



*Techno Electric & Engineering Company Limited
November 15, 2011*

“Techno Electric & Engineering Company Limited
Q2FY12 Conference Call”

November 15, 2011

Moderators from TEECL:

Mr. Pradeep Lohia, President (Finance)

Mr. Ankit Gupta, Management Executive



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Moderator: Ladies and gentlemen good evening and welcome to the Techno Electric & Engineering Company Limited Q2 FY12 Earnings Call. We have with us today Mr. Pradeep Lohia, President Finance, Mr. Ankit Gupta, Management Executive. As a reminder for the duration of this conference all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Mr. Pradeep Lohia, President Finance of Techno Electric & Engineering Company Limited. Thank you and over to you Sir.

Pradeep Lohia: Good evening ladies and gentlemen and welcome you all to this concall. As you know, Techno Electric is an EPC Company focused to the power sector having its own power-generated capacity. As a leading EPC Company, we are present in all the key segments of power, i.e., Generation, Transmission and Distribution and are one of the first movers in non-conventional power generation business. We now have one of the largest generation capacity in the country of 200 MW. We believe we are in the industry to make great projects for our customers but without funding the customers project by having debt in our books. We participate only in projects where we can make a significant contribution plus we believe in saying no to thousands of projects so that we can focus on the few that are truly important and meaningful and generate good margins that result in increased bottomline. With our values and conservative approach, we have always maintained modest growth target of 15% y-o-y basis in EPC segment.

Now I will give you some brief overview on the projects in hand. In EPC we have an order backlog of Rs 1,200 crore, out of which Generation and



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Transmission contributes Rs 1,000 crore and balance is on the Distribution and Industrial segment. The Transmission project which we are executing under a consortium under PPP model to give 100 km long 2 substations for 24 bays of 400 KV at Haryana is progressing well and scheduled to be commissioned by December 2011.

As in the power generation side, the 1st Phase of 101.4 MW project has been fully commissioned. The project is registered with IREDA for GBI benefits. We are glad to announce that we are able to sell the 1st lot of RECs at the rate of Rs 2,300 per certificate and the 2nd lot at Rs 2,700 per certificate. Now we are open for questions.

Moderator: Thank you. We will now begin with the question and answer session. We have the first question from the line of **Amber Singhania from Quant Capital**. Please go ahead.

Amber Singhania: Congratulations for the good set of numbers. Sir, I have just a couple of questions on the wind power side. Could you quantify how many RECs have we sold and how much have we booked in this quarter? Secondly, have we got registration for entire 101.4 MW of new capacity for REC?

Pradeep Lohia: Yes. And the 1st lot of 7,464 RECs was sold at the rate of Rs 2,300 per REC and the second lot of 10,786 RECs was sold at Rs 2,700 per REC.

Amber Singhania: Okay and we also aim to add around 12 MW at the same location. What is the status on that?

Pradeep Lohia: 12 MW shall be commissioned by January end.

Amber Singhania: What about another 100 MW which you were planning as the next stage?

Pradeep Lohia: That will be taken up in the next financial year.



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- Amber Singhania:** And how many RECs we have with us accumulated, apart from the sales?
- Pradeep Lohia:** As of September 30, we have booked 56,925 RECs at the rate of 1,598 per REC on the conservative side.
- Amber Singhania:** Okay, and what is the current debtor period from Tamil Nadu State Electricity Board for wind power?
- Pradeep Lohia:** Debtors is around 6-7 months.
- Amber Singhania:** Sir, is there any problem you are facing which may turn into some long-term bad debt or something like that?
- Pradeep Lohia:** You see in this segment there are no bad debts. The scenario may change and some comfort may arrive in a period of six months or a year. In this context we would like to inform you that though 100% of revenue of our old capacity is exposed to TANGEDCO it is only 50% in case of incremental capacity of 101.4 MW. We have entered into PPA for the incremental capacity under REC scheme wherein 50% of the revenue comes from the state utility and the balance 50% is achieved through sale of REC and incentive under GBI scheme.
- Amber Singhania:** Okay and on the EPC front, we have an order book of Rs 1,200 crore. Other than this, how much is in pipeline or in L1? How do you see the visibility going forward as such?
- Pradeep Lohia:** We would be closing this financial year with an order backlog of Rs 1,200 crore.
- Amber Singhania:** Okay, Thank you.
- Moderator:** Thank you. Our next question is from the line of **Aliasgar Shakir from Elara Capital**. Please go ahead.



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Aliasgar Shakir: Sir, if you could give me the unit generated separately for 45, 50 and 100 MW?

Pradeep Lohia: For 45 MW, 70 million units were generated for the half year and 40 million for the quarter.

For the 50 MW, 82 million for the half year and 40-41 million for the quarter.

For 100 MW, we generated around 95 million this September.

Aliasgar Shakir: Entire 95 million would be in Q2 or there would be some part in Q1 also?

Pradeep Lohia: Some part is in Q1 also.

Aliasgar Shakir: Around 70%-80% would be in Q2?

Pradeep Lohia: Yes.

Aliasgar Shakir: Also on the GBI we have registered, what would be the amount of GBI for which we are entitled through the 100 MW, if we have received any amount or what is the amount that we are expecting?

Pradeep Lohia: In GBI, they generally pay you 0.50 paise per unit generated on a yearly basis. There are certain formalities has to be complied at the time of claiming GBI for the first time. So for this year, we would be claiming after filing our income tax return, i.e., in September, and then on a half yearly basis.

Aliasgar Shakir: Okay we will receive our first payment after the end of fiscal?

Pradeep Lohia: Yes.



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Aliasgar Shakir: Okay, we have generated about 95 million under 100 MW. Are we entitled for this entire 95 million?

Pradeep Lohia: Yes.

Aliasgar Shakir: 95 million into 0.50 paise is the amount?

Pradeep Lohia: Yes.

Aliasgar Shakir: So around 45 million is what we would be entitled to under GBI?

Pradeep Lohia: Yes, till date we have accumulated around 4 crore for GBI.

Aliasgar Shakir: The 45 MW has done somewhere about Rs 12.9 crore this year compared to around Rs 15.7 crore In Q2FY11. So I think the PLFs have not been as great as last year?

Pradeep Lohia: Everything depends upon the wind regime. Last year in the June quarter, wind was not very good, but it was good in the September quarter and this was vice versa during this year.

Aliasgar Shakir: Could it be that may be Q3 would be probably better than last year Q3 and we would be able to compensate over the last?

Pradeep Lohia: It is very difficult to say at this moment.

Aliasgar Shakir: Okay, but our expectation of around 25-29% kind of PLFs, we feel we would be able to meet that for the entire year?

Pradeep Lohia: Yes.

Aliasgar Shakir: Okay, just wanted to understand the Capex funding for 100 MW. What is the debt-equity we have done for that?



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- Pradeep Lohia:** Debt was around Rs 360 crore and equity will be Rs 240 crore.
- Aliasgar Shakir:** This Rs 360 crore of debt is completely on the subsidiary book?
- Pradeep Lohia:** Yes, completely in the subsidiary books.
- Aliasgar Shakir:** Rs 240 crore equity, we have infused through the holding company?
- Pradeep Lohia:** Yes and 3.38% (Rs 22 crore) has been taken by IFC Washington, out of the Rs 240 crore equity.
- Aliasgar Shakir:** The remaining is completely funded through internal accruals or have we taken any debt on the holding company?
- Pradeep Lohia:** We have taken debt, which is the reason why some interest cost is coming in the EPC books.
- Aliasgar Shakir:** So for this Rs 240 crore excluding the 3.38%, what is the amount of debt to infuse the capital?
- Pradeep Lohia:** Rs 120-125 crore is infused through debt in the holding company and the remaining about another Rs 100 crore as equity through internal accruals?
- Aliasgar Shakir:** That's it from my side. Thanks
- Moderator:** Thank you so much. We have the next question from the line of **Subhabrata Mitra from Jet Age Securities**. Please go ahead.
- Subhabrata Mitra:** Congrats on a very good set of numbers, just wanted to know what is the average cost of debt on the whole debt of Rs 690 crore?
- Pradeep Lohia:** Average cost of debt will be around 9%.



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Subhabrata Mitra: And, on the transmission contract that we have been executing in consortium, would we be having higher margin from that or the same kind of margins?

Pradeep Lohia: It will be giving us an IRR of around 16-17%.

Subhabrata Mitra: Okay and the total Rs210 crore of EPC revenue you said it would be coming in this year only? I mean part has come in last or the whole will be coming in this year?

Pradeep Lohia: Some of it has come in last year, this year it will be around Rs 125-142 crore.

Subhabrata Mitra: Okay thanks a lot sir. I am done with my question.

Moderator: Thank you. We have followup question from the line of **Amber Singhania from Quant Capital**. Please go ahead.

Amber Singhania: How much total unit have we sold in this quarter? I just missed out on the numbers.

Pradeep Lohia: This quarter in case of 45 MW, we have sold around 40 million, in case of 50 MW the turnover is again 40 million and in case of the new capacity, 100 MW, it is around 70 million.

Amber Singhania: So, all together we have sold around 150 million units in this quarter?

Pradeep Lohia: That is right.

Amber Singhania: Also if you can provide us the breakup of this energy division of Rs 54.4 crore total revenue, how much have we booked via the sale of power and how much from REC and other benefits?



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Pradeep Lohia: From REC it is Rs 13.16 crore and balance is from power. For GBI, we have showed it under other operating income.

Amber Singhania: How much is that amount Sir?

Pradeep Lohia: It is Rs 4.33 crore.

Amber Singhania: Rs 4.33 crore of GBI accumulated by now, has been booked completely?

Pradeep Lohia: Yes, this includes GBI from 101 MW capacity and from our earlier capacity of 50 MW, we are registered for 7.50 MW.

Amber Singhania: This entire amount also reflects in debt because we have not achieved anything? Out of the total debtors that we have, how much belongs to the EPC side?

Pradeep Lohia: In the balance sheet standalone, debtor is Rs 60 crore for EPC and retention money is Rs 128 crore.

Amber Singhania: This retention money is primarily from any major order which is pending and how do you see that money getting freed up going forward or it is likely remain?

Pradeep Lohia: Generally we target to collect this retention money within a year because it is the minimum timeframe, which is required but generally takes one to one and a half the time.

Amber Singhania: At the same time we will also be blocking the money on new projects.

Pradeep Lohia: That debt will be accumulated.

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Amber Singhania: More or less it will be in the same line going forward or it is slightly higher in this quarter as such? Last quarter we had substantial amount of payment, Suzlon was lying as a current liability. So have we paid the entire amount or it is there?

Pradeep Lohia: We have paid the entire amount in phases and now the balance has to be paid on getting the machine stabilized.

Amber Singhania: How much is that amount out of this Rs 291 crore?

Pradeep Lohia: It is around Rs 20-25 crore.

Amber Singhania: Fine Sir.

Moderator: Thank you. The next question is from the line of **Rahul Gajare from Edelweiss**. Please go ahead.

Rahul Gajare: Good evening Sir. Could you tell us what is the PLF in this quarter because normally in monsoons we tend to have higher PLF right? Is there any forex element, any import, any MTM, any forex loss or anything that you have over here?

Pradeep Lohia: In case of EPC business in Techno there are certain FCNRB loans which is a short term loan, for which we have provided MTM. If you go through our results you would notice this under exceptional items, .In case of Simran, loan to the extent of USD 50 million is in foreign currency and we have provided capitalized with MTM. PLF is around 36% to 37%.

Rahul Gajare: Q1 was 32%?

Pradeep Lohia: May be it was around that.

Rahul Gajare: Thank you very much.



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Moderator: Thank you. We have a followup question from the line of **Aliasgar Shakir from Elara Capital**. Please go ahead.

Aliasgar Shakir: We had a strategy that we would add about 200 MW each year in wind power and probably reach somewhere about 1000-1200 MW by 2017. So what is the approach now on the long-term basis?

Pradeep Lohia: In the long-term we will sustain our strategy and by the end of 2017 we propose to have around 1250 MW capacity.

Aliasgar Shakir: We are planning to do this entire capacity expansion by way of wind power or we are including any other options?

Pradeep Lohia: Majority will be wind power, may be around 1000 MW.

Aliasgar Shakir: If we have around 200 MW today in 2011. With the next 5 years we plan to add another about 1000 MW, so about 200 MW is what we will add probably every year.

Pradeep Lohia: It may be organic or inorganic growth.

Aliasgar Shakir: Earlier we had a plan of exploring biogas or biomass also. Have we progressed anything over there?

Pradeep Lohia: We are still finding out options for securing the raw material. As told earlier that unless and until 65-70% of the raw material is secured, the project is not viable and we would not be going ahead with the project until and unless we find out the ways and means to secure raw material supply.

Aliasgar Shakir: On the EPC side, in the next 2 years what is the growth rate that we expect?

Pradeep Lohia: May be the same growth rate of 15-20%.



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Aliasgar Shakir: We could assume the same kind of margin also. I understand that we have not been very aggressive in bidding for orders that is one of the key reasons for having better margins. So just curious to know when others have not been able to do anything around 12% kinds in terms of quality of work or in terms of execution, how have we been able to have better margins than the other players?

Pradeep Lohia: It is a very difficult question to answer Ali. However, please note we execute the service part of the contract ourselves and do not sub-contract it.

Aliasgar Shakir: Thanks a lot. That is all from my side.

Moderator: Thank you. As there are no further more questions, I would now like to hand the call to Mr. Pradeep Lohia for closing comments.

Pradeep Lohia: Thank you everybody for participating in this concall and we expect that you participate in a similar way in the next call as well. Thank you.