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February 14, 2023

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Exchange Plaza, Bandra- Kurla Complex
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Sirs,

Sub: Transcript of Earning Conference Call February 09 2023 – Quarter ended December 31, 2022

Further to our letter dated January 31, 2023 informing you of the earnings conference call, enclosed is the transcript of the said call held on February 09th 2023.
This is uploaded on the website of the Company at https://tdps.co.in/financials/#earning_FR

Kindly take the above on record.

Yours faithfully,
For TD Power Systems Limited

NAGARAJ A SRIVATSA Digitally signed by NAGARAJA SRIVATSA Date: 2023.02.14 15:52:41 +05'30'

N Srivatsa
Company Secretary

“TD Power Systems Limited

Q3 FY '23 Earnings Conference Call.”

February 09, 2023

MANAGEMENT: **MR. NIKHIL KUMAR – MANAGING DIRECTOR – TD POWER SYSTEMS LIMITED**
MS. M.N VARALAKSHMI – CHIEF FINANCIAL OFFICER – TD POWER SYSTEMS LIMITED
MR. VINAY HEGDE – TD POWER SYSTEMS LIMITED
MR. N. SRIVATSA – TD POWER SYSTEMS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Q3 FY '23 Earnings Conference Call of TD Power Systems Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nikhil Kumar, Managing Director of TD Power Systems Limited. Thank you, and over to you, Mr. Kumar.

Nikhil Kumar: Good morning, everybody. Thank you very much once again for joining us on today's earnings call. I trust all of you would have received our results and investor presentation.

Now I shall proceed to discuss with you TDPS's financial performance for the 9 months ended 31st December 2022. First, let's talk about standalone. Our total income on a standalone basis for 9 months was INR 6.16 billion versus INR 5.13 billion over the same period previous year, an increase of 20%. Profit after tax and comprehensive income for 9 months was INR 593 million versus a profit of INR 314 million for the same period previous year, an increase of 89%.

Manufacturing revenues for 9 months was INR 5.9 billion versus INR 4.93 billion, an increase of 20%. EBITDA margin for the 9-month period is 6. -- 16.05%, including other income, which includes foreign exchange gains and the same will improve due to increased operational leverage in Q4. Manufacturing order book, including Turkey operations is INR 13.73 billion, which is INR 5.05 billion, manufacturing business, INR 8.47 billion, railways business and INR 0.21 billion Turkey business.

Export and deemed exports, excluding traction is about 61%. Order inflow, the company recorded its highest ever order inflow during the quarter since inception. Order inflow in the 9-month period is 42% over the previous year period. Total order inflow for this current year stands at INR 613 crores versus previous year's INR 433 crores. Order inflow from domestic market is INR 2.66 billion compared to INR 1.7 billion, an increase of 56% and order inflow from export is INR 3.4 billion versus INR 2.42 billion, an increase of 40%.

Projects business, revenue for the 9-month period remained flat at INR 0.14 million versus -- sorry, INR 0.14 billion versus INR 0.13 billion same period previous year. The company is no longer in the projects business. Hence, going forward, all orders booked by a branch office of Japan will be classified under the manufacturing segment, which comprises of generator sales, spare parts and other related jobs.

Now I move to the consolidated income. Our total income on a consol basis was INR 6.36 billion versus INR 5.86 billion same period previous year. Profit after tax and other comprehensive income for the 9-month period was INR 599 million versus a profit of INR 378 million. Last year, it also included INR 76 million of exceptional income for the write-back of creditors from our subsidiary company, DF Power Systems, an increase of -- still an increase of 58%. Our consol order book, as discussed earlier, is INR 13.79 billion. We continue to maintain a strong cash position of INR 2.04 billion.

Now I'll talk about the market situation and guidance for this year. Overall, the demand for our products in India and across the world is extremely strong. The market penetration that we have been able to achieve over the past years has been instrumental ensuring that we have an increase in order inflow. In addition, macro conditions are favourable with power shortages in India and Europe and increased trust on renewables.

This financial year, we are on track to have around INR 8.05 billion to INR 8.2 billion manufacturing sales from TDPS India and around INR 0.2 billion from TDPS Turkey. We expect gross contribution to be in the region of 30% to 31% for this year, which will result in EBITDA, including other operational income on a standalone basis to be between 16% and 16.25% for Q4 and 16-plus percent for the full year.

Foreign exchange gains have been included in this EBITDA calculation. In Q4, we continue to see a robust order book, which will ensure good growth for the next financial year. In general, my commentary from this point will be more forward-looking in the next financial year since we have already given the guidance and visibility for this financial year.

Let me talk briefly about each segment, Steam Turbine. Strong demand continues from India and rest of the world. The order book for next year is very strong with all our major customers forecasting strong turbine sales with supplies to both India and abroad. Segments are garbage burning plants, process industries, wasted heat recovery and to a smaller extent, traditional coal-fired captive power plants. We have secured 2 more orders in the 2 pole segment for a total of 5 machines for next year. We had -- we will have the highest sales in the steam turbine segment this year and looking at the current order book inflow and the projections made by our various steam customers internationally and in India, we are confident we will surpass this year's number next year, which will then result in the highest ever sales for our steam turbine crossing this year's record.

The same goes with hydro. We are projecting our highest order book and sales in hydro for next year. Our markets are 100% export, and we are seeing strong demand coming in from Southeast Asia, Nepal, as well as Europe. Once again, hydro, we are selling obviously all over the world and getting orders from all OEMs within India as well as outside India. Gas engines, we have a strong order book from -- and forecast from both our engine customers.

Our sales with the second engine customer is increasing rapidly and the progress is extremely encouraging. Recently, we got a number of orders from this engine customer for the US market, which is great progress. Since now they are using our machines in all their bids in their home market. Gas turbines, we are actively involved in a number of orders in the fracking industry in the US. We have recently closed an order. We have not been received the official document for it, but we have recently closed an order, and we expect to have at least 100 megawatts of total orders in this segment for the next financial year.

Aftermarket, we have put a lot of efforts to develop the market for after -- for to repair not only our own machines, but also machines of our competitors. We are expecting the aftermarket business to be in the region of 7% to 8% of our next year sales. This includes our own machines, wind generators, competitors' machines, spares, service and as well as synchronous motor repair. Other segments, Railways, Indian Railways business on track. The motors have now clocked about 4 weeks on a locomotive, which has -- which is now in running condition to the Indian Railways. And we hope that it will all go well up to 6 months after which we will get the qualification.

Indian Railways new projects, all eyes are now on the 12,000 horsepower bid and the results of this bid, and we hope that our customer will win this order. We should know about this by end of March hopefully this year. Synchronous motors, we still hold on our guidance of INR 50 crores for next year. The pattern of inquiries for these motors and other inquiries for large motors is very large. It's around INR 500 crores. So prospects for us to pick up a section of these orders is very bright for execution for next year. With these developments, we're very excited about next year and the growth that we will achieve. Tentatively, we are projecting at least 20% growth next year, the upside potential. And we will -- we are going almost across the 4-digit to INR 1,000 crores mark in the manufacturing business.

We continue to invest in automation and productivity to improve operational leverage, to grow EBITDA margins and PAT. At around INR 1,000 crores turnover, we will see an improvement of EBITDA compared to this year since our cost will not increase in proportion to our sales. All our subsidiaries will be profitable this year except TDPS Turkey, which has shown an exchange loss but not an operational loss. As I said in our previous earnings call, with the sufficient business and deteriorating economic conditions in Turkey, we will suspend our manufacturing operations in Turkey by 31st May 2023.

This brings me to the end of my initial remarks. I'll now be happy to address any queries that you may have. Thank you.

Moderator: The first question is from the line of Mohit Khanna from Banyan Capital Advisors.

Mohit Khanna: Sir, congratulations for a very strong set of earnings and your execution during the quarter. I had a query regarding the sustainability of EBITDA margins. Is there any one-off that you have, first of all, in these margin share? And then how do you see margins progressing? I think you mentioned it some of this.

Nikhil Kumar: Yes. I think the margins are very sustainable. And the margins are dependent on our sales and order inflow and sales, so -- and our operational efficiency. So we are seeing, as I said, we have had a record order inflow for this 9 months for this year. And Q4 also, we've seen an extremely strong order inflow. So all these things are going to count towards our sales of next year. We have projected that we're going to be entering -- crossing close to INR 1,000 crores -- definitely, crossing INR 1,000 crores of sales next year. Our gross contribution is going to be really, whatever we have projected. So EBITDA margins are sustainable, very much sustainable.

Mohit Khanna: Because -- I'm asking this because if you look at the September quarter, from there, our revenues have come down slightly by around 3%, but gross margins have improved from 20% -- from almost 30% to 33.7% in this quarter. So what exactly is the reason for that? Is it the mix that has changed for us or FX has been accounted for, if you could just pinpoint the reason here?

Nikhil Kumar: No, it's -- I mean quarter-on-quarter, we have different mixes. So we would have had a number of service jobs and aftermarket jobs in Q3. But what we're projecting for the whole year is sustainable.

Moderator: The next question is from the line of Renjith Sivaram from Mahindra Mutual Fund.

Renjith Sivaram: Sir, if I look at the -- in your breakup in your presentation, which you have given, the export is showing kind of a decline compared to last year in terms of the revenues. So is there any particular onetime issues over there that has led to this decline or you see there is some structural trend? Because our order intake as per your commentary in exports is good. So why this reduction in revenue?

Moderator: Participants, please stay connected. Ladies and gentlemen, please stay connected while we join the management to the call. Ladies and gentlemen, thank you for your patience. We have the line for the management reconnected. Nikhil, sir, you may go ahead.

Nikhil Kumar: Yes, please repeat that question. The second one, I missed it out.

Renjith Sivaram: In your presentation, you had mentioned the numbers that there is a decline in that. So just wanted to understand that is there any particular onetime issue or some hiccups in that? And will that revert back in the next quarter onwards on the export execution?

Nikhil Kumar: So the total exports -- total exports is around -- will be around -- exports deal is 61% of our order inflow. And our total export sales will be 60% of our overall sales. So quarter-to-quarter, there could be some variations, but we will -- it will catch up in Q4.

Renjith Sivaram: And we are pretty much confident in achieving this year's guidance in the manufacturing, right, or is there any change in that guidance?

Nikhil Kumar: No, I have already said in my earnings calls is that we're going to achieve these numbers and we're going to achieve these numbers.

Renjith Sivaram: And in terms of the order intake flow funnel, if you look at it, like what is your general sense? Because there was some pent-up demand in Europe and US, which we were expecting this year. So do you expect the same traction to continue in FY '24 onwards as per whatever the discussions that you have with the customers or the funnel that you're looking at, just to get some clarity on FY '24 order intake, if you can?

Nikhil Kumar: Yes. So we are -- as I said, the macro conditions are very favourable to the company. One is in Europe, and there's an increased trust in renewables. So we are going to see sustained demand coming from this sector because it's not possible for them to replace the entire gas, power network in just 1 year or 2 years by other forms of energy production. So certain portion of this will go for renewables and it can go on -- it could go on for years or probably a decade. So we're very confident in the macro conditions as far as Europe is concerned will give us sustained demand. One is that.

Second is that we have a low market share in Europe, and we have the potential still to grow our business by increasing market share When it comes to the domestic market, we're seeing the order inflow, for example, for the domestic market 9 months this year versus 9 months next -- last year, is up 56%. So the domestic market is also contributing to our projections for next year. We are seeing strong macro situation in India also, the capex cycle and also the investments taking place in different parts of the economy is increasing.

And we are very upbeat and confident that the Indian market also will provide us sustained growth. In addition to that, we are also getting into the segments of motors and Indian Railways, and we hope that our customer will win this 12,000 horsepower. So there's a lot of things on the table, which will help us to grow our business even further. What we're talking about for next year is not including, for example, anything coming from the Indian Railways because the motor is still under the trial period. We're not talking anything about what would happen if our customer win this 12,000 horsepower railway contract, all those things will go into FY '25.

And we're going to have further initiatives for growth then coming in from these segments for FY '25. So the macro conditions overall are very good. And the company has positioned itself in multiple sectors with multiple products. And these multiple products in multiple geographies, multiple sectors is what is driving the growth.

Renjith Sivaram: And sir, is that Alstom winning that 12,000 horsepower and either or what is your backup plan? Because in 9,000 horsepower, we saw the competition was very aggressive in terms of pricing?

Nikhil Kumar: There is no backup plan. There is no backup plan.

Moderator: Next question is from the line of Nikhil from SIMPL.

Nikhil: **Congratulations on the good set of numbers.** So, Nikhil, one question, if we look at the gross margin expansion for this quarter, there are 2 points which I wanted some clarity. One is like for all these periods, we were seeing a major RM or is it more of a improvement on the RM side, which has supported the gross margin or is it a business mix change in terms of higher replacement and maintenance of the aftermarket, which has supported a margin improvement?

Nikhil Kumar: So the sales are slightly lower in last quarter compared to what we did in Q2. So the increase in gross contribution is coming through a better mix in Q3. And I've always been saying that we will increase our gross contribution marginally going forward by 1 percentage points or 2 percentage points, mainly due to better mix, more -- we're talking about 7% to 8% now of our total business coming in from aftermarket business, which earlier used to be just 3% or 4%. So almost doubling the amount of work that we're doing from the aftermarket business.

All these things are improving our gross contribution. And to a certain extent, we're not seeing any increase in the raw material prices. So we are having a stability in the raw material prices, and that's not giving any adverse effect to our gross contribution. So these things are -- and addition to that, if you look at what's going to happen in Q4, I think Q4 now, we have almost INR 220 crores to do versus what we did INR 225 crores to do versus we did, let's say, INR 190 crores, INR 195 crores in Q3. So this additional INR 30 crores of sales in Q4 will give operational leverage, and therefore, we will see higher EBITDA margins coming in, in Q4 compared to what we had in Q3.

In general, and if you talk about next year doing INR 1,000 crores and making INR 250 crores every quarter on an average, then we're going to have further increase in EBITDA margins due to operational leverage. So I think the trend of -- the trend going forward is strongly towards increasing the profitability of the company. And it's going to be driven by the mix, higher proportion of aftermarket business and operational efficiency and higher sales. This is the way that the company is going to increase its gross contribution -- is going to increase its EBITDA margins and PAT.

Nikhil: Secondly, on motor business, if I have to understand, so if you look at Bharat Bijlee and TG, they also have this motor part of the business. So would we be competing directly with them or would we be operating in the lower megawatt versus where they are operating?

Nikhil Kumar: No, I have a number of times have mentioned that we are only going to be working in certain niches in the motor market. We're going to be focusing on the synchronous motor business, which is large motors starting around 5 megawatts, 6 megawatts going up to 30 megawatts or 40 megawatts, in that segment, we don't see these players as you mentioned in this segment. And we are talking about large induction motors once again starting around 3 megawatts, 4 megawatts going up to 15 megawatts, 20 megawatts.

And these will be for very special applications in the nuclear power industry or in the thermal power industry for very large motor pumps and things like that. so we're looking at very specialized products, where the company's technological strength can be used to get -- to deliver the right product, get the right kind of pricing and also be in the market where there's limited competition. We're not interested in being in the smaller size mass market motor business.

Nikhil: And last question, we had some operations in Turkey. So because of this earthquake, any impact or anything you are hearing or how the -- we don't see any...

Nikhil Kumar: No, I mean, in general, I don't see -- firstly, that we don't know what the earthquake has just taken place a few days ago, right? So we don't know what the -- but in general, the economy is weak. In general, they have a foreign exchange problem. In general, they have extremely high inflation. They have very low investment taking place in the power sector. So these macro things are not going to change because of the earthquake.

In fact, some of it, it may become worse. So our decision to sustain the operations over there is the right decision. We may just keep the factory partially open just for after sales service and maybe do some refurbishment jobs and things like that. But very, very skeletal manpower and very, very small costs. We're not interested in -- we have to wait and see how this market shapes up in the next 1 year. It doesn't shape up in the next 1 year, it continues to be in this way, and we don't also see getting meaningful business in the aftermarket business, and we will completely close down. Right now, we're talking about the suspension.

Moderator: The next question is from the line of Himanshu Upadhyay from oo3 Capital.

Himanshu Upadhyay: Yes. Nikhil, great set of numbers. I had a few questions, okay. One was on the aftermarket business, which we expect to be 7% to 8% of our revenue. So is it focused majorly in India or it is focused outside India? And what is the competitive scenario in this business? And is there some technical means expertise or approvals required outside India so that you can be a generator, let's say, to do servicing? And yes, any thoughts on the margins also in this business?

Nikhil Kumar: No, the aftermarket business right now for us as far as the repairs and refurbishments are concerned, it is mainly domestic. For our own machines, of course, we do sell spare parts and provide service for our machines internationally. But we're not -- we're not doing repairs, out-of-warranty repairs for our job internationally because out-of-warranty repair would need the machines sitting somewhere in South America. It needs 6 weeks to come here, 6 weeks to go back. It doesn't make sense for the customer to wait. I mean, the machine is sitting in a ship.

So repair jobs, refurbishment jobs for international businesses is difficult to get. People prefer to go to local service providers, and we do have local service shops. So we do coordinate and the job is done, and we may get -- and we get a certain amount of money from them, but not doing the actual service jobs ourselves. And we're focusing on the domestic market, as I said, we're focusing on our own machines. We're focusing on the large wind repairs. We're focusing on certain types of motors, and we are focusing on spare parts as well. So this is a range of activities right now, which will give us a total turnover, as I said, 7% to 8% of our total next year's sales, and margins are good.

Himanshu Upadhyay: And both gross margin and EBITDA are better in this business?

Nikhil Kumar: Yes. Yes. Once gross margins are good, EBITDA would be good.

Himanshu Upadhyay: And one very wild question, we just want to understand your thoughts. In the peak of last cycle, 2012-2013, our margins on manufacturing touched something like 18% to 20%, okay? Is the scenario possible that we can reach back to those numbers with a much more diversified customer product profile, customer base and more approvals globally, or do you think the competitive scenario environment is such that it is just a wild shot. So some of your thoughts on that will be helpful?

Nikhil Kumar: I think we need to look at -- be competitive in the market also. So there's -- we will probably flat -- I don't know, I don't want to put a number to it. But moving from 16% upwards, we need to get that mainly coming through our internal efficiency and operational efficiency. And expecting to get increased EBITDA margins through better pricing in the market, and that's going to be hard in this environment, especially now when raw material prices have stabilized, and it's not going to be possible to get price increases in the market at this point of time. EBITDA increases are going to take place purely through operational leverage, operational efficiencies. So, we will see incremental improvement from current levels for sure. And beyond that, I don't want to comment at this point of time.

Moderator: Next question is from the line of Rajat Setiya from Ithought PMS.

Rajat Setiya: Congratulations on good set of numbers. Sir, my first question is about the revenue capacity that we will have. I think we have mentioned that we will have a manufacturing capacity of INR 1,400 crores to INR 1,500 crores from the existing plants without much capex. Is that correct?

Nikhil Kumar: Yes.

Rajat Setiya: And aftermarket business, whatever we do, spares and repairs, that will be in addition to this. Is that also correct?

Nikhil Kumar: No, that will be within this.

Rajat Setiya: Within this. Okay. Understood. And sir, the other question is about the business mix that we will be generating from, let's say, biomass or other waste to energy solution kind of products on the segments?

Nikhil Kumar: No. So the Steam Turbine business is where we do waste to energy, we do biomass, we do cogeneration. So if you talk about total Steam Turbine sales, how much of it is coming from fossil, how much is coming from renewables, I don't know. Vinay, if you -- I think it could be 60%, 70% coming from renewables, 30%, 40% coming -- internationally, it's all renewables.

Management: Perfect, sir. Absolutely, yes.

Nikhil Kumar: Internationally, it's 95% renewables, India, let's say, it's about 50-50.

Rajat Setiya: **O**kay. So international -- okay, understood. So biomass sales and other renewables, which are basically, steam, which fall under the steam category. You're saying international is mostly that and India is 50-50. Understood.

Nikhil Kumar: Yes. All right.

Moderator: Next question is from the line of Jiten Parmar from Aurum Capital.

Jiten Parmar: Yes. So congratulations on a good set of numbers. My question is basically that in the last con call, if I remember correctly, I mean there -- is there in my note, sir, that our guidance was INR 890 crores for FY '23. So -- and we have done around INR 630 crores. So are we looking at achieving that number? That is my first question.

Nikhil Kumar: Yes, on a consol basis, we are going to achieve that.

Jiten Parmar: Okay. And so the question is the 9-month sales growth has been only 10%. We have a very good increase in the margins. So are -- I mean, are orders delayed or what is the reason that our sales growth has been a bit tepid?

Nikhil Kumar: No, could you -- Varalakshmi, could you comment on that? Sales growth has been totally on a stand-alone basis, our sales are up by 20%.

Jiten Parmar: Okay. So that is because of Turkey is what could be the reason, is that?

Nikhil Kumar: No. I mean, 20% increase in the standalone, standalone in manufacturing. So most of our business is mainly manufacturing business. So the subsidiaries contribute -- I mean, they're getting orders for the manufacturing business. So mainly, you can see that our sales up by 20%. I don't...

Jiten Parmar: Because the presentation, you mentioned that 9-month...

Nikhil Kumar: Turkey, Turkey last year was very large. You're right. Turkey last year was large, and Turkey this year is not so large. Therefore, on a consol basis, you will not see that much of growth. Correct. You're right.

Moderator: Next question is from the line of Krishna -- Krisha Kansara from Molecule Ventures.

Krisha Kansara: So, sir, you had mentioned that the order inflow is for the 9-month is the highest ever. But still, is there any hint of demand softening and especially on the domestic side? Do you think that there is a slowdown in the inquiry levels?

Nikhil Kumar: No, we are not seeing that. We're not seeing that in Q4, and we're not seeing in the forecast also.

Krisha Kansara: Sir, and my second question is that last month, a leader was awarded with a 1,200 electric locomotive award. So can we expect this to flow to us as well? And if yes, how big can this opportunity be? This is my second question.

Nikhil Kumar: No. We don't know what that company wants to do. We're in touch with them. They have not yet made up their mind whether they want to make or buy. So we have to see what -- how it shapes up. Right now, we are not counting this in our projections.

Moderator: Next question is from the line of Dhwanil Desai from Turtle Capital.

Dhwanil Desai: Congratulations for a very good set of numbers. 2 questions. Sir, the first one is broadly, our order book is up by 42%. And generally, our execution cycle remains the same. So when you're guiding for 20% growth next year, are you -- are you factoring in change in execution cycle or do you think you are on the lower side of the guidance to be conservative?

Nikhil Kumar: Lower side of the guidance to be conservative.

Dhwanil Desai: Okay. So execution cycle remains the same, right?

Nikhil Kumar: It's update -- easy to update the guidance and we will do so in the subsequent quarters as we keep talking to the market.

Dhwanil Desai: And another thing, I think you mentioned that next year, we are seeing 100 bps -- at least 100 bps improvement in gross margin and our revenue also is going to be substantially larger. So -- from where we will land at 16% this year on EBITDA margin? A couple of 100 basis point improvement in margin is something which is realistic number to look at?

Nikhil Kumar: Yes. Definitely, the realistic number to look at.

Moderator: Next question is from the line of Megh Shah from Prospero Tree.

Dhruvesh Sanghvi: Dhruvesh here. So just wanted to understand any plans on the next buyback because now money is flowing and the last buyback is a little bit old now?

Nikhil Kumar: The Board is discussing all the options on what to do with the cash flow that we have. We will keep the market informed. Obviously, the two ways to return money to the shareholders would be through dividends and buybacks, both the options are definitely on the table. We will keep the market informed on which way we want to go.

Dhruvesh Sanghvi: Okay. And Nikhilji, one more in that connection, because last 5 years, 7 years, you have been consistently adding one or the other line of activity associated to your expertise. Are there enough rooms to have more product lines or more service lines or associated areas? I mean can we expand the target markets of our business over the next 2 years, 3 years?

Nikhil Kumar: Yes, yes, we do. We have a number of -- we have -- we -- this is a constant activity within the company. We have to -- we have to keep looking at ways to grow. So we need new products, we need new activities. We have a few things which we are working on intensively right now. And once they come to the point where we can discuss with the market, we will discuss it with the market. But we are definitely working on new things, no doubt about it.

Moderator: Next question is from the line of Janak, Individual Investor.

Janak: Congratulations on great set of numbers. My one query is around the nature of the business that we have. So what kind of partnerships do we have with be it partners like Alstom or somebody else? One. Do we have more partners? And are we also independently bidding for railway orders, the nature of those orders? And what gives us the right to win those orders, either through partners or independently?

Nikhil Kumar: No, so the market, which is there for the tender, right, for the new tenders for the locomotive business, those are tenders where the party has to manufacture the entire locomotive. And we are nowhere in that business, right? So it will be a global major who is in the business of building locomotive, someone like Siemens or Alstom or Wabtec from the US. So there are a number of -- there's a handful of companies who do this. We have a relationship with an existing company who has got an existing job with the Indian Railways. And we believe that -- and they are making the 12,000 horsepower already for the Indian market.

And there's a second tender coming for 12,000 horsepower. So we hope that they should be in the best position to get the best pricing since they already making this machine. So we hope that happen. Now the second part of the business is the Indian Railways business, where we directly are making the traction motors for the Indian Railways. And I have mentioned that a number of times that for this business, our motors are under qualification. We have put the first 6 motors on a locomotive. It has to be -- and the locomotive has to run for 6 months with our motors without any problems, then we get into the stage of being qualified.

We are 1 month into that process. We got to wait for another 6 -- 5 more months and hope nothing goes wrong. Once that happens, we will be eligible to bid for all the new tenders and get a certain portion of it and a good pricing. And that's our goal. I think we will see the results of all this taking place, I mean in the -- towards the end of this calendar year.

Janak: And a follow-up to this, what will give us a right to win these orders? What will be our competitive advantage?

Nikhil Kumar: So with the Indian Railways, you're saying?

Janak: Yes. Yes. The ones that you are independently targeting through motors.

Nikhil Kumar: These are -- I mean, we have extremely good manufacturing setup, highly productive. And we've invested very good money to produce very high-quality machines. And we have shown this to Indian Railways, and they are excited and impressed by our facilities, and we believe that we can offer a better quality product at the tender prices. In the end, it's about quality.

Moderator: Next question is from the line of Alisha from Envision Capital.

Alisha Mahawla: My first question is a large domestic primary mover has been calling out that there is some slowdown in domestic inquiry. Generally, our demand would also be linked. So are we also slightly returned back and this is witnessing some slowdown in inquiry and hence conversion?

Nikhil Kumar: Vinay, will you take this question, please?

Management: Hello. Madam, can you repeat that question?

Alisha Mahawla: So I was asking that a large domestic primary mover has been calling out that there is slowdown in domestic inquiry. I just wanted to understand that are we also sensing maybe the first signs of the same?

Management: No. Absolutely, there is no -- inquiries levels are not going down, it is rather going up. So we are not seeing that.

Alisha Mahawla: Could there be a specific reason for this deviation?

Management: No. See, we are seeing...

Nikhil Kumar: I think it's hard for us to comment on -- hard for us to comment on what competitors maybe seeing. I think what we are seeing is -- yes, what we're seeing is that there is an increased order inflow taking place from the domestic side. And we are not seeing the slowdown. We are also seeing with a larger machine business about 50 megawatts. There's a lot of inquiries also in that space. That is also a part of what we call our domestic Steam Turbine business. So I think all put together, we are seeing an increase.

Management: And this year, as Nikhil told, we are going to have the highest Steam Turbine business sales, and next year also, we are going to see the same thing. We have a very good pipeline of orders.

Alisha Mahawla: That's great. My second question is on Railways. It's a 2-part question. One, how much of our next year's growth is factoring in getting some orders won directly from Indian Railways or the tender that's expected to open in March? And second is, generally, how are the margins in the Railway business, because if -- are the margins going to be lucrative enough for us to be able to maintain the kind of margins that we're currently doing on a consol basis?

Nikhil Kumar: Yes. The Indian Railways business is definitely will give better gross contribution than what we have with our business currently. Once we get to that stage of being in that category 2 or category 1 supplier, okay? That's important for us to be investing, then you set those prices and with those prices, you make good money. But the 12,000 horsepower, we have to see.

We have to see whether our customer wins it. It's given what happened with the 9,000 horsepower and the price difference which was there between the 2 parties over there is currently throwing a lot of doubt whether they will win this 12,000 horsepower also. And we have to wait and see. It's not in our hand.

Alisha Mahawla: No, I understand that. I just want to know, is this part of our aspiration of the 20%-plus growth that we're saying for '24 or that is excluding this or...

Nikhil Kumar: I have mentioned earlier that we're not counting the Indian Railways business for FY '24. We're not counting the...

Moderator: Sir, sorry to interrupt you, but we are losing your audio.

Nikhil Kumar: Okay. I will repeat. We're not counting the Indian Railways business for next year, and we're not counting the -- any potential win by our customer for the 12,000 horsepower also for next year's turnover. I mentioned that all these things would start to contribute initially when we are successful will start contributing in a big way for FY '25.

Alisha Mahawla: Sure. And just a clarification, while you were mentioning that Indian Railways orders can tend to be better gross margin. This is one. Our products which are currently being evaluated and after 6 months once they are approved, we are speaking about that batteries, right, will be the better margin on a relative basis? Okay. Yes.

Moderator: Next question is from the line of Mahesh Bendre from LIC Mutual Fund.

Mahesh Bendre: Sir, just wanted to understand your motor business. You just explained that railway is a area, where motors are under development, I mean in the trial, and so maybe by this year-end, we will get a clarity on this. So this motor development, is it only looking for domestic purpose or even export side, we can do some work on the site?

Nikhil Kumar: No, there are -- there is a traction motor, which is the railway motor, railway business. That's one segment. And then we are talking about the other segments of the motor business, the synchronous motor, which as we said is for the large irrigation project -- segment. We're focusing mainly on domestic. Even the traction motor business focusing only on domestic. And the last, the third part is induction motors, large induction motors for compressors and other applications there. We are not looking only domestic, we're also looking at export.

There are a number of opportunities which we're pursuing. We will definitely be able to tell you about all these things in the 3 months' time or 4 months' time. But we are -- the earlier question whether we're working on new products and new markets, we are working intensively on obviously how we can expand our portfolio within these specific sectors, which will give growth not for the next financial year, but for FY '25. We have to build the pipeline for FY '25 to grow another 25% in FY '25.

Mahesh Bendre: So sir, 3-year down the line, is it possible -- reasonable to assume that this business can become significantly bigger than what it is currently now in terms of...

Nikhil Kumar: Yes, it is bigger than what it is right now definitely, for sure.

Mahesh Bendre: Yes. And sir, you said that you would like to stick to the large motors, which are usually industrial. The motor is -- the demand is picking up very strong across the category in India. So we don't want to be -- I mean, what could be a possible rational?

Nikhil Kumar: No, while the demand is picking up overall, it will generate in the motor business, there is also a lot of capacity and a lot of competition. So it's not like the shortage in the market right now. The incumbent players will get benefited in the smaller motor business, and it's good for them and -- but we're not interested to get into that.

Moderator: Next question is from the line of Adit from Vibrant Securities.

Adit Shah: Nikhil, and the entire team, I have a few questions. The first one is on a quarter-on-quarter basis, we have seen that the employee cost is down by INR 2 crores. So should we read into that or is it just a quarterly fluctuation?

Nikhil Kumar: Varalakshmi, can you answer that question, please?

Adit Shah: Hello?

Nikhil Kumar: Varalakshmi?

Management: Yes, sir.

Nikhil Kumar: Can you take that question, please? Yes.

Management: Yes, I've taken the question. It's only a quarterly fluctuation.

Adit Shah: So 9-month trend is what should -- we should look at, right?

Management: Yes. Yes. Correct.

Adit Shah: So broadly, I see that the cost base, the cost structure beyond the raw material has grown by 12% in 9-month of this year. Should we expect the same trend in the coming years around 10% to 12%? Will that be the correct way to look at things?

Management: If the inflationary costs will have to be considered, the employee, the salary increase and even a small increase in the number of people and the revenue expenses, the inflationary part will have to be built in. Around 10% to 12% should be considered.

Adit Shah: So 10% to 12% captures all that or will we need more investments, given the strong growth that we are envisaging?

Management: No, I think that should...

Nikhil Kumar: The small investments are taking place, yes, small investments are taking place anyway. But as you said, 10% to 12%, the entire range of cost increases for us to do this additional turnover what we have projected for next year.

Adit Shah: My second question is actually a clarity on your FY '23 guidance, which I think is around INR 890 crores on a consol basis, but on stand-alone, it is somewhere around INR 810 crores to INR 830 crores. Is that correct? The consol guidance is around INR 890 crores?

Management: Yes, we will do.

Adit Shah: And my last question is on your capital allocation. So one of the base is obviously dividend or buyback. But how is the company looking at expanding the capacities, given that we might -- we are nearing our utilization? So I just want to understand the various options which the management is thinking beyond just a buyback or a dividend?

Nikhil Kumar: So we need to keep aside some money for the day when we need to put up a new plant, right? And we will put aside some money for that every year until we take a decision to invest. And beyond that, the surplus cash, which is there would be then to some extent, would be again distributed to the shareholders either through a dividend or a buyback.

These are the options that we have on the table. And as we generate the cash and as we come -- look at the visibility of the business and as we come closer to the decision of putting up a new plant and things like that, then we will evaluate all -- what's best for the organization and then we will do what's best for the company. So that's our thinking right now.

Adit Shah: Can I take one more question, please?

Nikhil Kumar: Yes. Go ahead.

Moderator: Sorry to interrupt you. I'll request you to come back in the question queue.

Nikhil Kumar: Yes, no...

Adit Shah: Okay.

Nikhil Kumar: Let him ask.

Moderator: Okay. Go ahead.

Adit Shah: Okay. Thank you so much. My last question is on the product development. Just want to understand, as a company, how do we evaluate which products to enter, just to understand the framework, not expecting your pinpointed reply on what products we are entering, but the framework?

Nikhil Kumar: The framework, it has -- one is, it has to -- we need to have core competence in that area or we need to be able to develop the core competence as an extension of the core competence that we already have. That's the first criteria. Then we look at the size of the market, we look at the complexity of the product, we look at pricing, we look at marketing, we look at the serviceability of the product. There's a number of factors will go in before we take a call. But I would say the key factors are, it has to be something which requires our technological ability and -- with which you can get decent pricing. That I think for us a really, really important part.

Adit Shah: So essentially, that basically means rotating machines, right? I mean is that what captures everything of -- about our abilities? Are there something beyond that?

Nikhil Kumar: No, it's rotating machines, electrical rotating machines.

Moderator: The next question is from the line of Manoj Dua from Geometric Securities.

Manoj Dua: I'm glad to hear that our relationship with the gas -- new gas Indian customer is improving and going forward. Can you throw some color on any new client addition we can with the Europe or USA. and any development on that?

Nikhil Kumar: OEM, we don't have any new clients or new OEM addition to report at the moment. We are working on a few things, Manoj, we will -- we should be able to inform the market as I said in a few months from now. Once we bring the deal to the point where we have visibility about the business, we have the agreement signed and then we can answer all the questions that you want to put to in front of us.

Moderator: The next question is from the line of Rohit Balakrishnan from ithought pms. Rohit, may I request you to unmute your line from your side and go ahead with your question, please.

Rohit Balakrishnan: So, Nikhil, a couple of questions. So you mentioned -- so one was just answered in the previous participant's call. So I'll ask, the another question was that, so you mentioned that in the motors business, you'll be looking at very niche or very specific applications where competition is not going to be much. So any sense on what kind of opportunity would these be in terms of, let's say, rupee size?

And would this be more like a sporadic opportunity or there is, like, for example, you mentioned about synchronous motors, most sporadic opportunities with irrigation or ponds, et cetera, where that gets created or large construction. So just wanted to understand if there is a general sense on the overall opportunities -- you enlisted a few industries, if you can spend some time on that, that will be helpful?

Nikhil Kumar: Yes. So in general, I think there is going to be a big continuing investment in the irrigation sector as far as India is concerned. And so we will -- we know that there are a large number of projects which are in the pipeline, and we know that it's going to continue to be a big business in India for years to come. That's one. Second is, we also know that there's going to be a big investment in the nuclear power plant business in India. That definitely, India is going to keep adding new nuclear power plants, a big ambitious program is there.

And the -- each of these nuclear power plants requires a number of different parts of the plant, different types of very, very special motors, which we are qualified for and we're bidding for. And these would be again long-term contracts. So we would have good visibility of orders for years to come once we actually get into the business of making these motors and we're not very far away from that.

We'd probably be able to announce the first order in the next time we speak. And then generally, in the industrial sector, there will be specialized motors, which are required. And the third part, which you talked about the export, we are definitely -- we are looking at the LNG side. We're looking at the compression as well as on the LNG side internationally, that first, we want to be a big business for years to come.

And there is a big requirement for the specialized motors required for compression. And we are actively in discussions with 2 or 3 parties who want -- who are actually engaging with us to make these motors for them. So let's see how everything shapes up, Rohit. We are working towards getting good business for the company.

We want to position ourselves well in the sectors, and we want to entrench ourselves. The sectors are all exciting. There's enough of business, large amounts of business. It's now a question of how much we can get from that and how quickly we can get into that. So our team is working full, putting all effort to make it happen as soon as possible.

Rohit Balakrishnan: Sure, just to follow up, Nikhil -- that's very encouraging again to hear. Most of these would be, again, today -- whatever you mentioned today, these would be all imported today or there is -- there are players in India who are making it, let's say, for a nuclear or even for synchronous this kind of orders that you are trying to go after?

Nikhil Kumar: Nuclear, I would say, is imported and domestic share is a major player in this market. Similarly for irrigation projects, it is imported, plus DHL is definitely one of the big players in this market. So we have scope because there's a large -- imports are there right now. And we want to -- and definitely, in India and the government's push on Make in India is helping us to move this process along faster.

Rohit Balakrishnan: Sure. My second question was on the fracking order that you mentioned. In general, can you just share some commentary on how you're seeing that oil prices being wherever they are, do you see that could be a good opportunity for the next, probably next year or maybe beyond that as well?

Nikhil Kumar: I can't look at -- I can't -- it's been so volatile, I don't want to give any comment on that. But right now, at the moment, it looks like there is investments taking place for power generation, and it looks like they may now increase a number of wells they're going to be drilling. And so we have -- we see price for about 100 megawatts, 125 megawatts of orders coming in the next 1 month or 2. Beyond that, let's see.

Rohit Balakrishnan: Sure.

Nikhil Kumar: Keep you updated, Rohit.

Rohit Balakrishnan: Sure. And sir, last question, Nikhil. So we've been very optimist and order inflow also is suggesting that and order inquiry is also very strong in the domestic market. So just wanted to understand, is there -- I mean from a competition standpoint, I mean, are there more players coming back or that's still not happening? Any commentary on that would be very helpful?

Nikhil Kumar: No, I think in general, the industry is doing well in general, right?

Rohit Balakrishnan: Right.

Nikhil Kumar: So in general, the power business, all the companies in the power business are doing well. And everybody has capacity. So we're not seeing new players coming in. But it's good that these industries have suffered for so long is doing well, and I hope it continues for a longer time.

Moderator: Next question is from the line of Ankit Gupta from Bamboo Capital Partners.

Ankit Gupta: Nikhil, if you look at our order inflow on a quarterly basis, so we have broadly been in the range of around INR 200 crores to INR 220 crores kind of run rate for the past 2 quarters, 3 quarters. Given the kind of inquiry pipeline that you have, do you think we can touch INR 280 crores, INR 300 crores kind of order inflow on a quarterly basis, let's say, by next year or at least in the second half, if not in the first half?

Nikhil Kumar: I don't want to give a projection, projection on that. See, I'm not going to give a yes or no answer on that. Obviously, we need to grow our business from the FY '24 level to FY '25 level, and that will have to be reflected in the order inflow. So how much is going to be and how far we want to get with some of these new initiatives and how much benefit we're going to get, are we going to get lucky, some our -- one of our -- if our partner wins this 12,000 horsepower, there are so many factors that want to contribute towards what we're going to see happening in FY '25. So let's wait on that. I'll answer your question maybe in, if not next quarter, definitely the quarter after that.

Ankit Gupta: And second question was on the margin side, Nikhil. So we have reported one of the highest gross margins in the past 6 quarters, 7 quarters. And that has also resulted in significant expansion in our EBITDA margins. And you have highlighted that you aspire to reach 34%, 35% kind of gross margins over the medium to long-term basis. So given the current prices of raw material, especially copper, do you think this kind of gross margins can be maintained for FY '24?

Nikhil Kumar: No, I don't think I have mentioned 34%, 35%. I have said around 32% is what we are aspiring to. And we will get to 32%. We will see. We can, gain, go to increase it by -- obviously, once it is 32%, the next question is, are you going to get to 33%. So let's first get 32%. We're close to that. We'll get there. With that, we will deliver better EBIT and that plus operational leverage, we will deliver better EBITDA margins next year. Exact numbers, we will give to the market once we have full clarity in the next quarter, probably next earnings call, we will give full clarity on what we expect to happen next year, but it's going to be good.

Moderator: Thank you very much. I now hand the conference over to Mr. Nikhil Kumar for closing comments.

Nikhil Kumar: Thank you for the time today, and thank you for joining this conference call. Please feel free to contact me or Investor Relations team if you have any further questions. I look forward to interacting with all of you once again at the end of next quarter. Thank you.

Moderator: Thank you very much. On behalf of TD Power Systems Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.