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August 17, 2022

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Sirs,

Sub: Transcript of Earning Conference Call – Quarter ended June 30, 2022

In furtherance of our letter dated August 01, 2022 regarding intimation of earnings conference call, the transcript of Q1FY2023 earning conference call held on August 10, 2022 has been uploaded on the website of the Company at https://tdps.co.in/investor-relations/investor-services/analyst-investors/

Kindly take the above on record.

Yours faithfully,
For TD Power Systems Limited

Nagaraja Srivatsa Digitally signed by Nagaraja Srivatsa Date: 2022.08.17 17:49:24 +05'30'

N Srivatsa
Company Secretary

"TD Power Systems Ltd. Q1FY23 Earnings Conference Call"

August 10, 2022

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

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY'23 Earnings Conference Call of TD Power Systems Limited.

This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectation of the company as on the date of this call. The statements do not guarantee the future performance of the company and it may 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 '*' and '0' on your touchtone phone. Please note that this conference is being recorded.

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

Nikhil Kumar: Thank you. Good morning, everybody. Thank you once again for joining us today on our Earnings Call. I trust all of you would have received our "Results" and "Investor Presentation."

Now, I would discuss with you TDPS Financial Performance in the Quarter-ended 30th June 2022. I'd like to start the call by mentioning that we have now sold our generators to 100 countries worldwide and our total supplies is 5,400-plus generators.

Now, let me come to the results. Our total income on a standalone basis for Q1 was 2.06 billion versus 1.28 billion over the same period in the previous year, an increase of 60%. Profit after tax and comprehensive income for the quarter was 194 million versus the profit of 68 million for the same period previous year, an increase of 186%.

Manufacturing revenues for Q1 was 2.05 billion which was 1.25 billion last year, an increase of 61%. Manufacturing of the book including Turkey operations is 13.77 billion, out of which 4.06 billion is our generator business, 9.46 billion is the railways business and 0.25 billion is our Turkey business. Export and deemed exports from generator business is 66%.

Order Inflow: We are very happy to report a big increase in the order inflow during the first quarter over last year, an increase of about 81%. Our total order inflow this current year for India is 2.03 billion. Order inflow from direct and deemed exports is 1.09 billion versus 0.81 billion over the previous year, an increase of 34%.

Projects business revenue for Q1 is 12 million versus 15 million in the same period in the past year. Order book for the projects business stands at 459 million.

Consolidated Performance: Our total consol income was 2.11 billion versus 1.65 billion for the same period last year. Profit after tax and other comprehensive income for the first quarter was

204 million versus the profit after tax of 7 million, an increase of 111%. Our consol order book is 40.23 billion. We continue to maintain a strong cash position of Rs.1.88 billion.

Now, I will come to the order book market situation and guidance. In the first quarter, we have seen a substantial increase in inflow of orders from all segments of the market, both domestic and international markets have contributed to the big increase in order inflow. We are seeing continued order inflow in July as well as for Q2 which will not only ensure that we reach our previously guided top line, but also start filling the order book for next year.

Let me talk briefly about each segment: Steam turbine, strong demand from India and rest of the world. In India it is CAPEX-driven and globally it is driven by an increased investment in waste-to-energy biomass and garbage burning plants. Our positioning in this segment is strong and we see sustained order inflows taking place even for next year. Only a small fraction of the inflows from now on will be executed this year, and the majority will go into next year. We have reached our target for this year in the steam turbine segment.

Gas Turbine: We are not seeing the big impact due to present situation in the shale gas industry as expected. In fact, the shale gas industry has not increased output and is enjoying the high prices and do not want to increase supply. Investments have also been subdued to save gas. However, we have got good orders for power generation from a gas turbine customer in USA and the enquiries book is really strong.

Hydro for this year, we have crossed the internal target. We have picked up a large number of orders execution for next year and the enquiry pipeline is also very strong. We'll close out a few more big orders in the next quarters for execution next year. The main markets continue to be Southeast Asia, Europe and Latin America.

Gas Engines: We have very good orders and forecasts on both our engine customers. We're selling all over the world and there's no concentration of any orders in any market.

Wind Repairs: We have got three orders in the last three months and we have firm inquiries for a few more large orders. This outlet is becoming stronger.

About 55 MW Generators: The market in India has been very active in the past quarter and last two quarters. We have recently booked an order for 90 MW machine for delivery next year and there are a number of other active jobs in the market.

Our TDPS personnel are right now in Germany for training to make a complete rotor in India and this 90 MW would be the first complete made in TDPS generator. Earlier, we were importing the rotor from Germany.

Other New Segments: Railways business is on track with the Indian railways; however, it will take time. I think we can only see the business results next year.

Synchronous Motors: We have a lot of enquiries and negotiations, but unfortunately we have not been able to report any finalizations to you.

On raw material prices, we're seeing a slight pullback on some commodities, but we have booked materials for the whole year according to the forecast of our customers and we will not see any further benefit this year.

It must be kept in mind, inflation witness to be high, transport costs, wage pressures are still at high levels. Rupee weakness against the dollar has also increased the cost of imports, offsetting some of these relief in commodity prices, but special steels, forgings are still in short supply and available only at high prices.

TDPS is focused on price stability to customers and marketing stability for investors. Maximum such a strategy cannot benefit from small terms from small short-term reductions in commodity prices nor will we get hurt from sudden price increases.

For next year, with the CAPEX in India firmly on the expansion mode, the increased investments flowing in the area of renewables internationally and as well as the new verticals the TDPS has entered, will ensure a solid platform for growth in the next year and the following years.

Guidance: As indicated in our previous earnings call, we continue to hold the guidance which is at below. Manufacturing Business: TDPS India top line of 8.2 billion, TDPS Turkey top line of 0.2 billion, total manufacturing business gave a top line of 8.4 billion, projects business gave a top line of 0.5 billion. We expect to have a gross contribution level between 30% and 31% for this year. All our subsidiaries except TDPS Turkey will be profitable, TDPS Turkey will report operational profits, but continued depreciation of the Turkish Lira to the Indian Rupees will impact TDPS Turkey profitability due to foreign exchange loss in translation from Turkish Lira to INR.

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

Moderator: We will now begin with the question-and-answer session. We take the first question from the line of Mr. Mohit Kumar from DAM Capital. Please go ahead, sir.

Mohit Kumar: So, my first question is how do you see the opportunity arising from the Indian railways locomotive and Vande Bharat tender? Is there any tie-up you have done with some OEMs to bid for this this particular opportunity?

Nikhil Kumar: Yes, we have currently a supply agreement with a major player in this business, an international company, who has won the Rs.12,000 horsepower electric locomotive projects currently being produced in Madhapur, and they are bidding for all the new projects of the Indian railways the new 12,000 horsepower , the new 9,000 horsepower as well as for the Vande Bharat trains. So, the winner is yet to be announced for these packages but if our customer wins, I think we have a very good chance to also get benefited from their success.

Mohit Kumar: Is it an opportunity for us to tie up with the other OEMs, we don't need to stick to one particular OEM, right?

Nikhil Kumar: We are currently focused on this one OEM, because we think they have the best chance and let us see how it works out.

Mohit Kumar: Secondly, is it possible to give the breakup of motor and generator in the top line for TDPS India?

Nikhil Kumar: Right now, it's overwhelmingly generators that are just a few less than Rs.5 crores of motors, I mean, the railways business is traction motors and that as I said would be around Rs.160 crores for the whole year, about Rs.40 crores per quarter the railways business traction motors. The other motor business is less than Rs.5 crores.

Moderator: We take the next question from the line of Jiten Parmar from Aurum Capital. Please go ahead.

Jiten Parmar: On the guidance you have given, I would just like a clarification on that. So, around what you said consolidated, you're guiding for Rs.900 crores, is that right?

Nikhil Kumar: Yes.

Jiten Parmar: I have a couple of questions. What is the maximum revenue you can generate from the existing facilities? And if there is any plan for any expansion or CAPEX?

Nikhil Kumar: At the moment, we can push our utilization capacity to about Rs.1,200 crores and we are continuously investing in automation productivity improvements. So, we will push the Rs.1,200 crores to a larger higher number. At the moment, we have no plans for any Greenfield production facility.

Jiten Parmar: So, my next question was actually on automation and robotics. What is the employee cost? Can it be reduced further and to what extent due to automation and robotics?

Nikhil Kumar: We are increasing our top line without having a proportional increase in the employee cost. We're not hiring any fresh people. And that's how we will get the benefit of the higher savings without increasing our employee cost substantially. Of course, the current set of employees we will have to increase salaries year-on-year. That's a given the market in Bangalore especially for engineers and other management staff is very competitive. So, we have to remain competitive to retain our talent. So, those kinds of increases will take place with existing people but we are not going to add people to increase our top line rather than the investment and productivity and automation will start showing.

Jiten Parmar: So, my final question is on the Rs.900 crores guidance you've given. How much of it will be exports and how much will be domestic?

Nikhil Kumar: If you take up the traction in motors business, it will be around 60% exports and 40% domestic.

Moderator: We take the next question from the line of Kunal Pawaskar from Tata Asset Management PMS. Please go ahead.

Kunal Pawaskar: My question was around the situation in Europe especially after the geopolitical issues there. With respect to energy security as it is changing there and every nation having to look for substitutes, how is it helping a company, are there initial discussions that are moving in that direction considering that the company was already strong in Europe on say things which were in waste-to-energy, etc., but how do you see discussion shaping up, are you seeing early signs of business because of those specific reasons after Russia-Ukraine specifically?

Nikhil Kumar: We are seeing increased enquiries in the business that I mentioned in the introduction, waste-to-energy and biomass and also garbage burning facilities. So, these are the three sectors that predominantly use steam turbines. We've seen increased number of enquiries, increased amount of business coming from these sectors. So, interestingly, we are also not seeing any reduction in the gas engine business. So, that's the contrary to what could be expected given there's a shortage of gas in the market, but it's actually we are seeing growth in these sectors and it's very good contrary to our expectations. We have also discussed in detail about the prospects for next year and we don't have any feedback from our customers that there's going to be any reduction of business, in fact, both our Indian customers are predicting steady and strong growth even from next year.

Kunal Pawaskar: Last question on diesel engine generators out of Europe, I mean, there are news reports of cost through diesel engine, power generation being at parity with natural gas. These things may not last, but people are looking at substitutes and backups. Diesel engine generators in particular, any comments there?

Nikhil Kumar: Basically, gas engine generator, diesel engine will be easier to burn compared to gas. So, people will definitely go for dual fuel engines, they won't just put all the money into diesel and then later on next year find that the total investment is a total waste. So, they will go for dual fuel engines, like multiple fuel engines and switch depending on which fuel is the cheapest in the market at that particular moment of time. As far as the generator is concerned, it is the same machine, so I don't think that they're going to get affected by that.

Moderator: We take the next question from the line of Mr. Kartik from Shreyas Advisor. Please go ahead, sir.

Kartik: So, a couple of clarifications there. One is in the context of segmental outlook. You said that you're not taking any orders for the current year anymore and generally only accepting orders for next year. What part of this would be later on –

Nikhil Kumar: I did not say that. I said most of the orders coming in now would be for execution next year and a small proportion we will still execute this year.

Kartik: Why would that be? Eight to nine months would be a reasonable timeframe for delivery, so I am assuming –

Nikhil Kumar: Seven, eight months is a normal delivery time. We already coming to August end. By August, we will have seven months left for this year. So, a lot of the orders are going into next year.

Kartik: The second question would be on the larger capacity generators that you spoke about 60 MW. So, obviously that's an interesting market, but how do you assess the size of the opportunity over there and what plans over say one-to-three-year timeframe for that business?

Nikhil Kumar: That's an interesting question. So, this market has been dead for a long time and it has revived recently due to CAPEX taking place in the metal sector. So, we are seeing that a lot of waste-to-energy as well as basic power generation, waste to power generation requirements are coming in from the metal sector. So, I think I can answer this question to you in a different way. As long as this sector remains healthy and this CAPEX cycle continues, I think this part of the business also will keep the power generation requirement of putting up power generation facilities if these larger sizes will continue. So, it is a captive power plant gain, it is still a waste-to-energy gain, for example, using the waste heat gases from the plant furnaces and things like that. Those are the kind of applications where we are seeing these larger machines being used. But this will not see any market for these machines in the areas of ITPs and things like that. So, it's still captive industrial.

Kartik: What is the maximum capacity you can offer?

Nikhil Kumar: We can go up to 250 MW.

Kartik: As and when you could even service UBT-sized orders if need arises?

Nikhil Kumar: Captive power plants we are saying maybe up to 150 MW, very large captive size and power plants which use multiple units of 150 MW. But it's very rare that you sign captive power plant about 150 MW size.

Kartik: No, I was just saying utility order, sir, assuming that PHL getting your orders.

Nikhil Kumar: Utility orders I don't think the market is going to come in this 200, 250 MW size for utility. It's going to be only that super critical 500, 600 MW and I don't think any power plants are going to come up in this size for utility application.

Moderator: We take the next question from the line of Dhwanil Desai from Turtle Capital. Please go ahead, sir.

Dhwanil Desai: So, two questions. One is apart from a synchronous motor; we were also developing I think a couple of new products. So, any update if you give on that front, that would be helpful?

Nikhil Kumar: So, these synchronous motors basically go into large irrigation projects in different states in India. There's a very, very large enquiry pipeline running into hundreds of crores. Number of negotiations also taking place. But at the moment we're not seeing any finalization. So, it could be due to funding issues and things like that. Projects are there, enquiries are live but they are not getting finalized. They eventually will. So, these projects come and they go. So, eventually all of these things will get finalized over the next six months to one year and then hopefully we'll get a chunk of these orders coming in and execute them. So, I'm pretty upbeat that we will see a good chunk of orders for next year, I'm pretty upbeat about it. We still have time. And as I said number of projects under negotiation, so one or two of them will click and hopefully move in and we will see a good amount of business coming from this segment for next year sales.

Dhwanil Desai: I think you were developing a couple of new products other than synchronous motor, right. So, I was referring to that if there is any update on that?

Nikhil Kumar: At the moment we have no updates on that.

Dhwanil Desai: Second question, we have cash balance of Rs.188 crores and we are seeing good times now and probably as per our expectation maybe a couple of years need to be good where we will generate 80 to 100 crores kind of a cash flow. So, any thoughts on what we want to do with cash sitting on the book?

Nikhil Kumar: So, first priority would be to deploy the cash in the business. Second priority would be to give the money to the shareholders. Because the cash flow business, of which CAPEX, working capital, all things put together. So, second priority would be to return the money to the shareholders in different ways. So, there wouldn't be share buyback, things like that. So, all these things are on the table. Right now we are focusing on the first priority to see how the business needs the cash and then if the cash is building up, then, of course, we will go to the second priority.

Moderator: We take the next question from the line of Himanshu Upadhyay from Oaktree Capital. Please go ahead, sir.

Himanshu Upadhyay: My first question was on aftermarkets. We were thinking about getting significant orders from replacement orders of older generators for windmills and all those things. What is the progress there and are we seeing increased traction or it will take more time, any thoughts on that?

Nikhil Kumar: So, I have given an update on the wind repair business. I said that we are executing three large machines right now and there's a strong pipeline of enquiry for the next few months. So, I think it is a little bit slower than what we expected, but definitely the market is there and we are actively playing in the market. So, I'm not disappointed, I think I'm very upbeat about the new large enquiries which are there which we will surely win a part of it.

Himanshu Upadhyay: How significant can that size be of that business?

Nikhil Kumar: I've given the projections about the size in the market in the past. I think it's hard to say exactly how much is going to come, because in this wind repair business, the machines have to fail and then only it comes to repair. I can't predict how many machines that will fail.

Himanshu Upadhyay: In case of Turkey, what is the progress and PAT and all those things had changed in Turkey, hence the orders were not there much. But are we seeing the market now starting to see some amount of traction or it is slow moving only in the Turkey market?

Nikhil Kumar: Good question about the Turkish market. This year we will make an operational profit, but we continue to have the problem of the exchange translation loss, which is the notional loss, but nevertheless it appears in the P&L statement, that's one problem. The other problem is that the Turkish market due to the continuing currency depreciation is not as large as it used to be in the previous years, it's significantly shrunk by just a few orders in the market. So, we are actually evaluating what our plans are going to be for next financial year. We might even just take a pause and maybe just keep the factory at a very, very low level, of course, just open on a token basis, but not actually do any operations and wait until return to this market recovers and see what happens, but at the moment the market is really bad and there is no signs of any recovery or revival in the market from a macroeconomic point of view also, they continue to have extremely high inflation, they continue to have problems with their currency. So, I'm not so upbeat about Turkey for the short term.

Himanshu Upadhyay: One thing on Turkey. I had asked this a few quarters back about the money what we have. You said you kept the money in Turkish currency only. But is the money –

Nikhil Kumar: No, we have all the money in our Turkish operations in euros.

Himanshu Upadhyay: The profit has been now shifted to euros?

Nikhil Kumar: All our transactions in the Turkish market has been in euros. We take the orders in euros and we receive the payments in euros. We have to report the earnings in local currency.

Himanshu Upadhyay: So, on our cash balances there, it does not impact much of the depreciation?

M.N. Varalakshmi: No, when you bring them also it will be in euros only, not in Turkish lira.

Himanshu Upadhyay: In case of motors, we had wanted to be in the large motors, okay. So, it will be again an engineering approvals and all those things and how many approvals, is it first only for domestic market or even exports you would be looking for large motors and how many vendors or what is the model you are trying to build for motors business? Some thought from that will just help in understanding your movement ahead on that business.

Nikhil Kumar: I'll try to answer this very briefly. There is not so much of a question in earnings call. So, basically we are in the market for the larger size motors. Yes, we have to get consultants approvals and we have to get approval from certain large government companies and we are in the process of getting approval, we have the approval from Nuclear Power Corporation, we will get the approval from NTPC. So, we are in process of getting this approval, and as I mentioned, we are focusing in a large, specialized motor business, and we will get a few orders for sure in next quarter.

Himanshu Upadhyay: And the focus is Indian market only currently?

Nikhil Kumar: Focus is Indian market only.

Moderator: We take the next question from the line of Rohit Balakrishnan from iThought PMS. Please go ahead, sir.

Rohit Balakrishnan: So, Nikhil, just a couple of questions. You alluded to it earlier in the call that despite whatever is happening especially on the gas side, you still are seeing very good traction. You've also said that you've spoken to customers and next year is also strong. So, can you just explain that part because whatever one is reading in the media and newspapers and all seems counterintuitive, so just wanted your views on that if you can share?

Vinay Hegde: Initially, there was some problem with the supplies, but we have a major customer for gas engineering in Austria, they supply a lot of sets to Russia. And now there is absolutely no embargo or sanctions on supply to Russia, so rather the business is increasing. So, we are not seeing any problem because of this.

Nikhil Kumar: It's not the Russia, but we are also seeing business coming from the gas engine segment from both our customers also for the European market. We've also seen business coming from other places like North America, Australia, some countries in Africa. It's counterintuitive, but people are people ahead with their plans for gas power plants, a small gas captive power plant and of size.

Vinay Hegde: Due to the shortage of gas in Europe, many countries are going for large biomass plants. So, we recently got one big order for installation in UK. These are all biomass and garbage burning plants. Now, they are expediting those projects because there is a shortage of gas in countries like Germany.

Rohit Balakrishnan: So, biomass and waste-to-energy would be more on the steam side?

Nikhil Kumar: Yes. It's hard to explain. We can't give you a clear answer to why this is happening. It's just that we have raised the same questions with our customers and nobody can give such kind of clear answers as to why it's happening. They said, this is the forecast and this is our expectation and we're not complaining about it.

Rohit Balakrishnan: Obviously, in the country, there are a lot of metros also getting commissioned for various cities, non-metro tier-two cities and also winning the order flow. In the con call you mentioned a few quarters back that could be an opportunity but I wanted to sort of get a view on that as well if there's an opportunity there for us for the traction motors.

Nikhil Kumar: There is an opportunity or I don't know there's no opportunity but I think we are going to be focusing with our locomotive partner you could call it, more on the freight side and the high speed train side, and that's where we see our strengths for the larger size traction motors. I don't want to say that the metro business is a close chapter for TDPS, but there is a lot of more discussions taking place on the freight side in the high speed trains.

Rohit Balakrishnan: Nikhil, I missed your commentary on the North American market on the gas side. If you could just repeat that? Sorry, there was some issue at my end.

Nikhil Kumar: What I said was that we expected the shale gas industry just putting a lot of CAPEX and we're not seeing that happen. As a trend, the shale gas industry in the US is not increasing supplies, not making the mistakes in the past for increasing supply which can cause the price reduction, they are enjoying the higher prices and they are also being very careful in CAPEX. So, we're not seeing that boom what we expected from the shale gas industry. But we're seeing our business increasing in gas turbines in general on the power generation side both in the European market as well as the US market. These would be larger glass turbines of 15 to 20 MW size.

Rohit Balakrishnan: We've held on to our guidance. Q1 is usually the meanest of quarters for us. So, every chance of probably overshooting what you said, just wanted to get your view on that?

Nikhil Kumar: We stick to our guidance. If we have any changes, we will inform everyone in the upcoming phone calls.

Moderator: We take the next question from the line of Alisha Mahavia from Invasion Capital. Please go ahead.

Alisha Mahavia: Just wanted to reconfirm the ex-railways order book, the balance order book will all be executed in this year?

Nikhil Kumar: Part of it is executed for this year and part of it is going to be next year.

Alisha Mahavia: The aftersales revenue will be over and above this, repairs and –

Nikhil Kumar: Aftersales order book is reflected in the generator order book.

Alisha Mahavia: In the projects business, this quarter has obviously been lean. So, is it a more H2 heavy segment?

Vinay Hegde: Yes, it will be H2 heavy, madam.

Alisha Mahavia: Because for a guidance of Rs.50 crores, we've done Rs.1 crore this year. Just wanted to read.

Vinay Hegde: Yes, yes, it is more such.

Alisha Mahavia: Is it fair to assume because we have raw material book for the rest of the year the kind of margins we've done in this quarter will be sustainable for the rest of the year?

Nikhil Kumar: We have booked our raw materials and we have mentioned for the whole year and we expect price stability in the market. So, we stick to our guidance on the cost competition.

Moderator: The next question is from the line of Mohit Khanna from Banyan Capital Advisors. Please go ahead, sir.

Mohit Khanna: Just wanted to understand a little bit more clearly. Seeing the trend on the margin side and as the aftermarket business is now also increasing its share, would it be fair to assume that the margins that you have reported in last two quarters the double digit margin is the new normal or the new base for the company here on?

Nikhil Kumar: At this level of sales where we are around Rs.200 crores per quarter, one could certainly expect this to be the new normal, because we are talking about doing Rs.820-odd crores for the year, it's about 205 crores per quarter. So, Q1 is more or less exactly at that run rate, 25% of that number and we are certain about our order book and certain about our top line performance for this year of Rs.820 crores. So, there are small variations quarter-to-quarter, but ultimately, we will hit our target. This level of capacity utilization, this level of raw material cost, this level of gross contribution, you could say we will see stability in the earnings.

Mohit Khanna: No, I'm not looking for a particular quarter, I'm just looking at the longer-term trajectory here and given the order book remains on the solid turf, is it a fair assumption?

Nikhil Kumar: Longer-term, I told already. To your earlier question that we have the capacities to do more within this plant up to Rs.1,200- 1,300 crores and we're not going to add manpower, we're going to go for more automation and obviously, we will see expansion in the EBITDA margin taking place, better capacity utilization for sure. That's the thing we will use our operational leverage to increase EBITDA margin. That is clearly in the direction that we're going in. Even if we don't expand the gross contribution by a large level, the major increase in the EBITDA margin will come from the capacity utilization, operational efficiency. So, there is a limit and we can't just keep increasing the prices in the market and expect that margin expansion will take place with price increases. I think we have reached a limit on that. So, the future is really going to be on how we're going to be able to manage our operations in a more efficient way, and that's where we're going to see the margin expansion taking place.

Mohit Khanna: Just taking a little bit longer term view here, what's your sense that in our business in next three years with the upcoming opportunities and what segments do you think should contribute or should have a larger contribution to the revenue line in next three years down the line, I mean from Rs.820 crores that we're here today, what's your internal target?

Nikhil Kumar: I can't give that number to you, but all I can say is that we have a baseline business what we're talking about of 500 crores where we are today, and there are a number of large opportunities on the table in the railways side, and also on the synchronous motors side, and also within our existing business to expand the business, there's a larger two-pole generator which we talked about, that's also increasing. So, there are a number of opportunities clearly visible to the company to the management and we are well placed and we're going after everything. How many of these succeed and how many of these to what extent? That will become in the final top line and the exact numbers of sales and profitability. If you want me to give a number right now, I can't. The opportunities we are talking about, all of them are large and they deliver great results for the organization, even they are successful in a few of them, you don't have to be successful in all of them to get great numbers. One or two or three if you get also, you see big growth taking place in the overall sales.

Mohit Khanna: What is your sense in the market regarding the sub-100 MW or 30 MW generators especially on the distillery side in the domestic market?

Nikhil Kumar: Distillery side is booming and smaller machines less than 10 MW it will continue to boom because India is talking about higher and higher percentages of ethanol blending in the fuel. So, as long as that policy continues with the Indian government, there's going to be almost unlimited demand for ethanol if this will continue at least for two, three years and then let's see.

Mohit Khanna: How much is the segment contributing to our order book currently?

Nikhil Kumar: I can't give that number exactly at the moment, but it's good.

Moderator: We take the next question from the line of Ankit Gupta, Bamboo Capital. Please go ahead, sir.

Ankit Gupta: Nikhil, I wanted to understand one thing from you. Some of the new initiatives on the traction motors side, on the railways side, the wind generator refurbishment side, and other new initiative that we are taking, although they might not be contributing significantly to our top line this year, but let's say on a combined basis in FY'24, can we expect all this new initiative to at least contribute around Rs.100 crores to our top line or it will be like too far of a number, will it be possible to have Rs.100 crores from all these new segments?

Nikhil Kumar: I'm going to avoid that question seriously because it could be a lot more, it could be less. We are working to close out some of the deals and let's see when we actually close up those deals, what those numbers would actually end up being. Could be a lot more. I don't want to put that number on the table. So, it takes a little bit more time for finalization, then it may not be Rs.100 crores. But the deals are not going away, the market is there. Just may take a little bit more time. So, I don't want to answer this question. Let's just be a little bit patient and I think we will definitely have some information for the markets and for ourselves definitely by the end of this calendar year. So, let's be a little bit patient for a few more months and we have all the answer.

Ankit Gupta: On the gross margin side, in earlier calls you have expressed your aspirations for targeting 34%, 35% kind of gross margins. So, in current year, we are looking at around 30%, 31%. So, where are we in our journey to reach those kind of 34%, 35% kind of gross margins and do you think that it will be possible to achieve such margins let's say in two year or three years horizon?

Nikhil Kumar: Yes, it could take that long. We have to improve our margins, I would say, we have to increase the service business, we have to reduce the cost of our machines, there's a limit how much we can keep increase in prices in the market too to achieve these higher gross contribution level. So, it will be incremental year-on-year. But the goal of the management as I said is to keep increasing the gross contribution marginally. Greater emphasis is being put on operational efficiency and trying to achieve higher sales without increasing the cost.

Ankit Gupta: My last question was, we have been hearing a lot of news about the locomotive opportunities which are coming up and Alstom can be one of the major parties to get this contract. So, do you think that if Alstom get those orders, we can get a lot of new orders from them as well apart from the existing railways order that we have from them?

Nikhil Kumar: There are no guarantees in life, but we are the front-runner being the existing supplier to them.

Ankit Gupta: Is Alstom also the front-runner in getting those contacts?

Nikhil Kumar: I think so. Yes.

Ankit Gupta: Can that order be as big as the existing order that we have in hand or it will be a smaller one?

Nikhil Kumar: Potentially, they are as large. So, the 12,000 hp kind of is as large, 9,000 hp is also as large. So, let's see who wins.

Ankit Gupta: Any tentative tender days for order finalization for that?

Vinay Hegde: Tender finalization is in September-end. It may take six months from there.

Moderator: We take the next question from the line of Dhruvesh Sanghvi from Prospere Tree. Please go ahead.

Dhruvesh Sanghvi: First, I would just like to comment on the amazing way you have steered the company from seven, eight years from single product India-dependence to multi-product, multi-country, the way you have done it is amazing. And in the past, we used to sometimes comment that in spite of doing so many things, the sector was not probably supporting and your voice was sounding to that arena and the way you describe in the con calls now is completely changed. So, it's really amazing to hear you. Just one part here that the way you have expanded across the globe, have we already reached to wherever we were supposed to reach in this strategy of touching busy customers or if you can give some sense on where are we there that how many more customers are to be tapped where we can reach and potentially further penetrate over the next couple of years?

Nikhil Kumar: Overall market is huge. We have maybe just a single digit world market share in our engines. While the number of OEM customers may not be significantly larger, we do supply smaller quantities to all of them. It's more about how we can cut deeper into them and how we can increase our market share with each of these guys and repeat our overall business. So, there are still a number of challenges that we face in terms of acceptance of our products in many parts of the world, I would say that's number one hindrance, so we're constantly working on how to improve our marketing, how to improve our reach to the customer, directly to end users and try to increase our acceptance level. And as acceptance levels increases more and more, it's difficult for our competitors to compete with us on the price, quality metrics. So, I would say challenge is still to cut deep in the market. Long way to go. Lot of scope to grow. I'm not worried about the market size. We just have to keep working hard.

Moderator: We take the next question from the line of Mr. Dipen from DS Investment. Please go ahead, sir.

Dipen: I had a couple of questions. Firstly, just from an understanding perspective, is there a ballpark figure in the sense that per megawatt of power, what is the kind of revenue which we would be generating in terms of supplying our generators, so maybe per megawatt, is there an average, that's just for a broader understanding perspective?

Nikhil Kumar: No, we don't have that metric in our company, because there are a number of factors that can influence the size of the generator, complexity to generator, and we are not related to the megawatt rating, so we don't actually have that metric in our organization.

Dipen: The second question is relating to your guidance. It's a two-part question. Firstly, we have done about a 25% growth in the first quarter and we are probably guiding towards the 15% overall growth for the current year. So, maybe just as I thought what is going into it? And the second part is that we say that we have a capacity where we can reach a revenue of Rs.1,200 crores and you also mentioned in the earlier part that now all the orders which we are taking will be coming in the next year, because they generally take about seven to eight months to complete the order. So, just trying to understand if you already have a capacity to do Rs.1,200 crores, can't we finish a larger number of orders in the current year?

Nikhil Kumar: I would like to just once again comment on things like I did not say all the orders are going to go for next year. Part of the orders are going to be shifted to this year, part of it is going to go for next year. So, we are still booking some orders for this year. Whether we should deliver the machines this year or next year, depends on customer requirement and also what our turbine customer or engine customer wants. So, if they can deliver the turbine this year, customer wants machines this year, we will deliver this year. It's totally dependent on what the market wants and what our customers want. In general, I said, a lot of the orders that we are taking from now, majority of it is going into the next year and a smaller portion of it is coming into this year, that's number one. Number two is our guidance is based on our current order book that we have on hand as of date, and what is the expected inflows we have a relatively small number, has already closed for to reach our target. And after a lot of discussions with our OEM customers, our own internal discussions, we come up with the guidance. So, our guidance is something that we don't want to give negative surprises, we'd like to be positive surprises. So, let's see how it works out.

Moderator: We take the next question from the line of Rajesh Jain from NB Investments. Please go ahead, sir.

Rajesh Jain: Sir, I had three questions. The first one is regarding the gross margins. In your introduction, you had alluded that you would be maintaining 30% to 31% during the year. But in Q1, we have already done more than 32% gross margin. So, any particular reasons why you are expecting these margins would be lower for the remaining three quarters?

M.N. Varalakshmi: Actually, we have told that we will achieve around 31% to 32% gross contribution over the year. In some quarters, it maybe 30.5% and then next quarter it would be 31%. So, on an average is what you will have to see as a nature of industry.

Nikhil Kumar: I have given the guidance of 30% to 31%.

Rajesh Jain: And we have done already 32.5% during the current quarter. I know this keeps varying every quarter. Is it that we are not in a position to pass on whatever the fluctuation in the raw material prices to the customer or something like that?

M.N. Varalakshmi: No, we have already passed on is what we have told and we are seeing the benefits we had.

Nikhil Kumar: We have passed on, but basically the historic gross contribution levels of the company at the best of times has been around 32%. So, we are coming close to that number once again. That's where the stability should take place on the pricing front also is what I have been trying to allude in a number of questions over this call today. There's a limit on what we can do in terms of increasing prices. We're coming to a region of price stability which we like to keep and maintain the market share. We can't expect gross contribution expansion is going to take place to price increases anymore.

Rajesh Jain: My second question is regarding the direct business with railways where we were to supply some engines for the trial. If you could share what is the current status of that?

Nikhil Kumar: The motors have been cleared for dispatch and we are waiting for the final dispatch clearance on the Indian railways track, in boxes we are just waiting for the final document and then they will be shipped out, then they have to be mounted on a locomotive, and then they could run for six months, then we get approved to bid in a preferred category, where we get higher prices and a higher share of each and every channels.

Rajesh Jain: So, all that could happen only after H2 of next financial year?

Nikhil Kumar: Yes, yes.

Rajesh Jain: My third and last question is regarding the CAPEX part. You have already given how much we can do it from the existing facilities. Just for the information, in case if you have to put up a facility on a short notice, how much time would it take for you to put up that facility which you mentioned that we already have a land, so how much time would the company require to put up a facility let's say to make Rs.300 crores?

Nikhil Kumar: Six to eight months.

Moderator: Ladies and gentlemen, that was the last question for the day. I now hand the conference over to Mr. Nikhil Kumar for closing comments. Over to you, sir.

Nikhil Kumar: Yes, thank you very much for joining us on our call today and we look forward to communicating with you further over the next few months and definitely at the end of each month. Thank you very much.

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