

TD Power Systems Limited
(CIN -L31103KA1999PLC025071)

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The Listing Department
The National Stock Exchange of India Ltd.
Exchange Plaza, Bandra- Kurla Complex
Bandra (East)
Mumbai 400 051

Sirs,

Sub: Disclosure under Regulation 30 of SEBI LODR - Transcript of Analyst & Investors call

With respect to the above subject, please find attached transcript of Analyst & Investors conference call relating to Audited Financial Results of the Company for the period ended March 31, 2021 held on May 20, 2021.

Please take the above on your record.

Yours faithfully,
For **TD Power Systems Limited**



N. Srivatsa
Company Secretary



Encl: A/a



TD Power Systems Limited

Q4 & FY21 Earnings Conference Call Transcript

May 20, 2021

Moderator

Ladies and gentlemen, good day and welcome to the TD Power Systems Limited earnings conference call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask question at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Devrishi Singh of CDR India. Thank you and over to you, Sir.

Devrishi Singh

Thank you. Good morning everyone and thank you for joining us on the Q4 and FY21 earnings conference call of TD Power Systems Limited. We have with us Mr. Nikhil Kumar – Managing Director, Mrs. MN Varalakshmi – Chief Financial Officer, and some of their colleagues in the management team on this call. We will begin the call with brief opening remarks from the management following which we will have the forum open for an interactive Q&A session.

Before we begin, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risk and uncertainties. Documents related to the company's financial performance have already been emailed to all of you earlier. I would now like to invite Mr. Nikhil Kumar to make his opening remarks. Thank you and over to you, sir.

Nikhil Kumar

Thank you. Good morning everyone. Thank you once again for joining us today on our earnings call. I trust all of you would have received our results investor presentations. Now let me move on to discuss with you TDPS' financial performance for the year ended 31st March 2021.

Standalone: Our full year total income was Rs. 512 crore versus Rs. 494 crore the same period previous year. Profit after tax including comprehensive income was Rs. 17.94 crore versus the profit of Rs.16.9 crore for the same period during the previous year, the previous year included an exceptional income of Rs. 2.16 crore from a sale of land. Full year manufacturing revenue stands at Rs. 485 crore versus Rs. 455 crore. Exports and deemed exports contributed to the 61% of our manufacturing revenues. Manufacturing order book, including our Turkey operations stands at Rs. 1,095 crore which is Rs. 337 crore manufacturing business, Rs. 686 crore railway business and Rs. 72 crore from our Turkey operations.

Order inflow statistics. Full year order inflow is as follows:

TDPS manufacturing business, India Rs. 470 crore versus last year, previous year was Rs. 468. Turkey had an order inflow of Rs. 69 crore versus Rs. 88 crore in the

previous period. Total Rs. 539 crore versus Rs. 556 crore. Our projects business for the full year FY21 project business revenue stands at Rs.20 crore versus Rs. 32 crore same period previous year. Our order book for this business currently is Rs. 16 crore.

On a consol basis- Our full year total income including exceptional items is Rs. 610 crore versus Rs. 542 crore for the same period previous year, increase of about 12%. Profit after tax, including comprehensive and exceptional income is Rs. 43.67 crore, including Rs. 7.18 crore coming from write backs of payables from our subsidiary company DFPS. This is compared to a profit of Rs. 28.85 crore from the same period the previous year. In the previous year when we had Rs. 28.85 crore we had an exceptional income of Rs.14 crore which was Rs. 2.16 crore sale of land and Rs. 12 crore write back from our payables from our subsidiarity DFPS. If I take out the exceptional income from both the years, our profit has increased actually from Rs. 14.8 crore to Rs. 36.49 crore. Our consol order book stands at Rs. 1,111 crore and we continue to maintain a strong cash position of Rs. 184 crore.

Now order book, market situation and guidance:- We have a very strong order book for the current year with including the railway business with Alstom, we have confirmed orders at the moment as of date of about Rs. 475 crore. We have earlier given a guidance of Rs. 550 crore, which is easily possible for us to achieve, the strong current demand for our products all over the world. On the export side, we have more than forecast orders in steam turbine and gas engine. We have also been officially approved with the new engine from our customer that we have been working with for the past one and a half years. They have made a worldwide announcement about this and this means that orders will start flowing in. This is a major development for TDPS.

On the domestic side, we saw a strong demand from steam turbine manufacturers until end of March, but recently effects from COVID have started to be felt. Hydro was expected to be lower, but we got some good orders recently in Q4, and so the overall reduction of our business from the previous years will not be so steep as expected. We have a number of projects also in the pipeline, currently under negotiations, especially on the export side, which will compensate also good business for us next year. We are also very happy to announce that we have won a trial order for about 15 machines for the most popular model of the traction motor from the Indian Railways to be delivered in Q2 in this year. And after that, our intention is to get the full approval by the end of this financial year. Once approved, we can start bidding for all the projects with Indian Railways and start getting a larger market share.

At this point of time, I would like to also mention the difficult environment that we are in with raw materials. All our (Inaudible) raw materials are up 60% to 100% from steel, special steels, and copper. This has affected the cost of generators drastically. It was a good decision the Company took last year when we booked a lot of copper and steel when the prices were low, and this has cushioned the impact for us for about four to five months of this financial year. Other than that, we have also booked Euro at very favorable rates compared to the previous year. And in addition to that, we also have price variation clauses on some major contracts that also provides us with some cushion. These three major factors, largely nullify the raw material cost increases for the current order book. But we also have orders in the pipeline,

especially those booked by OEM customers and not yet passed onto us and that's when the story gets a little complicated. We had intense discussions with our customers on the best way forward, especially with customers that where we have a high market share and long-term relationships. There could be an effect on margins to a small extent in Q3 and Q4. If these cost increases persist, ultimately the end customer has to pay for it. But I am of the opinion that inflationary pressures are building up and corrections should happen in the next few months. Of course, I could be wrong also. But our approach is clear. We want to protect the long-term relationships with our customers, but also ensure that we don't lose a great deal of money in the short-term. Our approach is also to do what is right to do in the short term and also what the right to do in the medium term and long term to protect our business.

Coming to Turkey:- We have confirmed business of € 8 to 8.5 million this financial year, which is around 30% less compared to last year. This I have already indicated in my previous call. The market in Turkey is pretty slow at the moment since new incentives and policies have still not been officially announced. But we know that once the incentives are announced, the market will bounce back once again.

Let me just now move to guidance: - For this year TDPS India manufacturing business, as mentioned earlier, we already have sitting on Rs. 475 crore, so Rs. 550 crore earlier guidance is easy for us to do. So, we are at this point of time seeing Rs. 550 crore plus something. We see Q1 to be Rs. 125 crore, a little bit lower than what we have earlier forecast, since lockdowns have definitely affected domestic sales and these current lockdowns will have an impact also to some extent on manufacturing in this particular quarter, but we don't see this coming down below around Rs.125 crore. We will have Rs.145 crore in Q2 and H2 will be minimum Rs. 290 crore. We will have fairly consistent quarter-to-quarter performance, but as always Q2 and Q4 will be much stronger compared to Q1 and Q3. TDPS Turkey top-line would be around Rs. 80 crore plus, depending on the exchange rate and total manufacturing business to be Rs. 630 crore plus, depending on how much more we can do from India. Project business topline expected to be around Rs. 25 crore. All our subsidiaries will be profitable.

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

Moderator

Thank you very much. The first question is from the line of Himanshu Upadhyay from PGIM Mutual Fund.

Himanshu Upadhyay

Congratulations on good set of numbers and hope the momentum continues. My first question was on the domestic market. Over the last few months, we have seen for the commodity companies the pricing has been better and some of the companies are trying to hasten the project or the manufacturing stage. Let us suppose the CAPEX cycle really starts in earnest which not being there for a long period of time. Do you think the power, or a captive power plant will be again the driver for you or you think the waste heat gases would be the driver for you? What is the sense you are getting from the customers? And your own thought process on what you can do to get some pie or incremental pie on the CAPEX which might happen in the Indian market over the next two to three years. Some thoughts on that would be helpful.

- Nikhil Kumar** What we are seeing is that for every Greenfield project there is a captive power plant, cement or steel or sugar or, you name it, all industries which require power as a major part of their input cost, all industries are definitely going in for captive power plants. In addition to that, there is waste heat recovery, which getting to be a bigger and bigger market. There's this garbage incineration plants which is also a big market. And of course, there's, sugar cogen and burning of other biomass materials which is a smaller part of the business but definitely it is still there. So, the captive power plant business story for India has still not gone away and continues. It will continue to be here. The power situation in the country has not dramatically changed in any way to say that captive power plants are not required anymore. We are not seeing the increase in renewables which was what people were talking about some time back, but it's not happened. So, any Company that requires a stable source of power supply will go for captive power plant.
- Himanshu Upadhyay** See one thing, if I remember few quarters back, we had a similar discussion, and our view was that thermal power plant is a story which is not going to come back that strongly. But do you think for us, let's say where we are in captive power plant, we can again get back to that similar business what used to be there 7-8 years back, if the CAPEX cycle recovers, should that be the thing, what you are trying to say?
- Nikhil Kumar** The large thermal power plant business is definitely a declining business. There is no doubt that that business has been dramatically affected. But that the bulk addition of megawatts into the grid has to take place in some way or the other. So, if it's not taking place in renewables, then there's always going to be a power shortage in the country. So, I believe that if the CAPEX cycle really picks up, we will get back to where we were 10 years ago.
- Himanshu Upadhyay** And globally also that is the way, means captive power plants remain?
- Nikhil Kumar** Globally we are seeing that captive power plants, we are getting a lot of steam turbines business in export market, like what I mentioned a little bit earlier, but we are seeing that steel plants in Europe whether steel, paper, cement, everybody has a captive power plant despite having very stable grids and having surplus power in the overall system. Everybody has a captive power plant.
- Himanshu Upadhyay** Are you seeing increased inquiry in the current market? Are you seeing the CAPEX revival or some hope or you think...
- Nikhil Kumar** Unfortunately this is a story which is repeating itself for the second time. It was a very-very good situation until I would say end of March and then we had the second COVID wave in India and that has definitely impacted everything. I am not saying that it has derailed, it has not derailed for sure, but at the moment I think there is a slight hold on everything at the moment. We are feeling that there is a slight hold in everything and so people are just waiting for the second wave to maybe subside a little bit and then the business activity will definitely come back in a strong way. At the moment we are all in the middle of the second wave and it has definitely impacted the sentiment of the country.
- Himanshu Upadhyay** This is a slightly longer-term question. In most capital goods when we see the companies, whatever we say innovation keeps on happening or the technology keeps on changing. People need to keep on innovating on different products. We

had a tough problem where we were concentrated only on very few products when we went into the crisis last time. But let's say four or five years down the line what would be the areas more you would like to explore near our products and how do you think the company will evolve from hereon in five years, more on the product side and your thought process on the products? Because what we have seen is too focused on single products, most of the capital goods companies at some point of time had issues or let us say what we are seeing even in case of GAIL and everyone. A few companies have tried to diversify into different products or geographies and all that.

Nikhil Kumar

I see this is a larger issue, probably not an earnings calls subject. I definitely appreciate the question. All I can say is that we have a number of new products in the pipeline. And we have built up a lot of products in the past seven to eight years, expanding our geographies, expanding our product range, expanding different verticals that we are addressing in the market and we have a number of new products also in the pipeline. But to talk about the specifics and everything that is, I think, beyond the scope of the earnings call, so we can have a separate discussion, a one-to-one whenever you want.

Himanshu Upadhyay

One small suggestion, in the presentation or if you have the data, you can just share. If I want to understand, let's say in the revenue contribution the products introduced in last five years, what would be the revenue contribution from those products and even geography, just to understand how has been our evolutionary strategy, let's say FY17 'x' percentage from the products which were in last five years and FY21 how much was the revenue from products introduced in last 5 years, similarly geography. So, that just we know how fast we are evolving and because a lot of work has already gone every quarter, we see new segments entered. Just to get some better idea and how the numbers are evolving on the revenue from those contributing area, it would be helpful.

Nikhil Kumar

I understand.

Moderator

The next question is from the line of Rohit Balakrishnan from iThought PMS.

Rohit Balakrishnan

Congrats on very good year TDPS and also congrats on Caterpillar being an official customer. Just wanted to understand in your guidance what you have taken. So, in terms of this customer giving us orders, how do you see this customer evolve for us in FY22 and beyond, if you can just talk a bit about that.

Nikhil Kumar

So the announcement has been made, so the orders will start flowing in. We will give a firm forecast about this business in the next quarter, Rohit. We are under discussions with them about this very subject.

Rohit Balakrishnan

And Nikhil, you also talked about winning some trial orders about 15 machines from Indian Railways. So, these are over and above, these are directly with Indian Railways if my understanding is correct?

Nikhil Kumar

Yes.

Rohit Balakrishnan

So, it will be over and above what we have with Alstom?

- Nikhil Kumar** This is the most fast moving, most commonly used traction motor by the Indian Railways for their electric locomotives. They buy, as I said, this would be something like a Rs. 500-600 crore business this product itself per year. And so, we want to get approved. We have the first order; we have to deliver it in Q2. Then there is a six-month trial on the locomotive that Indian Railway, they will conduct a trial after six months of successful running, then we will be officially approved. And then once we are officially approved as a regular vendor, then we will start getting a bigger chunk of the overall business automatically.
- Rohit Balakrishnan** This business will probably start flowing in from next year if everything goes well.
- Nikhil Kumar** Yes.
- Rohit Balakrishnan** Nikhil, also wanted to understand in terms of hydro market in Europe. So, you have seen some countries beginning to open up and you said that hydro market is largely a physical market because you need to go there and serve. So just wanted to understand, how do you see that, not for this year, but for next year. How do you see that for FY23 because the order book will start getting built?
- Nikhil Kumar** There are some orders in the European market which we are running after. Let's see whether we are successful or not. We hope we are. But major markets for hydro, still continue to be in Southeast Asia and Nepal. Those are still the major markets and major demand is coming from this part of the world only. So to some extent, the hydro market is definitely at a lower level compared to pre-COVID, mainly because this kind of business requires travel, requires face-to-face meetings and especially since travel is really hard right now for Indians in general, it is hard for us to go and meet these customers.
- Rohit Balakrishnan** In the last couple of calls you talked about some sort of CAPEX, some opportunities which you still wanted to wait and see and then talk about. Lot of question is on capital allocation because we have a fair amount of cash. So, between CAPEX and repaying shareholders, what is the thought process at this point of time?
- Nikhil Kumar** So we are definitely going to grow our business and we are waiting for some things to come into place. And we expect to use our money to invest in our own business and to make capital investments and to grow our business. At the moment we are keeping our money waiting for those opportunities to fructify.
- Rohit Balakrishnan** In terms of any other big opportunities like what we have done with this new customer, something similar, anything that you would want to share? Maybe we are in some discussions or something in the pipeline?
- Nikhil Kumar** I am not going to share that right now, Rohit. Of course, we are doing a number of things, we have a number of projects in the pipeline, but it's too early to talk about it.
- Moderator** The next question is from the line of Dhwani Desai from Turtle Capital.
- Dhwani Desai** I have three questions. The first question is, with respect to prices and the scenario that is evolving that you talked about. Last time when such situation had come 2-3 years ago, there was margin pressure from our side, especially on the gross margin

side and you indicated that we have some price revision clauses in some contracts and some OEM contracts are still not covered through that. So, how do you see that this time will we be less impacted, one because the supply side situation has improved in our favor. Secondly, probably we would have preempted this and included price revision clauses. How do you see that vis-à-vis with last time when such situation had come?

Nikhil Kumar

I think compared to last time we are definitely in a stronger position in the market overall and our relationships have strengthened with many of these OEM customers. So on one hand, it definitely gives us a better chance to talk to them, but it also, on the other hand, there's a high core dependency from both sides, which we have to keep in mind looking at the long-term view of the business. And especially as I said, for orders which are in the pipeline, which they have bid or they have negotiated or won and it's still waiting for contract signing or waiting for advance payment to be made, there is a certain chunk of business which is not yet in our hands and not yet in their hands, but it is finalized. And that is what I am calling as being the short-term problem that we have to talk to our OEM customers, and we have to see what is the best way forward. And we are doing that. At the moment we're doing that, and intense discussions are going on. So I am not in a position to tell you what is the result of that. I am just keeping the market informed that this is the situation where the Company is in right now. And, as I said earlier, our current order that we have on hand, Rs. 450-475 crore is not severely impacted because of the steps that we have earlier taken. So it is really what is going to be coming next from now onwards that we have to discuss and find solutions with our customers. And as I said also, long-term, when I say long-term, I mean beyond six months, obviously the entire cost has to be passed through to market. Nobody can take this kind of increases on their heads. So that is also very-very clear, and we will do that. But it is a short-term problem that we have to address in a very, I would say, holistic way. I am not in a position to give you any numbers at this moment.

Dhwanil Desai

That's okay. I mean, directionally, we are in a much better position than when such things happened last time, that is what you are saying and then quantitative impact maybe we will come to know as you progress in your discussion.

Nikhil Kumar

As I said, we are much stronger position, but also conversely there is this high level of co-dependency also from both sides. So, we have to be careful how to go about these things.

Dhwanil Desai

Second question, Nikhil, from all our past conversations, one thing, that at least I am able to infer is that Rs. 750-800 crore is a sweet spot in terms of capital utilization, margins, return on capital everything. So, I mean, from current year, we are expecting around Rs. 630-640 crore kind of a business. How do we see part from that number to Rs. 750-800 crore? I am saying, what are the levers that you think will take us to that number, if you have any thinking around that and if you can share it?

Nikhil Kumar

I think I mentioned this in the past two calls that we have some big things in the pipeline. One is a major engine customer that we have now reached a point where we have been officially approved and they have made a worldwide announcement. So, that's a big driver of growth. I have not been able to answer Rohit who had really asked what is the number. But that is going to be a big driver of growth. The Indian

Railways will be a big driver of growth and we have some other products which are also in the pipeline. So, it is definitely going to come through new products, new market, new customers.

- Moderator** The next question is from the line of V.P. Rajesh from Banyan Capital Advisors LLP.
- V.P. Rajesh** Nikhil, I was just asking that your comments on the opportunity that we see would be ethanol plants that all the sugar companies are putting up, if you can just comment on that?
- Nikhil Kumar** I have my colleague. Head of Marketing and Sales, Vinay Hegde with me also on this call. Vinay would you like to comment on this question?
- Vinay Hegde** Pardon me, can you just repeat that question?
- Nikhil Kumar** The question was how is the ethanol policy of India, how is it resulting in the business of new ethanol plants are going to be impact on the generator and turbine business in India?
- Vinay Hegde** It is definitely giving us quite a good number of business because all sugar plants are going for new distilleries but even though the ratings are small, maybe 3-5 megawatt range, but a lot of new plants are coming up and we are seeing a good traction in this segment.
- V.P. Rajesh** Do you see it being a growth driver in let's say fiscal year 2022 or 2023 or after that, what's your sense on that? Like will it become let's say 10%-20% of our business?
- Vinay Hegde** It is not really going to be a growth driver, but it is going to increase the business in the steam turbine segment. Already it is an ongoing business, and the number of plants are going to be more. It's not really a growth driver.
- V.P. Rajesh** My second question is on the CAPEX side. What is the CAPEX plans for fiscal year 2022 and fiscal year 2023?
- Nikhil Kumar** Other than the new projects, if successful, which we may have to invest, which we have not disclosed to the market as yet. Other than that, we have 12-15 crore CAPEX plan.
- V.P. Rajesh** That 12 to 15 is more maintenance type in nature.
- Nikhil Kumar** It is a maintenance and, as I said, we are constantly investing in automation. Every year we are putting in money into automation and part of it, about half of it will go into automation.
- Moderator** The next question is from the line of Amit, an Individual Investor.
- Amit** Nikhil, I wanted to understand what are your thoughts on the dividend distribution policy, because even when you say that you are looking to use the existing cash for the business, we are still generating about, even right now Rs. 10-15 of EPS per

year and expected to go up. So, why are we so stingy in terms of distributing dividend?

Nikhil Kumar

I think we have been increasing dividend, Amit, year-on-year. It's been a steady increase and just being a little conservative at this point of time with our capital because, yes, we do have some plans which are yet to fructify, but if they do, we will make some big investments. And that is the main reason why we have just put a hold on increasing dividends in a big way or going in for share buybacks at the moment. The cash we want to deploy into our business which will give us the best returns.

Amit

But we have been sitting on an average 150 crore for the last 3-4 years and we haven't done anything with it, that really depresses our return ratios and just looks like the organization is not doing particularly well. So, even if were to give some of the money away and then later on if we need money for growth, we can always raise capital. So, that's not something that you are open to.

Nikhil Kumar

Giving it away is, I mean, I don't understand that. So, we have lots to consider this option. Let me put it that way.

Moderator

The next question is from the line of Ankit Gupta from Bamboo Capital.

Ankit Gupta

Nikhil, on the capital allocation part earlier in our conversations with you over the past many years, our current existing capacity we can stretch up to 750-800 crore of revenue with existing facility, and we do have some spare land available at our existing plants as well. So, for the first time we are hearing about your plans for capital investments and using the cash on hand for deploying in future expansions or some other way, maybe acquisition. I know you won't be sharing the detailed plans about what is the way you will be using this cash, but what has prompted you to change this policy? Because earlier we have used cash for buybacks, dividends, and all, so what has changed now, if you can throw some light on this?

Nikhil Kumar

It's a really good question and I think the answer is that we have really put together a plan for the next three to five years, which direction that we want to go into, what are the new products that we want to introduce? What are the new markets that we want to get into? What are the new technology that we need to acquire or need to develop by ourselves? And we have developed a good plan for ourselves. So, we are working on all these areas quite intensively. And if some of them start to fructify in the next year or two in the next year, I guess, we will start seeing the necessity to start deploying some of the cash into these projects, into these new product. So that is definitely the shift. I have always said that when we come to the stage when our capacities start filling up, we will start looking at the next step of what is to be done next. I have always maintained that. And the first priority always was to fill the existing capacity, so we are definitely to put those bricks into place, let me say, so those things are in place. But now we have to think about what is next beyond that. And the thinking has already started some time ago, the plans are getting finalized and, as I said, we have definitely identified specific products in specific markets that we want to get into and that may need cash for the future and will need cash for the future. So that's the change in our thinking.

- Ankit Gupta** Secondly, on the railways part, we do understand that this 500-600 crore annual market is highly concentrated with few players. So, over the long-term, let's say, if we get empaneled with railways, how do you see this business shaping up for us? What are your expectations of annual revenue from this business?
- Nikhil Kumar** I have mentioned this a number of times before, I said around 10% would be a good starting point for us.
- Moderator** The next question is from the line of Manish Goyal from Enam Holdings.
- Manish Goyal** Just want to get a perspective on the steam turbine market. You did mention in your initial remarks that our market is quite strong and also a lot of greenfield plants, say steel, cement, sugar have captive power requirements. So maybe if you can provide some insights as to how the market, has the inquiry pipeline in volumes grown, would be really helpful.
- Vinay Hedge** Steam turbine market has come back and there are lot of steel and cements plants are going for expansion and maybe heat recovering plants are coming up and after maybe almost 10 years we are seeing a very good surge in the demand for steam turbine market. And our major customers are really doing well. And this year we had a very good order book, and we have a very good pipeline of enquiries and we are seeing a very good year this year for steam turbine business.
- Manish Goyal** Would it be possible to maybe quantify in terms of what was the market last year and inquiry pipeline and what is it now? And ideally are you seeing the demand for higher range generators as well?
- Vinay Hedge** No, it is not higher range turbines. Higher range turbines are very few, but most of orders are below 25 megawatts and mainly the heat recovery plants. And biomass and municipal waste burning, there are a lot of enquiries in the pipelines, and small distillery as well. Not big steam turbines above 30 megawatt.
- Manish Goyal** But is it from say last couple of years what market enquiry pipeline was, is it that the enquiry pipeline is 40%-50% up? I do recollect that in peak times in 2011-2012, the overall markets used to be 2,000 megawatts which had fallen to some 600-700 megawatts. If you can put some number...
- Vinay Hedge** You can say that it is coming back to the same level of 2011-2012.
- Moderator** The next question is from the line of Bajrang Bafna from Sunidhi Securities.
- Bajrang Bafna** I joined a bit late so maybe the question can be repeated. We are already seeing the commodity prices are spiraling and a few of the players in the competition have indicated that it might have some impact on the margins. So, will be helpful if you guide something because we have been on the 11%-12% kind of margin in the last year trajectory. So, what impact it could have on our margins? Because topline I think you have already guided that 550 plus is doable even in this year despite some hiccup in the first quarter. But especially on passing on the inflated prices of commodity, how it will impact our business? That will be helpful.

- Nikhil Kumar** I think I have spoken extensively on this already. I think you must have missed it. But I'll just try to give a quick summary for your benefit that I have said that we have largely been able to nullify the order that we have on hand with some of the actions that we have taken in the past like buying raw materials, fledging the exchange also price variation clauses. And for the rest what is coming new, we under discussions with our key customers and I am not in a position to tell you exactly what is the impact at this point of time, but we are under discussions. But there could be some small impact is what I am saying, because that is what we are talking about could be 125 crore could be impacted. So, we need to see what could be the impact of 125 crore.
- Bajrang Bafna** 125 crore out of the current order book of 475 crore, correct?
- Nikhil Kumar** No. 475 we have. Now I am saying another 75 minimum we will do, and we could even go to 600. So, with the actual listing we said 550 plus. So, we are currently talking to our customers for about 100-125 crore of business, on the pricing (inaudible).
- Bajrang Bafna** And on 475 the order book that we are having, that will not be impacted because we might have back-to-back arrangements when we got these orders. Correct?
- Nikhil Kumar** No, I have given extensive replies to these questions a little bit earlier. If you want me to repeat the whole thing once again...
- Bajrang Bafna** No issues. I will go through the transcript later.
- Moderator** The next question is from the line of Niteen S Dharmawat from Aurum Capital.
- Niteen S Dharmawat** You mentioned that you might be doing some CAPEX in the future and you are still in the discussion mode within the organization, so just wanted to know what are the areas in which you are evaluating? Will it be an export base, or will it be a more domestic kind of opportunities for that you are planning?
- Nikhil Kumar** It would be both. It would be export as well as...I would say it's skewed towards the domestic side definitely.
- Niteen S Dharmawat** Any indication about the size that you are planning in terms of amount?
- Nikhil Kumar** I'm not in a position to answer these questions at this moment because we need to have some real meat on the bone before we can talk about it.
- Moderator** The next question is from the line of Kirti Jain from Sundaram Mutual Fund.
- Kirti Jain** Congratulation, we have doubled our EBITDA in the current year. Good to see, long persistence and you have done an excellent job. Very good to see. My first question is with the Caterpillar, with the railway business and some of the new business which you are trying to do, directionally will we be trying to do a business of 10,000 crore in FY24, that would be the broad thing in our back of the mind?
- Nikhil Kumar** FY24 is 2-3 years from now. Kirti, the question was really why are we not spending our cash. So, we are not spending our cash because we want to invest our cash into

the business. And we have some plans for investing, plans for new products and new markets and we are definitely going to be keeping a cash for this opportunity which is going to be coming up into the future. I think there will be a time when I will clearly explain to all my investors all my shareholders that this is what we planned to do and this is the growth plan, once we have got some sure indications that, yes, the products are in line with the market expectations, we have the right pricing, we have made the entry, opportunities are becoming real and once the opportunities become real, we will present them and we will say, yes, this is what we planned to do, this is how much business we planned to get, this is how much money we want to invest, and this is how the Company is going to grow. So, it's a little premature to ask me this questions. I am sure that I will communicate with all the shareholders at the appropriate time, and you can be sure that we will be completely open and transparent about our plans for the future. But what we want to really indicate is that we are not in the mode of share buybacks or dividends because we are planning to invest this money into our business. This is what the basic message we want to give.

Kirti Jain My question came because in one of the earlier participants thing, you had told that we have a 3-to-5-year strategy planned for new product, new market, and new geographies, that's why I connected these two things and directionally...

Nikhil Kumar Yes, it is a very logical question. How much money, how much market, how much business, how much sales, totally logical questions. These are the first questions that I should be answering once it is clear. But I think I just wanted to highlight to you is how this came about. This came about from, how are you going to allocate the capital? So, my basic point was that capital allocation has been reserved for future products and future growth. Now, what is the future products and future growth, I will inform my shareholders as soon as possible.

Kirti Jain By calendar year, these opportunities should fructify?

Nikhil Kumar We will keep you posted on earnings calls to earnings call, and we are definitely working. But the opportunities which are fructifying rather quickly, I can say at least, which will have immediate impact is, one is the engine business and other one is the Indian Railways business. Those we will see faster results because those are things which we have been working on now already for the past two years.

Moderator The next question is from the line of Dhiral Shah from Phillip Capital.

Dhiral Shah Last concall you had talked about that you have bid for a private train tenders. Have you received any order?

Nikhil Kumar Vinay, that tender is still not been closed? July is when the tender will close and then we will know who are the companies which have won those bids. I think 2 or 3 companies have bid right now, GMR plus another two. And once those companies win, they will start ordering the locomotives. Then the Company that wins the locomotive order, hopefully it is our customer, and if it is our customer, then yes, we will get that business.

Dhiral Shah You have also talked about that there will be a 10% growth in railway business for FY22. So, how much we did in FY21, railway business?

- Nikhil Kumar** 60. And it is going to go from 60 crore to 100 crore.
- Dhiral Shah** This year?
- Nikhil Kumar** Yes.
- Moderator** The next question is from the line of Rajesh Kumar, an Individual Investor.
- Rajesh Kumar** I have two questions. One is about the engine business. Since, in the key concalls you had been mentioning about a few different customers, so I just wanted to connect some dots there. The first thing is, Caterpillar is the Company where we have supplied some 8 engines or so last year and that is where the approval has happened, and we were to replace the current supplier over a period of two years. Is that a correct understanding?
- Nikhil Kumar** I don't specifically discuss customer names on conference calls. But I won't deny that. Yes.
- Rajesh Kumar** I am not talking of the customer's name, what I was trying to say is, this is one customer where we have done all this process and where we were going to replace the existing supplier.
- Nikhil Kumar** Yes.
- Rajesh Kumar** The second was about the engine. So, there were two more, like we had supplied some megawatt, 9 numbers to desalination barge and you had talked of some other engine customers based out of Austria, Germany. So, they are all different other than what you have got the order.
- Nikhil Kumar** Yes.
- Rajesh Kumar** And my second question is about the order book. As per the investor presentation, it is mentioned 410 crore if I remove the railways order and now you are saying as on date it is around 475 crore. So, that means in the current almost two months we have received an additional 65 crore orders for the current financial year. Is this correct work out?
- Nikhil Kumar** 475 crore is the executable order for this on hand right now, including the railway business.
- Rajesh Kumar** Including the railway business. But in the investor presentation we have 400 crore plus railways order which has been given...
- Nikhil Kumar** So, it's a combination of some part of the generator business and some part of the railway business, put together what we are telling you is that there are somethings that go on hold, somethings that go on cancellations, etc., not the cancellation, but really on hold. So, the number that we have on hand for execution as of date today is 475 crore for this financial year.
- Moderator** The next question is from the line of Ravindranath Naik from Sunidhi Securities.

- Ravindranath Naik** You mentioned that 15 crore of revenue that you have booked for railways it is for your part or including the Alstom's part?
- Nikhil Kumar** This 15 machines what I have mentioned this is directly with Indian Railways.
- Ravindranath Naik** So, Alstom would be another 90 or 100 crore?
- Nikhil Kumar** The Alstom business is about 100 crore, this is only 15, this is not a big value.
- Ravindranath Naik** So, including Alstom we got a revenue of 160 crore this year in FY21, right?
- Nikhil Kumar** Alstom business is 100 crore this year.
- MN Varalakshmi** 60 crore in FY21 and in FY22 it will be 100 crore, Alstom business.
- Ravindranath Naik** Is it possible to give a, I can say sort of the order book in terms of turbine, engine, locomotive and special application front for the revenue and order book, is it possible to bifurcate, if at all?
- Nikhil Kumar** Its possible but we don't want to do that.
- Ravindranath Naik** Across all the segments, the margins is quite similar, or it is different for different segments, like turbine has different margin, engine is different margin, considering the scope of the work, is it similar or it is different?
- Nikhil Kumar** It is different from product to product for sure but overall, it is not that much different.
- Ravindranath Naik** This quarter we have a write back of 36 lakhs due to some (inaudible) intake provision. So, what is the recurring interest cost in this quarter?
- MN Varalakshmi** Can you come back on your question?
- Ravindranath Naik** 36 lakhs is the write back of the interest, so what is the interest cost recurring for this quarter?
- MN Varalakshmi** Actually what happened is that we have an FCNR loan, and we have to reinstate it at the end of each quarter. So, in December the Euro was at 89 versus in March it was at 86. So, the differential we had to take it back, that is why the negative has come.
- Moderator** The next question is from the line of Adit Shah from Vibrant Securities.
- Adit Shah** I have two questions. Number one is that, if I look at the OPEX, I think it has increased significantly sequentially to around 3 crore quarterly which was around 32 odd crore. So, have we given hikes to employees? And should we assume this number continue going forward? And number two is that in this year we had fairly strong gross margins, and of course, you have explained about the scenario currently with respect to the commodities and your customer combinations, but we want to hazard a guess about your gross margins for next year, how much pressure can we see in terms of numbers. That would be helpful.

- Nikhil Kumar** Varalakshmi, can you explain this 6 crore difference. I don't think this is going to be the run rate for the whole year.
- MN Varalakshmi** There has been some small inflationary increases on the salary which has been given to all the employees. Some portion is coming from there and some portion is also coming from the exchange loss what we had which is just reported in the book. We don't have the actual loss in terms of cash, but it's only the accounting entry which has got in that number.
- Adit Shah** What is that number?
- MN Varalakshmi** It is around 2.5 crore.
- Adit Shah** In this quarter itself. Okay, got it. Should I remove that number to understand the steady-state OPEX rate? So, should I remove that 2.5 crore to understand the steady-state OPEX, is that correct?
- MN Varalakshmi** Yes.
- Adit Shah** So, around 35 crore should be the steady-state number on a quarterly basis.
- MN Varalakshmi** Yes.
- Adit Shah** Second question is, Nikhil, we have been working very hard to structurally improve the gross margin profile of the business. Historically, the numbers tell that we were doing as low as 26%. Today we are doing, I think, this year close to 33% odd. So just two questions. Number one, in the near term we know that there is a pressure, and the gross funds could be under pressure for the current year, but over the long term do you want to comment about the initiatives which we are taking? And is it possible for the gross margins of the Company to structurally improve to say 35% odd levels on a sustainable basis?
- Nikhil Kumar** It is really unfortunate that we have a setback this year because of the raw material price because we were on that trajectory to move to 35% gross margin, that was really the plan based on price increases and price variation clauses and all those actions that we have taken to increase the gross margin now are going to offset the raw material price increase. This is really unfortunate from the company's point of view. But it is what it is. At least we have those cushions built-in, and we are using those cushions that we have had. Now the big question is, what is going to be the gross contribution for this financial year? And I will be able to answer that question only after I finished these various negotiations, and we also see some level of stability or certainty coming on the raw material prices for the rest of the year. So, I think I have given enough of hints as to what is impacted, what is not impacted, and we will do our best to control it and keep it within...that we don't have a severe impact on the margins of the organization. Of course, that is our goal and that's what we are going to achieve.
- Adit Shah** The last question is, the guidance has not changed materially, it's been pretty much same with respect to last quarter. While we have done some breakthrough developments with a couple of customers as you have announced in the current

concall. So, does it mean that a lot of the business will not come, any of it will not come in this year and will come in the next year? Or have we lost out on some of the other business, like I think railways you were saying 110 crore in last, I believe, which has I think come down to 100 crore. So, I think is it that we have lost 10 crore because of COVID? So just want to understand two things. One, are we being conservative in the guidance or is it that some of the incremental revenues from new customers has been offset by the losses in domestic market due to the COVID situation?

Nikhil Kumar

We have not lost any business. Like for example, Alstom from 110 become 100, just that they have revised their demand based on the number of locomotives that they are going to produce. So, we have not lost anything. See, there is a big flux in the market right now, with the raw material prices going so high that there is definitely a situation where a lot of things are under negotiation. So, we with our OEM customers, our OEM customers with end-users, because nobody can take such a huge impact for a long period of time. Steel prices are double, for example. It's not possible. So, we have not been overly optimistic in giving a very rosy picture on the topline because we just want to see how this thing pans out. As Vinay has also said, there is lot of business in the pipeline and I have also said, there is a lot of business in the pipeline. It's really a tragic situation that we have so much business in the pipeline and unfortunately, we are in this situation where we have this crazy increases of raw material prices. But let's not talk about hypothetically, it is what it is right now. So, we have to navigate our way through this, and we are on the way to do it. As I said, our philosophy would be to keep our customer relationships, to keep the business intact because this storm will pass, this raw material price increases today, today it's like this and tomorrow if you have one month or two months more of inflation, and then you have let's say, for example, federal reserves starts talking about increasing interest rates, this whole bubble will pop. And then we don't want to be sitting on the other side of the fence with our customers when the bubble pops, the raw material prices come back to some level of normalcy and then we are saying that we don't have any orders. So, we have to carefully navigate our way through this situation and that's why we are not being overly optimistic about the projections. It is extremely unusual situation that all of us in right now. So, there's a certain level of caution that we are building-in in our commentary with you.

Moderator

Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Nikhil Kumar

Thank you very much for joining us in this call and we look forward to interacting with you at the end of next quarter once again, Thank you.

Moderator

Thank you. On behalf of TD Power Systems Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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