increase was propelled throughout most of its sub-segments with some softer development in solutions and service business. Margin performance of 8.8% on the right-hand side, meant a return to pre-COVID levels whereby structural improvements and discretionary cost savings helped besides higher capacity utilization. Margins here are more or less comparable eliminating effects from FX and commodity gains and lesser export incentives which almost zero off.

Next slide is about the Digital Industries which faced an increasingly improving market environment in the first half. This is reflected in a high surge in volume, top and bottom line, while orders are up by 36% riding on higher customer demand rising at fast pace, especially during the first quarter and also on a strong recovery of key markets like, pharma, food and beverage, intralogistics and machine tools to be mentioned here. Revenue grew by 38% showing a strong upward trend due to higher customer offtakes and stringent order conversion. Operational margin performance at digital industries reached a healthy 9.9%, 117 base points better than previous year. Margin improvement was benefiting from strong profit conversion on higher revenue and short cycle business combined with low COVID-19 rated discretionary spending. Some positive impact came from better base due to losses in FX and commodity hedging last year, but not very significant in Digital Industries.

Finally let's talk about first half year performance of Mobility. The sales funnel remains strong for fiscal 2021, even so we must expect some project shifts. As a result, orders increased by 10% on basis of a major order from Eastern dedicated freight corridor which we put in first quarter. Revenue had a decline by 6% due to lower demand in passenger locomotive components. Margin performance was weaker with positive 9.7% down by 170 basis points. So, mobility again showed a solid set of numbers in an ongoing difficult business environment with pandemic related restrictions.

To complete the picture of the remaining business segment, which we don't have a slide for but just one sentence on Portfolio Companies which is large drive applications continue to execute their potential with double digit order and revenue growth and well improved profitability.

So as a summary, Siemens India performed considerably strong in the first half of fiscal 2021 in volume and top-line growth. We delivered well on bottom-line and cash even as the economic consequences of the pandemic still had some impact on our operations.

Now let me conclude my part with our key focus areas and priorities for fiscal 2021. First one, drive profitable growth like we have achieved in the past quarters against the backdrop of deteriorating conditions due to the second wave of the pandemic in India. We have a strong and very healthy order backlog position with a reach of over one year. Number two, Company has initiated stringent cost saving measures which I talked about to ensure that resources are adequately aligned to the expected business volumes and insofar driving operational efficiency. And I can say that all colleagues are working hard to avoid one time impacts like say liquidated damages or non-conformance costs. Strong cash continues to be one of our prime focus points where we want to maintain our healthy liquidity position and strong cash conversion. And number four, finally, we are in the midst of successfully closing our C&S transaction and have already consolidated the numbers into Siemens Limited for one month in the second quarter. And Sunil was talking about the performance that we are seeing over there which is also to our satisfaction. With this I hand back to you Sunil, for your outlook please.

Sunil Mathur Thank you, Daniel.

Moving forward with the outlook let me just start first with the overall picture, we are seeing for short cycle business and then the longer cycle, there is clearly a demand. I will talk separately for short cycle and then the longer cycle. The demand is there, there is a strong pull from the market, even April and May seem to have been okay. The commodity price rises have been largely accepted in the market. What we are not sure about is how will the liquidity play as a factor, but the demand is there, the pull is there. OEMs and panel builders are ordering, and this is not only distributors, but this is going beyond that into the end customers. And we see very clear traction in chemicals, pharma, cement, steel, in general for the short cycle business. A lot of demand as I said also in digitalization and automation solutions.

When you look at the industrial business in general there is not too much Greenfield business that is coming up, investments haven't really taken off yet, a lot of discussions are happening since the last 3 or 4 months. There is not too much that has actually happened in terms of tendering activity on the ground. But the Brownfield and Opex market are actually doing pretty well including in pulp and papers in some of these areas. We are getting a lot of traction on data centre business, there are a lot of good orders coming in there, a lot of opportunities in the pipeline. When I look at the government part of the business which is more long cycle project related, utility there is a shifting of projects, and this is primarily due to three reasons. First is earlier projects have not been completed, so there the new ones the focus is on the earlier before starting new projects. The second is of course, the Covid impact, a lot of decision makers are just not there and are not able to finally close the projects. And the third is of course, utilities are waiting for commodity price increases to hopefully come down before they actually start placing orders. However, the good news is the demand is there, the pipeline is stable. And the only thing that we see is a shift in the ordering pattern partly due to health reasons of Covid and partly due to the other reasons I mentioned. When I look at the segments that we actually are working in, how does that pan out, generation which is waste heat recovery which is largely private sector, this is doing pretty well, particularly in cements and steel businesses, and there in sugar and fertilizers, chemicals, a lot of interest over there, and demand is coming in, a lot of conversion as well on the transmission side. Again, more or less related to the comment I made earlier on utilities, some of the tenders slipped in from the previous financial years, that is from September into this year, some will probably shift into to the next year. There is a movement happening while earlier projects get completed, decisions are not yet taken completely to start the tendering process waiting for commodity increases. A lot of traction though in terms of AIS to GIS conversions, not only on the transmission, but also on the distribution side in the Discoms. So that is definitely a demand that is there in the system which will take some time, but it is definitely there.

On the infrastructure side, smart infrastructure, we see a clear traction of data centers, hospitals, e-commerce, a lot of good business coming in from there both for low voltage, medium voltage electrical as well as for our activities on the building management systems, fire safety security and so on. And E-charging with the FAME program gaining traction a lot of conversation that we have started having. I mentioned Ashok Leyland, we are also talking to other companies who are interested, this is something that we do see traction, in the medium term not only in the long term.

On the industrial side automotives we see a revival that could come thanks to the PLI Scheme and the Scrappage, whether this will come in the short term, I doubt this is more medium/long term impact, and the automotive is also impacted by the semiconductors. But as I mentioned earlier, we see clear traction on automation, digitalization solutions in pharma, in chemicals, in food and beverages industries which are all growing pretty well. And there's a lot of traction, a lot of coming interests in on that side.

Mobility, the railways are spending, there's a lot of work happening there, on DFCs, on the electrification and signalling projects, we see clear traction city by city on metros and we think this is something that is going to fuel, though the demand is definitely there. And I think this is a clear message, I am not seeing right now a substantial slowdown in demand neither on the infrastructure side nor on the industrial side. On the utility side, I see a shift but not a reduction in the demand and this is demand that has come not out of the pent-up period of the prior periods, but really fresh demand that is beginning to pick up. The good news is both the private sector as well as public sector are beginning to look at this. Of course, the underwriting factor in all this is Covid and how long will that take and what will be the impact of that in the months ahead.

So, we will continue to perform even as the Covid situation still evolves. We don’t know what is going to happen in the future, but currently as we speak our own manufacturing projects are robust. Nothing is getting stalled over here. Our supply chain continues to be strong largely with sporadic lockdown impacts that are there but not yet material enough to be a concern. But of course, as I said earlier the impact of the pandemic is difficult to estimate whether the wave 3 comes, when will it come etc. If there is a gap now of a couple of months before if there is a wave 3, then I do see a revival again or continuance of public and private sector capex drivers. I do see that large projects may get delayed until commodity issues are resolved until Covid people start coming back to work, but only because of that not because of a reduction in demand. From our side we will continue to put a major thrust on technology to strengthen our market position, you have seen that in the vacuum interrupters that we have now localized in the EV technology that we are bringing in, in our focus of Industry 4.0 and digitalization that runs across all our verticals here in the Company. And finally, another changes, we will continue to focus on profitable growth, that will continue in this year its fight of all the parameters. As Daniel mentioned a lot of the expenses are discretionary that is true. They have come down but there are structural cost saving measures that have also taking place. So, we don't expect to go back up to the pre-Covid cost levels because we have used the last year and half roughly to address many structural issues within the Company in order to deliver the right levels of profitability, that we believe the Company should have.

So, I will stop there and hand back to you, Ramya, for Q&A, and we will take it from there.

Ramya Rajagopalan Thank you, Mr. Mathur.

Good morning everybody, I will just request all of you to raise your hand, right at the bottom there is a small icon, thank you so much, and then we will address all your questions one by one.

Parikshit has asked a couple of questions on the question icon. I will request all of you to try and limit to two questions because we want to give everybody an opportunity to ask questions and we will have hard stop at 12:30, we will take our last question at 12:20.

So, a couple of questions from Parikshit, Mr. Mathur.

Sir, what is the market positioning for C&S domestic and international markets, and how do you see roadmaps for long term growth for the Company? And there is a second question, how is digitalization gaining traction, have you seen overall inquiries building out disproportionately here from Indian industry? Do you see trends of private capex building out over the last 4 years, and any interesting change or trend there?

Sunil Mathur So, Parikshit, just to come back to your first question, marketing position of C&S, so our strategy when we acquired the company or to acquire a company was basically to take the products global and start export business there. So that activity has started, we have started brand labelling already in select markets where we are introducing the brand or the products into those markets. We are also looking to see what more can be done in expanding the business here within the country. So, I think we are on track, it is just early days right now, 1st of March we took over, so it is about 3 months, but I think we are on track in the products and solutions that we continue to offer there, both domestically as well as our intention which is the major synergy impact that we are expecting out of C&S to take its products to our global markets. On digitalization as I mentioned there has been substantial interest in a lot of areas, be it cyber security, be it Industry 4.0, be it artificial intelligence, additive manufacturing, energy efficiency, machine safety, industrial security. So, all these are areas of virtual commissioning, remote services. So absolutely digitalization has taken off, we were talking to all of you about digitalization for the last two years, and we started off with 20 projects and 30 then a 100 projects in the pipeline. And I think it is fair to say now that the interest has gone exponentially up in the last year and half as customers have gone digital themselves. They have begun to break their own paradigms beginning to see how things can work in a digital basis. So, I believe the pandemic if you say, if I can be honest over there I can say the pandemic is actually accelerated the interest for, and implementation of digitalization by at least a year or two. And the balance of that is definitely a growth market for us, both digitalization as well as automation.

Ramya Rajagopalan The next question we will take from Sujit Jain, we will unmute you, Sujit now. You can ask your question please. Sujit, please go ahead. We can't hear him. Sujit, would you like to ask your question please.

Sunil Mathur Maybe we move on, and then we can come back.

Ramya Rajagopalan Yes, Jonas Bhutta, would you like to ask your question please.

Sunil Mathur If they can also state the firm that you are representing.

Jonas Butta Hi, sir, this is Jonas from Phillip Capital, good afternoon and I have two questions. First to Daniel, sir, if we heard you right, this is with regard to both the impact of FX gain particularly in the second quarter on the P&L, and the impact of MEIS incentives, the export incentives not being there. Sir, if you can just repeat that it is more of a clarificatory question, sir.

Dr. Daniel Spindler Thank you for your question, thanks for asking. What I had said that we see an impact for the first half year out of FX and commodity, a delta of 1.4 billion, so we had the losses 900 million rounded and gains this year first half 500 million. If we take into consideration as well export incentives, MEIS/SEIS, and most of them have now been coming to an end, and we are waiting for a new scheme to kick in, if we take also that into consideration then the impact is 1.2 billion. Last year we have seen 500 million of MEIS in the first half and this year 200 million primarily in the first quarter of this financial year, so the delta here for the first half is 300 million and the 200 million is coming in the second quarter. Does that answer your question, Jonas?

Jonas Butta Sir, I was looking at a more absolute number so is it fair to say that your other expenses in the second quarter which was about 244 crores were lower by 100 crores because of an FX gain.

Dr. Daniel Spindler No, the impact as I said the other expenses were impacted in the first half of this financial year, out of FX and commodity by 900 million, and last year, sorry, last year 900 million loss and this year 500 million gain, that is in the other expenses.

Jonas Butta Got it, and my second question to Mr. Mathur was on digital industries, there just trying to check up on your localization efforts, because the last time we spoke to you, you were still of the opinion that a large part of that vertical still relies on imports, and the volumes are not supportive of a localization there, but that is where most of the growth is also coming in from. So if you can touch upon whether in the last 6-8 months there has been a change in strategy and if you can highlight going forward if the margin levels which are about 8-9% will gain from localization going forward, that's my question, thank you.

Sunil Mathur So the digital industries business is a mixture of essentially 3 parts. One part is the automation part where there are imports that take place of PLCs and certain products from Germany. The second is digitalization which is software, and that is generated entirely locally. And the third is customer services which is servicing all the plants that we are working on, which is also entirely local. So while there are imports that are taking place over there and these are low value imports, you must understand the average value of an order in digital industries or product order could be 40 maybe 25 to 50,000 rupees, right. So it is not substantial product based business. These are whole lot of small products that are manufactured in serial production centrally for the whole world actually. So to that extent I do not see a need for localization here, the capex and the business case would not make sense. Where we do look at possible increases in top line/bottom line are through the digitalization which is software.

Jonas Butta Then localization will be in which segment, sir, as you mentioned that as one of your cost cuts or structural cost cut initiative.

Sunil Mathur So localization will happen in our smart infrastructure, it could happen on a continuous basis in our energy, it could happen on a continuous basis in our mobility business as well.

Jonas Butta Sure, sir, thank you.

Ramya Rajagopalan Thank you. We will go to the next question from Charanjit Singh.

Charanjit Singh Good afternoon, sir, this is Charanjit here from DSP Mutual Fund. Sir, my first question is you talked about new opportunities like data centres, EV we are scaling up in terms of getting new orders, even in electronics we are seeing apparent scaling up, and lot of new companies speaking about capex in the electronic space. Sir, if you can highlight how these opportunities can pan out going forward in the future in terms of the size of these markets, secondly in terms of the competition, how we are seeing the competition in these markets, do we have a very sleek and industrial position there, and growth prospects going forward in these segments. That's the first question.

Sunil Mathur Okay, so as far as data centres is concerned I think it is an obvious situation out of the last year and half the amount of activity that is now gone online, the amount of data collection that is there, just through e-commerce is massive. When you start however bringing in your machines also into and they start generating data that you actually want to start analyzing and help you to go into digitalization, the demand for data centres is going to be massive. All the large aggregators in the world are in the country, the Amazons, the Googles, etc., all of them are in the country, and all of them are looking to set up data centres. So this is going to be a market that is going to grow substantially, we are significant players in it, because roughly 60 to 65% of the cost of a data centre, running cost of a data centre is electricity. And that's where we can come in completely with the switch gears, the substations, security solutions, building management situations, managing the heating ventilation, air conditioning, in that etc., etc. So data centres is a huge activity and this is something that we really see as a growth market in the country. And by the way this is just looking at data within the country. At some point in time there will be a discussion depending on how the laws in the country pan out about a lot of data being exported from India globally and actually resolved through our data centres. So that could open up a completely exponential increase as well. Right now the Indian market is opening up terrifically in the area of Industry 4.0 e-commerce, etc., Fintechs and all of them will require data centres. E-vehicles and E-charging is going to be a huge opportunity as well, as the country decides to move towards greener electricity and greener mobility as well, the e-charging is going to be a huge opportunity, and this is going to start sooner than later, this is not a 5 year-10 year plan. I do not expect passenger vehicles to be the first ones to get into e-vehicles, but I do think that in commercial vehicles you will start seeing sooner than later, that means in the next year or two or three, a lot of commercial vehicles, there are already tenders out there, the FAME program is gaining lot more interest in the area of e-vehicles and e-charging. And this is where we have the opportunity in the area of e-charging to bring in the entire grid connection, bring in the operating and maintenance and charging infrastructure as well as the software that will manage the entire fleet for charging stations because that's going to be a major requirement as you electrify your fleet, this fleet is going to start moving around the country and you will need charging stations, everywhere you will need to bring electricity from the grid to the charging stations, and you will need to manage that entire fleet of e-vehicles as well as charging stations, and this is the kind of software that we already have and are using in other parts of the world and can implement here in the country as well.

Ramya Rajagopalan Thank you, Mr. Mathur. The next question from Renu Baid.

Renu Baid Good afternoon, sir, and congratulations for a strong performance in the first half. I have a couple of questions. The first question is on the international market, while in the last few years we have seen relatively softer demand outlook. Now we started to hear larger economies, especially the western ones committing large capex. So how would you look at the opportunities in the international market panning out for Siemens and will the increasing opportunities in the development market side open up new markets for Siemens and new product lines. Will Siemens be able to participate in the developed market infrastructure capex?

Sunil Mathur So the answer to that, Renu, is absolutely as I mentioned earlier we are part of a global network of factories, and as the demand increases, as price levels also become critical, as businesses at a global level start going for profitability this opens up a huge list of opportunities for us as well. And I mean you see the first proof of that happening with the acquisition of C&S which as I said the fundamental basis for acquiring C&S was really accessing markets globally that Siemens globally was not able to do. So yes, I do see international markets opening up. We are gaining, getting increasing interest in our energy business, in our smart infrastructure medium voltage businesses as well coming in there. So I do believe that this is a market that will open up for us in our role as being part of a global supply chain of Siemens.

Renu Baid And can we expect some more product lines or factories being coming up on these lines, in addition to the current portfolio of energy which is servicing these markets?

Sunil Mathur So in general we will look not only at energy, we will look at smart infrastructure, we will look at mobility, we will look even at digital industry, so we will look across all our businesses to see what makes sense to localize, bring in fresh products if required, to see how we can address local for global absolutely. It is an ongoing exercise but as you rightly say as the economies, larger economies start opening up and start looking at capex and then based on the requirements we will also be a part of that entire supply chain.

Renu Baid Sure, and second question is to Daniel, he mentioned that some share of the cost savings should be sustained even as we come out of the pandemic going forward, so what percentage of the COGS or the margins you think should be retained going forward irrespective of how the level of activity moves up for us.

Dr. Daniel Spindler Thanks Renu, very good question. We have done a lot in the past one and half years not only discretionary but also structural improvements. We are very carefully observing our gross margin not only discretionary spending, we look into opex, we look into capex. Not every saving will be fully sustainable that is very clear, things would be picking up. We want to participate also in the market growth, and there is a lot happening as Sunil also explained in various businesses and we are happy also to invest if ever it makes sense from a business perspective and so we will be adaptable, we will adjust our cost structure and opex and capex plans to the business demand, we see opportunities and there will be plenty of opportunities here in India, we are very sure about this. And if it takes very bluntly spoken, if it takes some people to of course frequently meet a customer happy to of course support that very much. Not everything will be virtual in future, I think that is also very clear, we talk a lot about customer proximity and that in my opinion hasn't changed much even through the pandemic. Of course, a lot is driven now with digitalization, a lot is driven also with virtual working modes, and we want to benefit from this so I see a part where we sustain everywhere, decrease our cost especially when it comes to office space, when it comes to maintenance cost, repair cost, when it comes also to events, conferences, especially the internal ones, there I would see that as permanent savings, I would see at least ballpark of a high double digit percentage so maybe 30-40% of those discretionary spending should be permanent We will have a very close look in that in the next quarters to come, and then we will see what that brings us to. I think our strength in the past was to be very quick in adapting our cost structure. We have proven that last year when there was a very strict lockdown here in India. I said earlier we had only modest losses during that time because we were very quick and agile everywhere operationally as well as structurally. And we will keep that philosophy going forward. That makes me confident by the way because our organization has shown that they can quickly adjust to business situations and we have very volatile business situations right now in India and globally and we will always make sure that our cost structures are very much adjusted to business development. Now we think our vision going forward is also to profitable growth and that hasn't changed at all, that is our priority and for that we will also make sure that from cost perspective and from an investment perspective that we are supporting the profitable growth path of Siemens Limited here in India. Did that answer your question, Renu?

Renu Baid Yes, thanks, Daniel. And if I can get one small clarification, the vacuum interrupter factory that you mentioned in Goa is it catering for to the SF6 solutions for GIS or will it be compatible for the green GIS solutions which have now started to see traction in Europe.

Sunil Mathur No, this primarily SF6 or only SF6, the green solution we have not yet introduced here into the country, we have them in Europe, but we have not introduced here yet in the country.

Renu Baid Sure, got it, thank you both of you.

Ramya Rajagopalan Thank you, Renu, we will take the next question from Bhavin Vithlani.

Bhavin Vithlani Thank you for the opportunity. I have a couple of questions, first is on the energy segment if you could help us give an outlook breaking the segments into three parts so one is the generation where you have steam turbines, the smaller ones, the second is the T&D and the third is element of services and how large is that. So that's the first. The second question is on the data centers as you said it is a large opportunity. So in a data centre which is typically 30 to 40 crores per megawatts of capex, what is your total addressable market for Siemens for India.

Sunil Mathur Okay, so let me start with the energy question, as I mentioned in my presentation, generation is looking primarily currently at waste heat recovery and in particular cement, steel, pharma, fertilizer, chemical plants, we see a good traction coming over there as customers intend [a] to go into de-carbonization, [b] to increase the efficiency overall of their captive power plant so to speak. So this is a market that is doing well, is growing, we used to be in the market only as product suppliers. And we have started recently now moving into EPC in this business since we believe we can kind of do the entire integration of the turbine and controls together there. On the transmission and distribution markets I think the TBCB as known there it is happening, it had slowed down in the beginning of our financial year but picked up, as I said the states some of them are implementing, some of them are stuck because of prior projects yet to be closed. But there are very clear tenders out there in the market, many of them have been awarded, some are in the pipeline. There could be a shifting of the ordering but the demand is very clearly identified, the tenders are identified there. On distribution, similarly utilities are currently not ordering too much for the reasons I mentioned either existing projects are not yet completed, or due to Covid reasons people are just not there, or they are waiting also for commodity prices to come down before they start ordering. So state utilities in the Discoms are really not ordering as much as they can or should. Again their demand is there it is just a question of timing as well. Services, on services you have got services for both generation as well as for transmission and distribution and this includes when you look at services you are looking at renovation modernization activities there, there is performance improvement, projects which are in place and these range across the spectrum of steam and gas and projects as well. A lot of automation coming in there, a lot of digitalization coming in there as well. This is a slightly smaller segment or smaller segment from generation transmission, it runs across both generation and transmission distribution or generation and transmission projects, and forms a part of their P&L as well. On data centres I think if I were to give you a rough idea I'd say probably around 25 to 30% of the data centre capex cost is what we would probably be active in. And that covers as I mentioned earlier primarily switch gears, substation security, building management systems, managing the air conditioning there, etc, etc. What is not in the system are the HVAC activities, the HVAC heating ventilation air conditioning, the UPS, the generators and the civil activity that is something that we don't do.

Bhavin Vithlani Sir, thank you so much for taking my questions.

Rama Rajagopalan Thank you, Mr. Mathur, thank you, Bhavin. We have time for one last question, Harshit, would you like to ask a question please.

Harshit Patel Yeah, thank you very much for the opportunity. Sir, my question was on the energy front, sir that now that we see that some Chinese imports have started coming down in the transmission and distribution space, so it was also helped by a policy action from the government of India. Sir, have we recently in the last 2 or 3 quarters have we seen any market share gains and could that further accelerate in the coming years.

Sunil Mathur So currently particularly on the transmission space it is actually a huge list of competitors, these are primarily EPC players, and not original equipment manufacturers. And this is what is currently dominating the transmission space. So you have got maybe 14 or 15 competitors or players most of them EPC who are buying from original equipment manufacturers across the board here in the country, and you have got a handful, less than a handful of OEMs who are able to supply the technology and the equipments. But since the bidding is done by EPC players, these 4 or 5 players are offering to the entire bandwidth of EPC players. So, I think it is a market where the price is under severe pressure, EPC players are basically dominating and cutting each other. As an equipment manufacturer, the pricing levels are relatively stable in the market, what is unpredictable is the price at which a lot of these orders are being obtained by respective EPC players in the market.

Harshit Patel Just a follow up on that would be as you mentioned there is severe pricing pressure in this particular industry, but in the last couple of quarters we have seen a complete out performance on the margins in this particular segment. So, I understand that there would be some forex related gains in this segment as well, but apart from that does anything else explain this kind of margin variation in this particular segment and are these margins sustainable in your opinion going forward.

Sunil Mathur So again it depends whose margins you are looking at. If you are looking at the equipment, original equipment manufacturers and technology providers, I think their margins, their price levels and therefore margins will probably be relatively stable. If you are looking at the large EPC players who are basically putting projects together, taking equipment and doing the EPC activities and civil work themselves, and doing the integration themselves, there I am not too sure that the margin levels are actually sustainable.

Harshit Patel Understood, sir, that was all from my side, thanks a lot, sir.

Ramya Rajagopalan Thank you, Harshit, that's all we have time for today.

Thank you so much for joining in and we will see you soon at our next analyst meet. We will stay in touch with you through our team investor relations head, Venkatesh, and should you need anything all the material will be uploaded on the website by this evening. Thank you so much, stay safe, take care.

Sunil Mathur Thank you.

Dr. Daniel Spindler Stay safe everyone.