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February 12, 2025

The Corporate Service Department
BSE Limited
P J Towers, Dalal Street
Mumbai - 400 001
Scrip Code: **533553**

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

Dear Sir/Madam,

SUB: TRANSCRIPT OF EARNING CONFERENCE CALL – QUARTER ENDED DECEMBER 31, 2024.

In Continuation of our letters dated January 24, 2025 and February 04,2025, regarding intimation of earnings conference call, the transcript of Q3FY2025 earning conference call held on February 07,2025, is enclosed and same has been uploaded on the website of the Company at www.tdps.co.in.

Kindly take the above on record.

Yours faithfully,
For TD Power Systems Limited

BHARAT RAJWANI
Digitally signed by BHARAT RAJWANI
Date: 2025.02.12 14:54:43 +05'30'

Bharat Rajwani
Company Secretary & Compliance Officer

Encl: A/a

"TD Power Systems Limited

Q3 FY '25 Earnings Conference Call"

February 07, 2025

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 07th February 2025 will prevail.

MANAGEMENT: **MR. NIKHIL KUMAR – MANAGING DIRECTOR – TD POWER SYSTEMS LIMITED**
MR. VINAY HEGDE – GLOBAL HEAD, SALES AND MARKETING -- TD POWER SYSTEMS LIMITED

MS. M.N. VARALAKSHMI – TD POWER SYSTEMS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the TD Power Systems Limited Q3 FY '25 Earnings Conference Call. 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 touch-tone phone.

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

Nikhil Kumar: Thank you, everybody. Good afternoon. Thank you once again for joining us on our earnings call. I trust all of you would have received our results and investor presentation. Moving on to the financial performance for the 9 months ended 31st December 2024.

Consolidated: Our total income on consol was INR 9.43 billion versus INR 7.48 billion same period in the previous year, an increase of 26%. Profit after tax and other comprehensive income for the first nine months of the year is INR 1.21 billion versus the profit of INR 0.88 billion, an increase of 37%. We continue to maintain a strong cash position of INR 2 billion.

Standalone: Our total income on a standalone basis for 9 months was INR 9.02 billion versus INR 7.32 billion over the same period in the previous year, an increase of 23%. EBITDA for 9 months is 17.45%, including other income excluding treasury income. Profit after tax and comprehensive income for 9 months is INR 1.09 billion versus profit of INR 0.88 billion in the same period of previous year, an increase of 24%.

Order book of Manufacturing segment is INR 13.09 billion, which consists of INR 9.6 billion manufacturing business and INR 3.33 billion railway business. Sales and aftermarket is INR 0.13 billion and INR 0.03 billion is Turkey business. Export and deemed export, excluding railways orders is 66%.

The order inflow for the quarter is INR 4.07 billion, highest ever since the inception of the company. Order inflow has increased 52% quarter-to-quarter and 40% in the 9-month to 9-month comparison basis. 71% of our quarterly order inflow is exports, while 29% is domestic. We have seen some traction in the domestic order inflow during the quarter.

Domestic order inflow for the last 3 quarters has been percentage-wise 28%, 27% and 32%, that is INR 81 crores, INR 96 crores and INR 130 crores, respectively.

Order book, market situation and guidance: The order inflow continues to be very, very strong from export in the generator and motor business compared to the previous year. The order inflow is still mainly dominated by exports, but over the past 3 months, we have also seen the domestic order inflow increase.

The increasing trend of domestic order inflow is also part of Q4, which augurs well for steady growth in the domestic market. The domestic market order inflow in absolute numbers has been increasing gradually, as mentioned before, INR 0.81 billion in Q1, INR 0.96 billion in Q2 and INR 1.36 billion in Q3.

On a 9-month to 9-month basis, the order inflow of domestic is still down 10% compared to last year, showing the overall situation is relatively weaker. However, one should look at the increasing trend, and we see the increasing trend continuing in Q4. So we are confident of domestic demand holding up for FY '26, although for TDPS it is exports that is the main backbone of the business.

In international market, 9-month to 9-month basis, the export order inflow has increased by INR 3.5 billion from INR 4.01 billion to INR 7.52 billion, which is an 88% growth. We have extremely strong order growth in the order book and export business from gas turbines, gas engines and motors.

Exports and these exports inflow is 71% of the total order. This shows the overall trend of the company in all geographies over the world, presence in multiple sectors like gas, hydro, traction, clean energy like biomass, heat recovery, et cetera. Most importantly, we're cutting deeper into the market and winning greater market share due to greater acceptance of our products.

The gas engine and gas turbine business continues to be driven by demand from CHP, that is combined heat and power plants, AI, server farms and data centers, grid stabilization units and Ukraine. Demand is extremely high. Future forecasts are extremely high for the next 18 to 24 months. This is important.

We have received renewed commitments from all our customers that the investments for AI in the next 18 to 24 months are intact, and there will be no changes in the trajectory of power capacity addition in the U.S. In fact, with the hold on all wind projects in the U.S., no capacity addition is forecast to come from gas turbines, which will be positive for TDPS. We're working around the clock at the moment. And once the new plant comes in, we will have some relief on capacity.

We have received orders from the Turkish market recently in Q4 for EUR 0.46 billion *(the order value was inadvertently mentioned as INR 0.46 billion during the call, however the correct figure for orders received is INR 0.26 billion as mentioned on page no.13)* for execution in FY '26. This is the first large order after a long time. There are more inquiries in the pipeline, and we can expect steady business to come from Turkey in the quarters to come. All orders from Turkey are denominated in euros, so we stay immune to high inflation from the local market.

Motors: we have given some highlights of our motor orders in the investor presentation. These examples show that we are continuing to make inroads in the market with references in establishing our brand name and credentials. These references will trigger larger orders in the future. We are the foundation laying stage and increasing our footprint in India and worldwide.

The motors business growth is going as per plan. Once again, we would like to mention the approximately INR 0.5 billion order we got from Nuclear Power Corporation in Q4, which is a big breakthrough order for TDPS. In general, the export business is the key driver for our growth for generators and motors with demand coming in from multiple markets and multiple verticals.

In particular, the gas segment, both gas turbines and gas engines are exceptionally high and will continue to be so for the next 6 to 8 quarters. The future growth will be enhanced by traction motors, motors and other new products as and when they are introduced. Guidance for this year, FY '25 will continue to be INR 12.75 billion and initial guidance for FY '26 will be INR 15 billion with an upside potential based on the current order inflow rates.

In conclusion, we are poised for another round of growth. We see exciting opportunities in front of us, and we're gearing up to meet the demand with our new and existing factories. We have just a small fraction of the world market share and our growth potential is huge. On top of this, we are still bullish in the domestic market, and we strongly believe that there will be growth coming after a shortfall.

India is a severely power deficit country and the macro situation on power has not changed. All large industries need captive power plants. This brings me to the end of my initial remarks. I'll be now happy to address all the questions that you may have. Thank you.

Moderator: The first question is from the line of Bobby J from Falcon.

Bobby J: Yes. My question is, what would be the impact of high storage battery systems on your generators? Because right now, some of your generators are used as backup supply. But if batteries do this job, then what would the impact be?

Nikhil Kumar: Batteries are forming a part of the overall power installation. But the overall demand for power is still so high that batteries are still a very, very small percentage of this mix. Batteries also tend to be more expensive. So we don't see the battery business, at least for the next 6 to 8 quarters, impacting our business at all.

And just to continue that batteries can only store power and deliver power for short periods of time as backup, whereas if you want to have backup power for longer periods of time or you anticipate that there could be a peaking demand and things of that, the batteries is not the ideal solution. You need to have regular power generation from gas. And so there are increasing number of critical applications where you cannot risk having limited capacity from a battery.

You need to have the backup from gas. And so we are seeing that the demand for our products is not really impacted at all from this battery solution. Yes, the battery to some extent of the market is going over there, but it's not coming into the large-scale power generation that we are involved in.

Moderator: The next question is from the line of Ganeshram from Unifi Capital.

Ganeshram: Congratulations on your performance. Great set of results. I have 2 questions, please. The first one is broadly on the guidance that you provided to us, right? Typically, Q4 tends to be a stronger quarter than Q3. So if I extrapolate it, then I think that INR 1,275 crores number is sort of -- we can easily achieve it or we can slightly exceed that.

But is there something that I'm missing? That's the first part. And the same on the guidance that you've given for FY '26, right? So if my understanding is right, the new capacity can churn about INR 400 crores in revenue. So if it comes in second half next year, that's INR 200 crores just from the new facility and about INR 1,300 crores from the existing facility.

So basically, the execution needs to be on spot, so it's able to run at 100% capacity from the day it's commissioned or you have to build an inventory, right? So which way -- how are you going to basically ensure that we'll be able to achieve the guidance that we've sort of set out.

Nikhil Kumar: Yes. Thanks a lot. Thanks. Good point. So we hold on to this year's guidance of INR 1,275 crores. We're running flat out, but we have certain limitations on how much more we can produce. But we're holding on to the guidance for this year. For next year, the INR 15 billion is an initial guidance.

And looking at the way things are going, we're definitely going to do much, much better than that. And we will upgrade the guidance in the upcoming quarters. But looking at the way the order inflow is continuing to be, looking at the demand for the products, it's going to be a most likely scenario. So we will start commissioning our plant -- new plant around middle -- stage-wise around middle of Q1, and then it will be fully in line in Q2. So we'll start seeing increases in our production in Q1. We see increasing in our numbers in Q1.

We'll see the further increases taking place in Q2. So execution is critical. We have to complete everything on time. The orders are there. Customers are demanding the product that will be delivered on time. So we are under pressure. And we are working around the clock, not only in our factory right now, but also working around the clock to make sure the new plant will be commissioned on time. So we have to make things happen.

Ganeshram: Okay. Maybe I'll connect offline just with a few more details on that. And just broadly, a second question, if you don't mind, is the order book inflow, I read in the presentation, you mentioned the current inflow of about INR 400 crores per quarter would be sufficient for us to deliver on guidance, which I'm on the same page as you.

What I'm trying to understand is, would I be right in saying that you continue to expect a larger part of this INR 1,600 crores annualized would come from exports, some moderate growth from domestic. Then you have the railways, some portion of it running out, but I can see you won something in Germany, right? So how should we think about it as a whole? If you had to sort of mentally break down the INR 1,600 crores, where would you see that split be land actually?

Nikhil Kumar: INR 400 crores is the current order inflow. So if you annualize it, yes, INR 1,600 crores. But let's say, we're talking about INR 1,500 crores, which is the current guidance. From that, while current guidance, the railway business will still be only INR 100-120 crores, which is the current Alstom order or current order for the e-Loco project in India.

The export jobs will -- although they will start by Q3 FY '26, I mean the volume production will start. We'll not see significant numbers coming in from this business in the next financial year. So we are not factoring that in. We have to start, but it will not be in full swing. The full swing will start really in FY '27 (wrongly mentioned as FY'26), both for the German market as well as for the U.S. market. So those numbers will then go into '27 (*wrongly mentioned as FY'26*).

The other products, that means the motor and generator business will then have to deliver something like INR 1,400 crores to achieve the initial guidance of INR 1,500 crores. And looking at the current inflow rate of INR 400 crores per quarter, which is excluding traction, I think you're right.

As I also said, we will definitely upgrade the guidance. We have a lot of margin. We have a lot. We don't have a problem. We're not going to have a problem with numbers. We have to get our plant in place and start producing more.

Moderator: Next question is from the line of Anand Trivedi from Nepean Capital.

Anand Trivedi: Congrats on a good set of numbers. First question I had is, are you all at all exposed to the U.S.? And if so, are these some tariffs, do you expect them to impact you?

Nikhil Kumar: Our exports to the U.S. will be something like 8% of our overall turnover. And the products that we are exporting to the U.S. to our OE to the gas turbine manufacturers over there have a 2-year qualification, which is required for any other generator manufacturer to, let's say, replace us in the event that duties do come in. We've been talking to our customers about this.

And right now, we're all waiting to see whether the Trump tariff will also apply to India or not. It may or may not, we don't know. If there is a tariff coming in, then for the short term, that will have to be passed on to the market. It will have to get passed on to the market. In the longer term, we will have to see where we can manufacture where the duties will not apply.

But essentially, our customers with us and we don't expect the disruption of the business to take place. They're with us. And they also cannot afford to requalify a new product. It takes a lot of time. They make a huge investment for it. So for the machines for the turbines, which we are qualified for, for the moment, I think that the customers will run with us. Short term, if the pay duties, they pay duties. But medium term, we will have to be with the customer and TDPS will have to find solutions.

Anand Trivedi: Got it. You also mentioned that 70% of your order book is export and domestic has been relatively slow. Can you just talk about why that is the case given there's so much opportunity for power in India?

Nikhil Kumar: The demand for power in India is extremely high, but it depends on the investment climate. Everything depends on the investment climate, right? So if investments are taking place, then the power capacity addition will take place. Our business in India is relatively narrowly focused to the steam turbine business and the steam turbine business is mainly for captive power plants for large industries.

So in that sense, it is dependent on investment. If that investment slows down or whatever -- for whatever reasons, then this business in India for us also will slow down. But what I said is we're not seeing the businesses collapse. We're just seeing the business is tapering off from a higher level of growth to more moderate levels of growth. But nevertheless, it is growing. And we're seeing that in our order inflow quarter-on-quarter from Q1 to Q2 to Q3, the absolute numbers have been increasing.

So we're not worried about the domestic market. We're just factoring in the lower growth level. And we believe that having a steady 8%, 10% growth level for a longer period of time is actually healthy for the market.

Anand Trivedi: Got it. And last question from my side. As the exports mix in your business grows, do you see margins also going up from the current 17%? Or do you think margins are healthy where they are?

Nikhil Kumar: The margins -- export business, of course, margins will be where they are. We are very heavily exposed to the euro. We have a lot of sales in euros. So currently, the euro is relatively weak against the dollar. It's like at 1.03, 1.04. It was 1.1, 1.12 just 6 months ago.

Although we have hedged currency forward, the relative weakness of the euro does affect margins. So, with the forward covers and everything, we are going to be in line with whatever margin projections we have made. We have the third plant coming up. We have been already hiring for the third plant. So you will see that some of the costs associated with that are now already being booked by the company.

We have been hiring, we've been training people. I would to put a cap on the EBITDA margin. So I would say factoring something like 17.5% or taking to say between 17% and 18%, I think, would be where we're going to be for this financial year.

Next financial year, of course, once things are running at full pace and we absorbed all these costs, and we're going at full capacity, I think the margins will once again improve. But let's talk about that towards the end of '26 and '27. But for now, I think 17.5% is a realistic margin.

Moderator: The next question is from the line of Piyush Sevaldasani from Sundaram Alternates.

Piyush Sevaldasani: Congrats for a great set of numbers. My first question is on the gross margins. They have slightly come off this quarter to, I think, 33%. Can you help me understand, is this because of the forex which you were mentioning?

Nikhil Kumar: No, I think there are a number of reasons. It is a small shift in the gross contribution level. When we have a varying product mix and some quarters, we may have more aftermarket business, some quarters a little bit less. So quarter-on-quarter, to be delivering exactly the same gross contribution is difficult.

But overall, we look at our performance for over a 6-month period or a 12-month period. And there, we have given the guidance for gross contribution. It will be what it is. So please, quarter-on-quarter is due to these fluctuations in product mix, currencies, et cetera, et cetera.

Piyush Sevaldasani: Also we had talked about in the last con call that we will be hiring a lot of junior level employees in the first quarter, but the ramp-up of the capacity will happen in third quarter. So would the margins be impacted for the next year, if you can help us?

Nikhil Kumar: No. As I said, I just spoke to Anand and said that you can please expect something between 17% to 18% EBITDA margin, 17.5% would be realistic to put in for next year, considering all the costs that we're going to have, considering the ramp-up, considering the product mix and everything.

So it should not be just on a quarter-on-quarter basis. I think looking at the first snapshot at the end of H1, we would give a good idea. We do have top line. We have strong order inflows from all sides. We have big pending orders. We have top line. So we have to execute. And with the top line will come operating leverage and growth. So I'm not at all worried at this point.

We have to execute number one. We have to deliver to our customers. And we have put our plans in place, get our quality right. So there's a lot that we have on our plate right now. And margins will follow.

Piyush Sevaldasani: Sure, sir. My last question is on the domestic order inflow. I think it has seen good recovery this quarter. If you can help me understand what are the sectors you think are driving the recovery? And what do you think about domestic order for the next year?

Nikhil Kumar: The sectors are steel, cement. The normal steel particularly continues to be strong with a lot of ordering taking place in steel still for waste heat recovery, also for basic power generation. And 8%, 10% domestic growth, domestic market growth is what we have factored into the plan. If it accelerates well and good, we'll be happy.

Moderator: The next question is from the line of Rahil Shah, an individual investor.

Rahil Shah: Congratulations for a great set of numbers. I have three questions. One, starting with for last past few quarters, we have been reporting a strong order inflows. Can we assume that the existing run rate of this INR 400 crores per quarter is the new base for the next 4 to 6 quarters?

Nikhil Kumar: We can certainly say that would be the new normal of the average order inflow for the next few quarters. In some quarters, we could have greater than INR 400 crores. In some quarters, it could be a little bit less because we are present in multiple sectors, multiple geographies, multiple products, we win some large orders, then in those quarters, you will see a spike. But yes, it's going to be the new normal, INR 400 crores could be taken as being the new normal. We do expect this to be the average order booking considering, let's say, 2, 3, 4 quarter average.

Rahil Shah: Understood, sir. Understood. Sir, my second question is around given the rate of the order flows that we have, it is very much possible that the upcoming third factory will get fully utilized by mid-FY '27 level. Are we planning to add the fourth facility in FY '27 itself? And what will be the amount of capex involved if we do so?

Nikhil Kumar: No, we are not going to be putting a fourth facility. In fact, we have identified huge potential for us to use our existing facilities in a more efficient way using Japanese methods like Kaizen and lean manufacturing, single piece flow. There's a lot that we can do, further automation. There's a lot that we can do to get more out of these existing assets after we finish this investment this calendar year.

I personally believe that at least up to maybe 2,300 or so, we will not need a fourth plant. So any decisions which have to be taken will have to be taken only after '28, which is quite a way from now. After we put in this investment, the focus immediately is going to be on getting this investment up and running.

And parallelly, the plans are already going on, on how do we improve throughput, how do we reduce cycle time, how do we reduce inventories, how do we implement lean manufacturing, how do we increase automation and manufacturing excellence is going to be the theme on how to get more output from the existing assets.

And that obviously will lead to better EBITDA margins, operational leverage, better financial performance. And that's the direction they're going to be taking after this investment is over. We're not going to rush into the fourth plant until we completely flock these assets.

Rahil Shah: My last question is the company has recently announced a few orders in traction motors. How big can the traction motor business become for TDPS in the next 3 to 4 years? Can we expect the traction motor segment make a big inroad in the international market, similar to what we have achieved in gas engine, turbines and hydro segment?

Nikhil Kumar: Short term, yes, we have an upcoming order from the European market. We have an upcoming order from the U.S. market, and we're also supplying to CIS countries. So, we would like to stabilize the production. The moment we stabilize the production and we're delivering high quality, these businesses to these customers itself will increase.

So, we have a good scope to even let's say, doubling what we have projected to the market. We have that scope potentially, if we do a good job. So the focus of the company is going to be to deliver high-quality products to the existing to the new customers, and then we have the potential to ramp up the business even further. Look, it's around INR 1 billion, INR 1.2 billion right now. It could be potentially 3x the size.

Moderator: The next question is from the line of Kuber Chauhan from Anand Rathi.

Kuber Chauhan: Congratulations on good set of numbers and appreciated on the good numbers as well. My question is regarding the Turkey order inflows, as you mentioned. I just wanted to know that is it more sustainable and how the demand is looking from the Turkey?

Nikhil Kumar: So the business has started once again from Turkey. So after a long time, we have picked up this one order. It's around EUR 3 million, so somewhere around INR 0.26-0.27 billion. And there are a number of other inquiries in the pipeline. I feel that the market is going to slowly revive and slowly come back.

To what new normal, I think early days for me to give a strong prediction. But there is action once again in the market. And we will be happy to report more order inflows. We're active once again in the market. We are well established. We're still the only manufacturer in that country, making large generators.

So whatever business comes from that country where we need made-in-Turkey machines will come to us. And let's wait. I hope the market recovers further. But it looks like looking at the inquiry level that the pipeline is again filling up.

Kuber Chauhan: Understood. And with the new capacity coming in line, so when can we expect the full utilization in which quarter we can expect.

Nikhil Kumar: Sorry, could you repeat your question?

Kuber Chauhan: Capacity coming online in next financial year. So…

Nikhil Kumar: The new capacity will be partly in Q1, partly and the rest will happen in Q2 next financial year.

Kuber Chauhan: Okay. So peak utilization would be in Q2 of next financial year, right?

Nikhil Kumar: The plant will be fully ready by end of Q2, and we will see the full impact of the capacities in H2 next year. We partially commissioned one part of the plant in Q1 and the rest in Q2 and then the ramp-up will take place, and you can say the full impact will be felt in H2.

Moderator: The next question is from the line of Ankit Soni from Sharekhan.

Ankit Soni: Congratulations on good set of numbers. So just wanted to understand on the one thing, do we have any further update on the domestic traction motors order, which we were expecting?

Nikhil Kumar: No. No updates. Sorry, no updates.

Ankit Soni: Okay. Fine.

Nikhil Kumar: We have been asking, but unfortunately, we have nothing new to report. But also conversely, we're not depending on that for our growth or replacement of what might happen after '28 when the existing order runs out. We're not waiting for that to happen. We have made alternative plans.

And if that when that stops, all the things we're doing right now will take over that. And we have 3 businesses, one to Europe, the U.S., one to CIS. So if the Indian repeat order comes, great. If it doesn't come, it's okay.

Ankit Soni: Okay. Understood. Sir, another question on the nuclear plant. What would be the strategy domestically with recent announcement in the budget for nuclear plants and all, what would be our strategy? What would be the target addressable market? And what would be the total BOM for the particular plant?

Nikhil Kumar: Okay. Look, I think the nuclear power plants have a long gestation time. So it could take even 1 decade to build a new nuclear power plant. So the only thing what we can say is that it will be a long sustainable cycle for nuclear in India for maybe decades to come. For us, we are focusing right now, we are focusing more on the existing nuclear power plants, the machines which need to be replaced.

And there's a lot of old Russian equipment in the existing nuclear power plants and the business that we're getting right now are basically replacing existing equipment, and there's a lot that can be done in this part of the market. And gradually, we are moving from out of dome and now the attempt is to get inside the dome. We are fully qualified outside Dome and getting into the qualification for inside Dome, then we get automatically approved for the new power plant also.

And all I can say is that nuclear power plant business for India motor business will be a steady business that we're going to get year-on-year. It's going to be part of our overall portfolio. But it's going to be a long cycle. And for us, it's important to be one of the key suppliers, motor suppliers to NPC.

Moderator: The next question is from the line of Mihir Manohar from Carnelian Asset Management.

Mihir Manohar: Wanted to understand on the motor side, INR 120 crores of order book, which is there on the railway side. So how should one see the execution from this piece over the next 3 years? And what could be the incremental order flow that can come from this division?

Nikhil Kumar: I think I just answered that. But I mean, we have an order from the European market. We have an order from the U.S. market. We have an order from the CIS market for traction motors. These 3 are going to be the main focus of our production and sales for the next 2 years at least, and there's a scope, as I said, for us to -- if everything goes well and we achieve the full potential, to be around INR2.5 billion to INR3 billion, and that's the goal of the company to take it to that level.

Mihir Manohar: Sure. Understood. Second question was -. we see the advancement which is happening on the Gen AI side. I mean given this now. But do you see any impact on data center side of the demand which you are getting?

Nikhil Kumar: No. Actually, so there is no change. In fact, just this morning, there's a headline article, headline article from the Financial Times newspaper where all the big large tech companies have reaffirmed their capex commitments for AI, notwithstanding the fact that DeepSeek is there, and they feel that as the costs keep coming down for AI, there's going to be a wider and larger implementation base.

So it becomes more accessible as it becomes cheaper. The overall power demand as forecasted and the investment that they forecasted are going to -- no one is backing off. And that's from the end user side, the actual IT company, the tech companies. Our customers, the gas engine and gas turbine guys, -- they have clearly told us that there's no change in the demand situation for the next 18 to 24 months.

And whatever forecasts that are there are in place to have the capacities ready and they are saying that the thing is that most of them have got long-term commitments, they have advances, non-refundable advances. They have these contracts locked in. And since there's no letup of the investment from the tech company side, which is confirmed by the newspaper article today from the Financial Times, we believe that there's going to be no change in the situation for us also going forward.

Moderator: The next question is from the line of Himanshu Upadhyay from BugleRock PMS.

Himanshu Upadhyay: The order which we got in Turkey is after the quarter end. Is that the right understanding?

Nikhil Kumar: Yes, it's going to come Q4, Himanshu.

Himanshu Upadhyay: And we had to restart that plant at Turkey. So have we started the process? And…

Nikhil Kumar: Yes, we have order to deliver, we have restarted the process. It's not difficult, Himanshu.

Himanshu Upadhyay: Okay. And just a color in the besides railway business, in terms of hydro, gas and steam, how balanced is the portfolio in terms of product profile wise? And is that the right metrics you would like to look at the business? Or it would be more of customers or OEMs whom you look at is that a better mix of understanding the diversity of business? Some thoughts on that geography. So how are you looking at the thing? So my question was on --

Nikhil Kumar: Yes, how do you want me to answer this?

Himanshu Upadhyay: No means how balanced would be on the fuel side? Will it be now -- at one point of time, steam was a predominant business, okay? But will it be that equal share of these 3 businesses? -- hydro, gas?

Nikhil Kumar: So Vinay, you are there on this call, right? Can you please answer this question? How do you see the balancing of these segments?

Vinay Hegde: In the coming years, I think steam and gas segment are going to be the dominating segment followed by hydro segment. This year, we'll be doing the highest turnover in hydro. But hydro is a long cycle project because from the DPR to implementation, it takes much, much longer time than the other segments like steam or gas. And it's also a cyclic business.

And we are not seeing a big growth in the next year, but definitely, we are going to grow in double digit in hydro. And there are also many refurbishment jobs we have bid for. And in a couple of jobs, we have already become L1. But as I said, these hydro jobs take much, much longer time as compared to the steam or gas segments.

Nikhil Kumar: Just to add the hydro business, as Vinay said, is a long cycle business. Growth is there, but it's not as the same rate as what we're seeing in the gas business. So if we're talking about growth, number one growth is coming from the gas side. Number two, growth coming from the steam turbine side. Number three growth coming from the hydro side.

And then, of course, the traction businesses and motor businesses are relatively new businesses for us coming from a small base. There, of course, the growth is for the company percentage-wise is at the highest level, percentage-wise. So in terms of growth, I think hydro would be towards -- for a company portfolio, it will be towards the lower end.

So when Vinay talks to double digit, say, 10%, 15% growth, that will be at the lower end compared to all the other product categories where, of course, the growth is much, much higher.

Himanshu Upadhyay: And in domestic market, it would be still majorly steam only? Or there also you are seeing some traction on gas side generators. I'm talking about domestic.

Vinay Hegde: Domestic is mainly steam as of now. We have some small jobs in gas engine generators, but gas business is almost negligible. But there are many hydro power plants coming in India, small hydro below 25 megawatts. We have already received 3 projects, and these are good value projects.

And there are a number of projects in the pipeline like all the Northeastern states, now they are opening up for the hydro. Otherwise, as on today, Otherwise, as of today, the main dominating segment for us in the domestic market is the steam turbine market.

Moderator: The next question is from the line of Ganesh Ram from Unifi Capital.

Ganesh Ram: I just want to follow up on what I was sort of going with. On the margin front, right, so my understanding was at some point that procuring steel was getting a bit difficult and we were building up the inventory. So as things stand right now, how much of our top line would sort of be secured in terms of inventory?

That's the first part. And then the second part is on the staff cost, right? So we have about INR 32 crores in this quarter. So as in FY '26 Q1, you start adding more staff and gradually ramp up that plant, how will the staff cost sort of evolve? And what would be the associated depreciation impact we should expect?

Like when would the depreciation of the new plant sort of start hitting our financial statements? That's just the first part of the question, and I'll come back for the second.

Nikhil Kumar: I don't have the project-specific details at the tip of my fingers. I think we will take this conversation. We can have another call. But here, basically, the investment, up to now, we have spent around INR 0.4 billion on the project. And we still have the majority of the money is going to be spent, I would say, INR 1 billion is going to be spent starting from, let's say, part of it is going to be this year, let's say, 0.2 to 0.8 are going to go to next year.

And so we'll see the full depreciation. So it's going to be, you can say, 30% of depreciation will start taking place this year. I'm not even sure we can do that because we're not commissioning anything. Most of the depreciation will start taking in next year. we get a commission before we depreciate. And the investments taking place so far, even this 0.4 billion mainly land investments taking place already in construction.

And those you cannot take depreciation immediately. We will see the full depreciation impact coming next year. The manpower hiring has already started. So we already have some costs associated with that in our existing balance sheet and in our existing P&L. I don't have the exact numbers on how the ramp-up is going to take place right now in front of me.

Ganesh Ram: Okay. Okay. No problem. I'll take that question offline where it probably would be better. And then just one more, if you don't mind. This is more of a clarification. So my understanding is our existing plant can go up to INR 1,300 crores.

The new plant can take us to INR 400 crores. But then with efficiency improvements, you're saying you can bridge the gap from INR 1,700 crores to INR 2,300 crores. Would that be the right interpretation? Or have I?

Nikhil Kumar: Yes, INR 1,250 crores is the existing capacity, and INR 1,800 crores is the planned capacity. And say, we are expecting something like another 20% output more from the 20%, 25% more approximately from efficiency improvements.

Moderator: The next question is from the line of Kiran V. from Table Tree Capital.

Kiran V.: Very heartening to know, because 4 years back, I still remember the con call where you said we don't have 9 months of visibility. Now we have 24. So fantastic progress. And Nikhil, I have a more strategic question. In terms of synchronous motors and induction motors, right? So now that we've cracked the gas engine and steam and hydro and various other segments, the next big focus, at least in my mind, at least, is induction and synchronous motors, which is a multiple of this gas engine opportunity in terms of market size.

So how do you see us scaling? I know we have won some marquee orders. I did read the investor presentation. But how do you see in your own mind, can this be an INR 500 crore, INR 700 crore revenue business in the next, whatever, 2, 3 years, or will it take much longer to reach that kind of scale? How does the business stack up from now to then essentially?

Nikhil Kumar: The plan is to take it to that level in not 2, 3 years, but 3, 4 years, for sure.

Kiran V.: Got it. Are these orders, the marquee orders that you put in the investor presentation, are these like the base orders on which we're going to win major business?

Nikhil Kumar: You see when you want to get into a large compressor market or large pump market or something like that, the first question customer will say business in the oil and gas industry where you supply motors to API qualification, API standards, and hazardous locations. See, we're going after a lot of these very specialized applications.

We're going after motors where there's a lot of engineering involved and where the specification is hard. Obviously, prices are better because we want to go after that higher-margin business. The question people always ask is where your reference is. And although we may have a lot of references in generators, people want to see actual motors also working. So when you look at our list of orders that we have got, and we have delivered orders delivering some of these machines, then we'll have the references.

Once you have the references, then it opens up the order book. And for all the new inquiries that come, new plants, replacements, et cetera, it just opens up the whole business potential for that particular segment for that particular application.

So we will see a manyfold increase in the motor business once these are commissioned, once it's successfully commissioned and we have those references and all the sites that we're putting in these motors are all really high-profile marquee customers, high-profile customers. So we can use this, and we will use the references extensively to build to get more business. What we have done, the orders that we have got in the motor business it's really exciting, and it's going to have a big potential.

Kiran V.: Got it. And I'm presuming these are slightly higher margins than our existing business, Nikhil?

Nikhil Kumar: Yes. It's good margin business, I would say. And I know that once we crack this market, we get larger volumes, which will overall improve the margin profile of the company because these are highly specialized products.

Kiran V.: Got it. Last question from my side, Nikhil. We are hearing all the other manufacturing companies who are in the export business, especially to the U.S. exports that they need to set up something in Mexico, something in the U.S., some facility in the U.S. So, point number A, out of the INR 1,500 crores revenue will eventually reach in FY '26, what percentage of revenue would be from the U.S.? And point number B question is, have we heard any of our clients talk about setting up that facility in the U.S. so that they can procure it easier, better, make in U.S. and all that stuff?

Nikhil Kumar: No. So I mentioned earlier in the call that for FY '26, something like 8% of our exposure will be U.S., 8% to 10%. So we are in close contact with our turbine customers in the U.S. about any potential duties that may come. They're also fully aware of it. If it is 10%, I don't think there's going to be any change. If there's 20%, then we may look at options.

We also have a plant in Turkey. So there are ways. We have options. I think putting a plant in the U.S. will be the last option, because how long will the tariffs last, and putting a plant in the U.S. or making things in the U.S. is really expensive. Maybe even if there is a duty of 20%, maybe even still more expensive to make in the U.S., even though you have a 20% it will be cheaper to make in India and pay the 20% duty. So let's see how it works out.

Let's see what comes. We are in close contact with our customers. We are watching the situation very carefully. We're not going to lose the business even if the duties come. So as I said earlier, short term, customers will pay and they will pass through that.

Moderator: The next question is from the line of Rohit from ithought PMS.

Rohit: Just one question, Nikhil. I just wanted to hear your views on the geothermal market that we were going after, especially in that context, U.S., anything happening there? So that is something that I wanted to understand.

Nikhil Kumar: There no progress in terms of new orders. We are actively bidding for new projects in the U.S. and they are under finalization stages. We are in the race. We are in the final list of approved vendors, and we are hoping that we will win. We are very well placed, and we're hoping that we'll be able to probably announce something in Q1, hopefully. There are big projects coming up in the U.S. in the gigawatt category, kind of projects coming up in the U.S.

Rohit: So when you're saying 8% for the next year, what you have in your mind?

Nikhil Kumar: Not factoring any new projects in the U.S. Those orders come, then we will revise our guidance for that.

Moderator: The next question is from the line of Anand Trivedi from Nepean Capital.

Anand Trivedi: As a follow-up, just wanted to see if the data center space, you spoke about that. But is there any sense to how big that opportunity could be in the next 3 to 4 years?

Nikhil Kumar: Yes, there is a sense. I mean we know that the overall power demand up to 2030 for the U.S. market is going to be around 100 gigawatts. That's the number which is in the market. And the current share of gas business in the

U.S. is something like 48% to 50%. Now this new 100 gigawatts, there's a lot of discussion as to which fuel is going to take the primary amount of business from this. And so there are different scenarios being worked out.

So now that wind projects have been more or less put on hold by the Trump administration, there is a thought that the gas business is going to dominate the 100 gigawatts. And to what extent we don't know, but it will be at least, in my opinion, more than the existing share that gas has in the overall power mix for the U.S., which is more than 50%. So that's a lot of additional business only from the U.S. market. And this will keep everybody busy for a long time.

Anand Trivedi: So clearly a big opportunity for you.

Nikhil Kumar: It's a big opportunity. It's a very big opportunity. not just for us. I mean if you look at all the large power companies like Siemens Energy and they all booked out for the next 3, 4 years on this AI business. GE Verona, Siemens Energy, they're really doing well.

Anand Trivedi: Sir, the last question from my side. You talked about using these Japanese techniques to sweat your assets more and become more efficient. Your current inventory days are around 140, 159. Do you see that coming down?

Nikhil Kumar: But part of it is due to the large stocking of steel and copper, not due to manufacturing inefficiencies. But we will bring it down even if we are going to stock. So we will look at cycle time reduction, it will come down. So the goal is to bring it down. But whether we can do without stocking of inventory of steel and copper, that will once again depend on the supply situation. And if there's stability in the supply situation, then I would love to stop buying and holding the material because that will free up so much cash for us.

Moderator: The next question is from the line of Rahil Shah, an individual investor.

Rahil Shah: My first question is what is the update on the existing supplies of traction motors to Alstom for the 12,000 HP locomotives? Would this order get renewed after FY '29?

Nikhil Kumar: As of now, we have no information on any renewals.

Rahil Shah: The next question is, we have been giving regular orders in the motor segment. How big is the global market for customized motors? What are indicative global market share and which geographies are we supplying? Can the motor business exceed the generator business in the next 5 to 6 years?

Nikhil Kumar: I gave a number, something I mean I said that we're going to grow it to INR 6 billion, INR 7 billion in the next 3, 4 years' time. So potentially, the market is very large. It is 10x to 15x the size of the generator market. So potentially we can make it as large as a generator business for us. That is the goal of the company.

Higher growth is going to come from the motor business for us compared to the generator business over a period of time. And right now, our market share is just not even in the percentage of decimal point percentage in the worst case. So we are nobody in the motor business right now. We have a lot of scope to grow.

Rahil Shah: So my last question is, we haven't spoken about the wind turbine generators for the last few years. Is there any possibility of getting large orders in the near future? Or we have completely given up the segment?

Nikhil Kumar: We're not completely given up. I think now and then we get certain inquiries and we follow up on that and we come to the stages for negotiation and contract negotiation. And unfortunately, we have not been able to close those contracts because, once again, we come to the liability clauses, which makes me uncomfortable and puts the company under a big risk.

So if we are able to get a customer who is willing to sign something which is better for us, then we will close those contracts. But looking at the nature of the wind business and the nature of the contracts which are over there, it's unlikely that we will make big inroads into this business. So I'm not banking on the wind business for our growth, although now and then we have inquiries, we're talking to big people in the market, but I don't see this in my plan for the near future.

Rahil Shah: Sir, in the data centers and AI, are we supplying gas engine generators or gas turbine generators to them? And to which OEMs we are supplying this?

Nikhil Kumar: So we are currently supplying to a large U.S.-based OEM. And I don't want to mention the name, but it's a large U.S.-based OEM. And it's the gas turbines because the large data centers, large AI, they require large-scale power generation. So the machines tends to be 15 to 20 megawatts.

We're in the process of getting our machines qualified for 45-50-megawatt size machine, which we're delivering by the end of, let's say, towards Q3. And once we qualify for that 50 megawatt, our business will, again, I would say there's a big potential for us to even double our business in the AI sector in '26 and '27.

We are putting a lot of effort and to see how we can advance the qualification of this 50-megawatt product. but we have good forecast from this customer once we qualify. There's a lot of things in the pipeline and 100 gigawatts that I talked about earlier is a huge market. We want to grab a larger portion of it, and we will.

Rahil Shah: Understood, sir. Sir, just last question. What's our role in geothermal generators in the data centers? So earlier there was a question about geothermal. So as I said, geothermal, large geothermal plants are coming up in the U.S., gigawatt size, 1,000, 2,000 megawatt size. And mainly they have PPAs mainly with large IT companies.

So we expect that the business geothermal will continue for us and will be a large part of our – but as I said, we have to win that business, right? We have to win that business. And it's not right now at the point where I can say, okay, we have won this business. The market is there.

Moderator: The next question is from the line of Viraj, an individual investor.

Viraj: Congrats on a great set of numbers. I just had one question that of late, we have been hearing a lot about small and medium-sized gas turbines that are being run on a mix of hydrogen and LNG gases. I mean, are we capable and approved to supply generators for hydrogen-based turbines?

Nikhil Kumar: Yes, our gas turbine customers are progressively making turbines with hydrogen mixed with natural gas. And we have our products in the pipeline, which which will run with this fuel mix. So they are all getting ready for the hydrogen future, and we are also getting ready for the hydrogen future if and when hydrogen becomes cheap enough to be used as a fuel for power generation.

Moderator: The next question is from the line of Ajit Sethi from Eiko Quantum Solutions.

Ajit Sethi: Sir, can we assume we can do INR 2,400 crores revenue in FY '27?

Nikhil Kumar: No.

Ajit Sethi: So any sort of revenue guidance for FY '27?

Nikhil Kumar: We have projected something like a compounded 20% growth. And we will upgrade the performance as and when we see the -- once we come closer to those dates. But right now, we will commit that we can do a definite 20% compounded growth year-on-year.

Ajit Sethi: Okay. My last question is what will be our capacity after the expansion?

Nikhil Kumar: INR 18 billion.

Ajit Sethi: Okay. And EBITDA margin, what we can do?

Nikhil Kumar: Around 18%.

Moderator: The next question is from the line of Bobby J from Falcon.

Bobby J: Could you talk a bit about what is driving the growth for European gas turbines? Is it lack of supply? Or is it demand? Because the economies aren't growing really. So what's really driving that?

Nikhil Kumar: In the European market, the demand is for grid stabilization units, CHP combined heat and power plants. And also, there is a data center market also in smaller sizes where you need -- it's not gas turbines, but it's gas engines in the European market, especially Ireland is a big center for data centers. We have been getting steady business and increasing our business in Ireland for data centers.

So the market is quite -- the dynamics of the market are quite different from the U.S. market, but demand is high based on these factors and grid stabilization units have a big requirement. For example, this year, we're supplying 100 machines of 5 megawatts of the U.K. market only to grid stabilization.

As more and more countries have a larger proportion of their power mix coming from renewables, they will need more and more of these grid stabilization units. So this is a fundamental change taking place in the market. And the irony is that the more you have, more renewables you have, the more grid stabilization power you need to have because when the sun doesn't shine or the wind doesn't blow, you will have hundreds of megawatts coming off the grid instantly.

And you need to start these engines within 5, 10 seconds and pump in these hundreds of megawatts into the grid and then run them for a few hours, pitch them off and the production of wind or solar picks up once again. So this demand is structural, is going to keep changing. It's going to keep improving, and this is a long-term requirement. So the factors driving the European market are quite different from the U.S. market. The U.S. market, the power demand is coming out of AI.

Bobby J: Understand. But in Europe, don't they have their own local suppliers for the generators?

Nikhil Kumar: They do, but we compete against them and we're winning business.

Bobby J: So it's all tender based. You don't get repeat orders from the same customers. You had to win each tender for each business?

Nikhil Kumar: No. So our business is to the prime mover companies like engines or turbines. And they, in turn, bid with the generator for projects. But let's say, it's a large utility or it's a large data center company. So those will be repeat orders. A utility may say, buy, let's say, 100 machines with stabilization units this year, you may not buy it again next year, but you may buy the following year. So that's how the business runs.

Bobby J: Right. So you have a direct relationship with the prime movers. You don't have to bid for tenders with that?

Nikhil Kumar: So, it's really a doable market for us. We were not dependent on a single country or something like that. So different countries have the requirements coming up at different points of time, and we have a global reach.

Bobby J: What I specifically wanted to know was, do you have to bid through tenders with the prime movers? Or are they -- or do you just continually get repeat business?

Nikhil Kumar: We get repeat business.

Bobby J: And the prime movers have to bid for tenders, right…

Nikhil Kumar: Correct.

Moderator: The next question is from the line of [Vimoksha from Goyamlabdhi Fintech.

Vimoksha: Sir, regarding the international market, can you provide more specific details about the types of projects driving the increased demand for the gas turbine and the gas engine? Like is it -- what is the growth [inaudible ……]

Nikhil Kumar: Sorry, can you repeat the question? I could not hear you clearly. There was some problem with the line.

Vimoksha: Can you provide more specific details about the types of projects, which drives the increased demand for the gas turbine and the gas engine?

Nikhil Kumar: I don't know how to give more specific information. So there could be AI data farm data center, which requires 100 megawatts or 150 megawatts from large tech company and they need 5 units or 10 units or 15 megawatts and then they will buy it from our customer generator -- can you hear me? . So that's all I can say in terms of specific information.

And there could be a utility who wants to buy a grid stabilization unit, 500 megawatts. That's how the business goes. I don't know how to give you more specific information. And I can't give you customer names and things like that right now. So we're not allowed to share confidential information.

Vimoksha: Okay. Okay. So what are the typical margins for the geothermal projects compared to the hydro?

Nikhil Kumar: Geothermal projects have better contribution. But again, project to project, it varies, but they have better gross contributions compared to our regular gross contribution.

Vimoksha: Okay. And just last one is like what is the expected revenue potential and the peak utilization for this new facility, which is coming in after Q2?

Nikhil Kumar: So we have capacity which is INR 18 billion, which we put up should be ready by end of H1. And then we have given initial guidance for INR 15. So 15 by 18 would be the capacity utilization that we will have. I increase the guidance beyond 15 then it could be the number that we will have to calculate and as we increase the capacity from INR 1,800, we said we can go to INR 2,300, then we will see then the capacity obviously will go up.

We have already experience in doing this. If you remember, we have increased our capacity from INR 700 crores, INR 800 crores to INR 1,200 crores of automation and other improvements that we made in the factory. So we have experience in doing this and how to push the envelope and how to push the assets, and we will do it once again.

Moderator: The next question is from the line of Raj Sada from Finvestor.

Raj Sada: Congratulations for the sort of numbers, so my question is, for the raw material prices we already know that we have topped up our raw material for FY '26. So how is raw material prices moving forward?

Nikhil Kumar: So we see a stable raw material environment for us for next financial year. And if the prices go up or down, then we will have to then see the situation for the following year. But FY '26, let's…

Raj Sada: Okay. And I'm kind of liking like a shareholder that we are seeing already in the investor presentation, the highest PAT, highest revenue, highest EBITDA, highest order inflow. So are we on track to post another highest quarter this quarter?

Nikhil Kumar: Can you please speak slowly I'm not able to understand what you're saying?

Rajsada:: Sir, I'm asking, sir, in investor presentations from last 2, 3 times, I'm kind of liking this commentary like highest EBITDA, highest revenue, highest PAT, highest order inflow. So are we on track to deliver again highest quarter like Q4 FY '25?

Nikhil Kumar: In Q4, yes.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Nikhil Kumar: Thank you, everybody, for joining us today on the conference call and presenting us with a number of detailed questions and interesting questions. We will look forward to interacting with you at the end of next quarter or we'll be happy to meet up with you next few months during some investor conference. Thank you very much.

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.