



“Techno Electric & Engineering Company Ltd Q2 FY17
Results Conference Call”

November 21, 2016



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MODERATOR: MR. AMBER SINGHANIA – ASIAN MARKET SECURITIES



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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q2 FY-'17 Earnings Conference Call of Techno Electric & Engineering Company Limited hosted by Asian Market Securities. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amber Singhania from Asian Market Securities. Thank you and over to you sir.

Amber Singhania: Good Afternoon, Everyone. On behalf of Asian Market I Welcome you all to the 2Q FY-'17 Earning Conference Call for Techno Electric & Engineering Company Limited.

We have with us today Mr. PP Gupta -- Chairman and Managing Director of the company; Mr. Ankit Saraiya -- Director of the company along with his team.

I now request Mr. Gupta to take us through the "Quarterly Results" and "Overall Macro Scenario for the Company as well as for the Industry" and then we shall begin with Q&A Session. Over to you, sir.

PP Gupta: Thank you, Amber. A Very Good Afternoon to each participant in today's meeting. I welcome everyone for joining us today to discuss Techno Electric's Financial Result for the quarter-ending 30th September, 2016 and first half year-ending for the same period. Anything said on this call which reflects our outlook for the future or that could be construed as a forward-looking statement must be reviewed in conjunction with the very risk that the industry and company faces. We have started the financial year on a very strong footing in both EPC and Wind segment. Our order book as on 30th September 2016 stands at Rs.2,500 crores, which includes our L1 position in 765 kV Substation Package at Raigarh, Indore and Itarsi and the package value is about Rs.150 crores. We are continuously participating in various tenders and are hopeful of good conversion in current year. With the healthy order book position we are confident of achieving 30% growth in our EPC segment in the current and forthcoming financial year as envisaged at the beginning of the year.

Prospects of the EPC Business: In EPC segment we are witnessing greater investment from our state and of course the investment continues in place from Power Grid Corporation of India Limited also. The earning share as highlighted in Q1 meeting that the Power Grid is spending more on transforming capacity, though the PGCIL budget for the year remains at the same level, the ratio of investment between line and substation has undergone change from 80:20 to 65:35. This has increased our addressable market. Focus on dynamic management of powers continues to provide us opportunity to participate in more STATCOM addition going forward. We expect states to play a more dominant role towards investment in Transmission and Sub-Transmission Infrastructure. Many states are facing transmission challenges due to historic infrastructure that needs immediate upgradation especially on account of increasing focus in Renewable Energy in some of these states.



Wind industry: In Wind segment the related challenges have eased, we are witnessing improvement in grid availability in State of Tamil Nadu and the overall wind flow has been positive. We expect to close the current financial year on like-to-like basis and very close to the best year experienced in the year '12-13. Some of the regulations have been positive for the industry, to name a few, the very cogeneration and sugar mill plants no more eligible for REC. The Tamil Nadu High Court has strictly directed the state not to curtail the grid back down. Hon'ble Supreme Court directed TANGEDCO to pay interest on delayed payments. Going forward, we would like to concentrate on our EPC and PPP business in Transmission. Our both PPP projects at Haryana in partnership with Kalpataru and Patran at Punjab is operating successfully with no challenges.

Let me quickly highlight our achievements for this quarter: Revenue from EPC almost jumped by 47% from Rs.202 crores to Rs.297 crores. Our consolidated revenue for the quarter also grew by 34% to Rs.368 crores against Rs.253 crores achieved during the same quarter of the previous year. Operating profit for the EPC segment for the quarter stood at Rs.45.88 crores as against Rs.33 crores, showing a jump of 38.56%. Operating profit margin for the quarter stood at 15.46%. The PAT on standalone basis for the quarter stood at Rs.44.79 crores as against Rs.34.07 crores last year, showing a growth of 31.46%. On consolidated basis, the PAT has jumped by 58% for the quarter at Rs.70 crores against Rs.44.5 crores. Return on capital employed for EPC sector continues to be outstanding in the industry. Absolute consolidated EPS for the quarter stands at 6.17 as against 3.9 on the previous year and at the consolidated level it is 10.37 as against 7.21 in the previous year. While revenue has grown our trade receivables remains healthy. We are more or less able to manage the receivables within 100-days cycle which is one of the best in the industry. Our focus remains to efficiently manage working capital while growing your company profitably.

With this I invite questions from the participants.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Just wanting to understand a couple of things: First is on your guidance as in for the first half we have grown fairly fast, almost 50% and still your guidance is indicating just 30% growth the entire year. So any particular reason why you think apart from the base effect second half might not be as strong, so any particular thoughts why we do not look at possibility, the probabilities of a potential upgrade in our guidance?

PP Gupta: Renu, I like to say that the earlier growth which we used to achieve in the last quarter of the year was in two sense was unnatural, let me be honest. Everybody used to rush up to achieve and meet the budgets both from the very utilities as well as the EPC entities. The present government is managerially more efficient and the jobs are being fairly changed and expedited



now on periodic program basis and not on annual program basis anymore. So I believe that it is more realistic and Q2 generally a rainy season is not that great ...

Renu Baid: Typically, it is weak, but this time it does fairly strong?

PP Gupta: Fairly strong, I would say that. So you will find the performance over the year will be equally spread and healthy and we will like to maintain management guidance at 30% only and we may like to review it after we are through with third quarter.

Renu Baid: Second sir, on the order flow side, you did mention that you have participated in a lot of tenders and you expect healthy conversion in the second half. So if you can throw some light with respect to how is the pipeline of key large projects across states and Power Grid in the next six months? Also, on the BOOT projects, we are seeing some momentum coming back with respect to new projects. So how is the outlook on both the segments?

PP Gupta: I would say outlook is extremely healthy, #1, states are now coming more ahead of the Power Grid also in building their own networks particularly the states having more of renewable power with them as well as some transmission networks with the other states. We are seeing a strong momentum in the State of MP, Rajasthan, Chhattisgarh, Andhra, Telengana, Tamil Nadu, all are becoming fairly active. On power deal front business is as usual, their budget continues to be static, but with more stress on the transforming capacity. So that brings good news for us because otherwise lines were dominating as a percentage of the business.

Renu Baid: With respect to the market, what could be the size of the ordering market in second half of the year?

PP Gupta: I expect business of almost around Rs.1,000 crores in the second half or it may be little more because tenders are of a large value, to be honest. Generally, these are ranging unlike past from Rs.100 crores to Rs.250 crores, now job values has swung to Rs.250 crores to Rs.500 crores, so even one job makes a huge difference technically. Next milestone will be Rs.1400-1500 crores only technically speaking. We are in a lead position in these solutions competitive by and large we are able to deliver solutions at a most competitive to the rest of the industry while not being speculative. So we are very confident of our future in this segment at least for next 2-3-years. The theme which was really lagging which has helped us this quarter is with truly speaking. So much of challenge we faced over last 3-years and suddenly we find everything is in place and place for good, last year grid availability was no more than 70%, this year it is 92%, we hope next year it will be 97-98% as expected. So governments, courts, everybody is helping out and even renewable has become a buzz word in the country, so many states are shy to tamper with it. So I can only share overall that the two verticals of Renewable and Transmission EPC, both are in sweet spots. So we like to build more on it. On the BOOT projects, we are participating in BOOT, one project with Kalpataru which is due this month only, it is not this project which is a good project for keeping our location in view, there are



four in the pipeline, we will like to cater to Power Grid also in this BOOT competitive bidding projects with that, we wish we would be bidding. We are seeing this momentum happening at states also now, let me share with you. So we see little more enquiries from them and some of them should be in market by December or may be by January. So overall I would say that business is good because the country is surplus in power generation as we all know at no less than 315 MW, demand is still no more than 170 GW and transmission bottlenecks are also in place. So it is a good opportunity to make sure that peak time deficit in the system also really reduces to zero or surplus additionally and state governments feel more encouraged to adopt to that, truly provide open access to the consumers, more power to the consumers in rural and non-urban pockets. So we think good things are happening gradually.

Moderator: Thank you. The next question is from the line of Mayur Patel from DSP BlackRock. Please go ahead.

Mayur Patel: We had Rs.120 crores of receivables pending from our own BOT company. So what is the status of that?

PP Gupta: It is still pending sir, because I am a greedy man Mayur as you know, the rate of interest are falling continuously and once you draw this money the rate of fixed for a year, so I want to borrow at the rock bottom rate. The last year rates quoted was started with 12% latest negotiated rate is now at 9.8% and I am targeting it at around 9.4% because so much of money in banks, more by December end it will see compression of another 40 bps and we have no need of money to be honest, working capital is fairly healthy with the company otherwise.

Moderator: Thank you. The next question is from the line of Abhijit Vora from Sundaram Mutual Fund. Please go ahead.

Mayur Patel: Sir, what is the order flow in H1?

PP Gupta: In H1 is about Rs.750 crores including L1.

Mayur Patel: Actually, I was looking at your year beginning order book, it was again Rs.2600 crores, now again it is Rs.2500 crores and you have executed Rs.640 crores. Your earlier guidance of Rs.2,000 crores of order inflow for the entire year, is there any delay in terms of awarding from PGCIL or what exactly is happening sir?

PP Gupta: I will not use the word 'Delay' actually to be truthful, I will say that Power Grid is looking on execution more now of already ordered projects so that they can capitalize fast, they can convert them into revenue stream fast. So the subsequent ordering takes its own time. This being the last year of the XII Plan the attempt is to meet the target in terms of transforming capacity, line capacity. So those parts of the contracts are getting executed which can immediately be converted into revenue with Power Grid, I would say that way, but we see



healthy momentum happening in states now, more tendering, lot more opportunities and all that decision-making should be in place by December-end. So we see little higher order book by third quarter.

Mayur Patel: Rs.1500 crores of order flow for the current year is possible you are saying?

PP Gupta: Rs.1500 crores to Rs.2000 crores, as I explained in my first answer, you see the very tender value today is Rs.250 crores to Rs.500 crores, one tender left out or including makes all the difference now in Rs.1500 crores or Rs.2000 crores unlike past where it used to be a combination of two or three orders.

Mayur Patel: Second question is in terms of commercials, like it would be margins of working capital management, how would it be different if the contribution from the state electricity boards are higher than PGCIL?

PP Gupta: No, it does not make difference to us because terms of payment are by and large same, #1 and those business in states also is multilaterally funding, secondly, and thirdly it is more of EPC's own financial discipline which reflects in all these than the utilities. The payments comes directly from the lending bodies to our bank accounts. Their job is only to certify the bills and forward them, whether it is KFW or ADB or whoever is the lending body like PFC or REC. So by and large we have not experienced the problem like some of you are apprehending we may have issues with Bihar government a year back, but trust me their payments are better as good as Power Grid, we have not experienced any issue because of these lenders discipline in place now.

Mayur Patel: These segmental margins for EPC which are better compared to year-on-year basis for the first half, what is leading these margins and will this uptrend will continue?

PP Gupta: Absolutely, I will not say there is a great scope for improvement, but we definitely ensure they do not deteriorate and marginally improves because as your top line grows your cost to deliver the project goes down per Rs.100 crores because your overheads do not grow proportionately. So that is the productivity advantage you get additionally on the table with you. Earlier my project management cost in the year say '14-15 was about 8% to 9% today it is only 6% to 6.5%. So that brings the additional upside in the operations.

Moderator: Thank you. The next question is from the line of Utsav Mehta from Ambit Capital. Please go ahead.

Utsav Mehta: Sir, my question is on working capital. You said that you have not settled the Patran receivables yet. Just wanted to understand, whether the reduction in payables on the back of Patran only?



- PP Gupta:** No, we have paid out larger Patran payables out of the working capital of the Techno from other projects, like, if you see September creditors it is lesser by about Rs.75 to Rs.80 crores over the year end.
- Utsav Mehta:** Is there any timeline to these receivables being settled or will it like continue until you feel that the interest rates are right?
- PP Gupta:** No, as I told earlier my target is December end, by December end we will settle these issues unless more demonetization advantages become visible on the table, hopefully all that should be in place, Trump is in place, our yields on GSecs are all-time low, and banks are sitting on so much of liquidity now, as you all know. So good things are happening. I am sure Reserve Bank will also give us the effect of 25 to 50 bps in December policy. That should all be reflected in the base rates or MCLR of the banks.
- Utsav Mehta:** Just to delve a bit on this demonetization bid. Any direct or indirect impact in the way subcontractors are now operating because I am sure at some point of time in the value chain there would be cash involved, so just trying to understand whether it impacted the operations for a few days or a few weeks or...?
- PP Gupta:** No, it has not affected us that much, let me share with you, because our operations are fairly disciplined and cash content is very minimal, rather it has brought some advantages, let me share with you. The construction material cost is now 10% to 15% lower sir in most of the pockets, because really state activity has suddenly dried out like we are doing a project in Mathura, the chips which we used to buy at around Rs.900 today are being offered to us at about Rs.725 a meter cube because there is material in the pipeline and much lesser real estate activity now post demonetization. But these are not long-term, let me share with you. You wanted to know some impact immediately?
- Utsav Mehta:** No-no-no, I also want to know the long-term impact because I am sure at some level material developers or truckers, there would be cash at some level of the value chain. So just trying to understand whether...?
- PP Gupta:** No, but that is all manageable, there is no major challenge, they are usual challenges, I will not say there are no FMs, but they are bigger to those firms who are not organized, I think national level companies are fairly strong internal disciplined, financial discipline, payment disciplines and all these entities who work with us are also organized to deal with their own issues and we support them out bit here and there. So we are not allowed even as per IT too has a cash transaction more than Rs.20,000, that has been disciplined has been all in place for years complying to labor laws. All that is very much ingrained in our operations sir.



- Utsav Mehta:** Just a couple of book-keeping questions if I may. The deferred tax liabilities, there has been a huge increase on the balance sheet. Just trying to figure out, whether that is due to restatements or is it due to some other reason?
- PP Gupta:** No, it is a reinstatement because of IND AS only because of which that is it, we availed accelerated depreciations and all that and we also avail 80-I benefits for next 10-years, but IND AS makes its mandatory that even if this liability may happen down 16th year, it must be separately categorized in the accounts which was not the case earlier. So these are all previous year effects as appropriation which has no cash outgoes or cash implications for significant time to come.
- Utsav Mehta:** This probably come at the expense of the net worth, right?
- PP Gupta:** Right, absolutely, it is only appropriation of the net worth, you can say.
- Utsav Mehta:** What is the gross debt number?
- PP Gupta:** Gross debt number at consolidated level is about Rs.300 crores, all taken together, virtually we are short term debt free now as you will see in the September accounts in SEBI filed with exchanges, the short term debt in the books is Rs.20 crores as of September end which is only Rs.5 crores now.
- Moderator:** Thank you. The next question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.
- Sandeep Tulsian:** Sir, my first question is regarding the mix of the inflows between states and PGCIL, how has this ratio changed over the past two years and how do you expect it to stay going forward?
- PP Gupta:** This year we have significantly moved towards Power Grid which next year I am again trying to come back to states to be true, this year almost you can say 70% of the top line will be from Power Grid and last year Power Grid was no more than 40%.
- Sandeep Tulsian:** My question pertains to inflows because I think current whatever shift has happened to Power Grid, has been largely because you have been gaining share more than the ordering intensity increase from Power Grid. So currently what is the share and how do you expect that to change from the order inflow perspective?
- PP Gupta:** We expect Power Grid order to stay as a status quo where it is, about 1,000 crores a year, and we will expect more to come from the states to fund our growth. The growth part we are looking from BOOT assets or from the states and Power Grid will continue to be at the same level for time being.



- Sandeep Tulsian:** You announced that another 45 MW will be sold in the recent future where value can be anywhere between another Rs.200-250 crores that you would add to your already existing balance sheet. So how do you plan to deploy the accumulating cash, in which business areas you are evaluating, could you highlight that or would it be paid in form of dividend??
- PP Gupta:** We do not have any definitive programs as of now. When it happens we will evaluate our options and it may include dividend or buy back.
- Sandeep Tulsian:** After one foray in international project side, we have not heard anything where you are bidding or evaluating any projects outside India, so any thought process on that side currently or any orders which are under discussion?
- PP Gupta:** No, there is no order in discussion, I would say first, we are L1 in one project in Botswana which is about \$10 million, we are bidding more projects in Uganda, Botswana... I was in Bangladesh last week only, somehow trying to work out qualifications which brings us more closer to their requirements. So we are working on it, we are looking for a more proportion of our business out of exports and next year I will like to see at least 10% of our top line is from the exports unlike 2-3% as of now.
- Moderator:** Thank you. The next question is from the line of Mayur Patel from DSP BlackRock. Please go ahead.
- Mayur Patel:** Just two things: First, on the UDAY Scheme like Techno Electric we are seeing continuous momentum in orders in execution on the SEBs side. So are you seeing this is just the normal ramp up in SEB spending which we used to talk about earlier and is there anything because of UDAY scheme, are you seeing any specific trend increase in spending by SEBs?
- PP Gupta:** Sir, I will not be specifically able to correlate what is promoting or encouraging them, but let me share with you surprisingly 10-days back from TNEB we got payment of wind power of 8-months cheque in one cheque sir, so we stand paid now up to May '16. So this money is from UDAY or their own state government or Jayalalitha being not there I have no idea sir, what is contributing to this kind of healthy behavior... but things are getting healthier, this is what I can share with you as of now.
- Mayur Patel:** We have this 40 MW by when we should complete the transaction?
- PP Gupta:** Sir, again I will say only I am getting greedy because of valuations, so everything getting so better around you and these assets being generating tax free income, this year you can say this 45 MW will give you Rs.25 crores of tax free income sir in standalone entity. So should I sell? Tell me your view.



Mayur Patel: We will discuss separately. Lastly, on the newer STATCOM and the newer segments, how is the traction, just any last few words if you can then I will just...

PP Gupta: Sir, out of the three packages, two are being done by Techno now, we won the NR project after WR project, so out of Power Grid order book about Rs.500 crores is from that business, but this business Power Grid may not invest more between you and me going forward sir.

Mayur Patel: Because of margin profile or any other reason?

PP Gupta: No, the reason is they want more to be done by states in this, let me put it, because it is basically a power quality improvement project, let us put it that way, it does not augment any capacity, it improves the quality of the power in the grid and that largely gets spoiled at the power injection stage, if you are not injecting proper quality power in terms of power factor, voltage or harmonics, it cumulatively rocks the grid which we manage by installing these solutions.

Mayur Patel: Why you are not so keen going forward on this?

PP Gupta: No, I am not saying I am not keen sir, the Power Grid may not like to allocate more CAPEX for it, I am only saying in that perspective, I have no problem sir, anybody's project as long as it is good for me, profitable for me I am there. How he makes use of it is, that is not my business sir.

Mayur Patel: Sir, this Solar related everything you are prepared, NTPC qualification and other things, just last few words if you can just update us on the status of the Solar?

PP Gupta: We have got very hard on it, sir, we are fully prepared but somehow we have still not seen any breakthrough. There are some market spoilers in the bidding space, that is still somehow the hype on Solar Power has really made in our perspective EPC prices, short of performance or more full of challenges. So we do not want to get into that kind of risk source, but there are so many programs going forward, we are sure down 3 to 6-months we will find our place.

Moderator: Thank you. The next question is from the line of Vibha Kashyap from Narnolia Securities Limited. Please go ahead.

Vibha Kashyap: Sir, in previous call you did mention that company is looking for TBCB order in North India where it might be a partner either with Kalpataru, KEC or L&T for line work. Can you throw some light on it?

PP Gupta: Basically, we are keen for those TBCB project where at least the substation or power system content is no less than 30% to 40% in the package value because that is our strength. If line lives are stronger, which adds to the project cost, then it becomes a little less attractive to us



and the warning too. So definitely that business goes to the advantage of larger and bigger line entities like Kalpataru or L&T. So accordingly, we look for partners so that our partnership is limited to our portion of the job and this is not used on our books internally. So I think it is more of a prudent call than of a limitation call.

Moderator: Thank you. The next question is from the line of Pawan Parekh from HDFC Securities. Please go ahead.

Pawan Parekh: Sir, just a few things here; how many million units that we generate in both standalone and consol together in this quarter?

PP Gupta: Total we have generated by now 310 million units as of October end.

Pawan Parekh: Would you have the number for H1?

PP Gupta: It is 242 million units, for this year we expect about 350-360 million units output wise, now it is a lean phase.

Pawan Parekh: Sir, secondly, so Jhajjar has been loss making because we see associate income as about Rs.1.2 crores of loss in the first half of this financial year?

PP Gupta: It is not a loss making, let me put it that way. That is what we talked while restructuring of shareholding in Patran also. Basically, it is a positive cash flow all the time, but the very depreciation you provide in the initial years creates a loss in the books. You can say it is more of debt management than loss in reality.

Pawan Parekh: So we change the depreciation policy because last year same quarter it was about Rs.2.3 crores profit?

PP Gupta: Yes, because it goes like that only sir, last year we get the profit, in this year you have to recast it some premise. So it happens like that. So when you go into next half, you may find Rs.2 crores here and there, change will happen in this situation.

Pawan Parekh: Can you share revenue, EBITDA, PAT of Jhajjar for first half?

PP Gupta: I am not sure. You send us a mail sir. Being associate, we have not kept these accounts handy with us. But we will reply to your email.

Pawan Parekh: Sir, Patran has been operational this quarter?

PP Gupta: Yes, Patran is operational now, absolutely.

Pawan Parekh: Can you share numbers for that for this quarter?



PP Gupta: Because it is a first year of Patran, so the tariff quoted are not monthly in this case as a bidding process, they are always on annual basis. So Patran will get a revenue of Rs.21.5 crores this year technically you can say. So similarly like KT Jhajjar the depreciation will be around Rs.14-15 crores and another a crore too will be operating expense, rest is our financial cost. So that way you can say the whole thing is the EBITDA only sir; Rs.21.5 crores less Rs.1 crore, Rs.20.5 crores will be EBITDA, similarly going to KT Jhajjar our annual revenue is about Rs.54 crores, and we spend O&M roughly around Rs.6.5 crores. So technically, you can say about Rs.47-48 crores is EBITDA.

Moderator: Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Sir, just I have a follow up question; on the competitive pressure, you did highlight that Solar you have been very aggressive prices, not able to make a breakthrough. But in the conventional Substation business, both between Power Grid and states, have you actually seen competition getting more aggressive be it the private TBCB projects as well, have you seen those dynamics change a little?

PP Gupta: Yes, I have seen more aggressiveness in TBCB packages, to be honest than in the EPC packages so far, because maybe most of the EPC companies carry some package, so they are cautious when they bid for EPC business, and TBCB players are different, like Sterlite, Adani, we find them very more aggressive rather many aggressive times in numbers. So the business of TBCB at the moment is more aggressive than earlier.

Renu Baid: When we look at business from these TBCB players as customers, so in case if we are working for any projects for Sterlite, Adani, have you seen prices in those projects on the private PPP-based projects being more aggressive than the pricing environment which is prevailing in the state utility sector or the Power Grid space?

PP Gupta: We are not part of this market in the EPC for private players. So my statement would be speculative in this regard because we do not submit any proposals to Adani or Sterlite or even SL Infra, we are only doing our own TBCB projects wherever we shall treat.

Renu Baid: So we are not looking at that pie as a potential market?

PP Gupta: Absolutely. Power Grid yes...we will be happy to work with Power Grid on TBCB packages.

Renu Baid: Specially you mentioned that now the average ticket size of projects are increasing between Rs.200 to Rs.500 crores, so does that mean that overall competitive intensity should narrow out because the risk appetite of the EPC players will reduce?



PP Gupta: Yes, definitely, more and more coming around to 7-8 players in the segment who are companies with deeper pockets, all these your peer companies...BHEL, L&T, KEC, they are the major ones in this segment other than Techno.

Renu Baid: Which would also imply probably the newer order inflows are coming at better margins than the existing carrying order backlog that we have today?

PP Gupta: That is a little difficult to say in case of Techno, let me put it because we always targeted affordable and quality business, we were never aggressive to the level of desperation to grow our top lines. I would not say that there is a great improvement in margins as far as Techno is concerned, but definitely we are experiencing more productivity gains by growth in our top line.

Renu Baid: Sir, just wanted a brief understanding like... I understand we would not have any direct impact because of demonetization but typically have you seen work on the sites specially when you have gangs and workers working in the site, availability of adequate number of workers in the site was a bit constraint in the last few days or probably onsite execution there was no change because of demonetization?

PP Gupta: We work in a little different style than most other industry players possibly because these gangs are so much wedded to Techno... we take care of all their needs in terms of housing, food, tiffin allowance, entertainment, so we ensure they are comfortable all the time. So other than the very election or voting, there is no disturbance as far as our operations are concerned.

Renu Baid: So at least no material impact on our execution in the last week, 10-days?

PP Gupta: Absolutely no, the trust is these gangs are with us for last almost 10-15-years, they are ensured employment, they are transferred case-to-case, although they are paid on productivity basis from daily basis. So it is a good healthy family feeling between all of us and we stand with them in all their difficulties.

Moderator: Thank you. The next question is from the line of Rajendra Mishra from IDFC. Please go ahead.

Rajendra Mishra: Sir, just want to check, have you shared any margin guidance for the year?

PP Gupta: We have shared in the very first quarter on that; our guidance is different in Wind and EPC, on a consolidated basis our guidance improves which I said in the morning on CNBC also because of better wind output and margin and margin resulting out of the same, we expect our PAT margin over consolidated top line to be around 14.5-15% this year as against 11-11.5% achieved in the past, there is no change in guidance on the top line but bottom line will improve by 250-300 bps because of that.



- Rajendra Mishra:** Specifically for EPC?
- PP Gupta:** EPC we generally do operating margin of (+15%) and PAT of around (+10%) which we will maintain and it should continue to be 10-11% as PAT and operating margin between 15-16-16.5% like in this quarter it is 15.86% as you can see.
- Rajendra Mishra:** A similar thing, also wanted to check how does the margins work out when you do a project for 765 kV versus let us say you take up a STATCOM project or when you would go in countries like Uganda or maybe Bangladesh, so can you throw some color on how does margins compare across these different set of projects and geography?
- PP Gupta:** Basically, each segment has its own competition and technology challenges. So we appropriately price the technologies, terms of payment, location risk so that we are adequately rewarded at the end of the day while successfully executing a project. So it is a very-very opportunity specific. That is what Techno has been always maintaining that it is not a manufacturing business where you can prefix a price as a product at a country level and in buying a large gold in that band. In the project business you have to be very-very opportunity-specific who is the customer, where is the location, how is the package, the terms., what kind of risk it carry, what kind of technologies I am trading with, high execution I must look for a little better rewards over matured out technologies. So we properly apply our mind before price it out. So I will not be able to say that there is any prefixed norm as a percentage in all these issues.
- Rajendra Mishra:** What is the most vulnerable risk item in your margin structure? I do not know how much commodities have an impact in your margins.
- PP Gupta:** The most important is the timeline. Any project not completed in time always run the risk of cost escalation as well as your overheads gets totally mismanaged. So it is very-very important that you are not only completing a project in time but more important is to close the contract in time so that you get 100% of your entitlements in the project well within time.
- Rajendra Mishra:** When you are saying that some of the projects states will have to do and you expect half of your order flow from states, do you think that the level of support and level of payment and milestone, etc., will all flow through in the same manner in which your experience has been in Power Grid?
- PP Gupta:** Yes, absolutely, firstly, Techno takes as much business we can drive successfully, #1 and #2, we have shown that like in case of Power Grid, the comfort is it is a shopkeeper, they as much participate as you wish to be with the progress. In states, you have to take bit of lead at times in terms of the project planning and forcing progress. When they see the project progressing, they also become enthusiastic, not that they bargain for it, but they become partner for it once they see it. So that makes differences.



Rajendra Mishra: Can you share working capital in days and what level of retention money at the end of the first half?

PP Gupta: Our retention money outstanding as of now is about Rs.180 crores and other than subsidiary about Rs.125 crores as normal book debts. Generally, we do not allow retention to go up beyond 10% of our two years turnovers technically between us, that is our benchmark as a company because two years is a execution cycle time. Rs.180 crores is not due to us today because that terms of payment in retention becomes payable to you only when project is completed. This is a project you have got with execution cycle of two years. So unless the project is commissioned and TOC is issued, retention money does not become payable to you. So we keep putting that money as retention receivables. Once the project is completed and TOC is received, the retention receivables migrates to the general receivable as **(RA bills) 59:02**. So that general receivable has a payback of earlier 90% plus retention receivable out of the completed projects that is Rs.125 crores. Working capital as a receivable you can say is no more than 100-days including retention. If you take only receivable, it is no more than 40-days. So generally we have 60-days of retention and 40-days of receivables.

Moderator: Thank you. The next question is from the line of Abhinav Sharma from TATA Mutual Fund. Please go ahead.

Abhinav Sharma: Sir, we have taken this resolution for 45 MW of sale for the Wind business. Would you clarify like if we finalize the buyer, what is it?

PP Gupta: No, not yet, we are basically either sell to a third party which we are negotiating, failing which we will transfer these assets to our subsidiary so that we will consolidate these assets in one book only, it will move from the parent to the subsidiary.

Abhinav Sharma: So we have not yet finalized the sale of this, that's the board resolution?

PP Gupta: Right, right. I do not know should I or not, if the sale happens, it happens to the third-party from Simran books because in Simran we carry some tax credit. So there will be less of tax outflows.

Abhinav Sharma: But in terms of overall strategy, we are still looking to sell our Wind business or is it that performance has improved we no longer want to sell it?

PP Gupta: No, we will exit this business sir, the timeline maybe a year or two, but at the right time, we are not in a hurry to sell it. As markets are improving, so are the valuations, so are the business choices in very business. So ultimately we like to encash it at a right valuation.

Moderator: Thank you. The next question is from the line of Amber Singhanian from Asian Markets. Please go ahead.



- Amber Singhania:** Sir, just a couple of things: Now, with GST rates are finalized which is higher than the current service tax rate, do you think whenever it will get implemented that will be hit on margins in the execution of EPC business?
- PP Gupta:** Amber, definitely it is negative to EPC business as I said always, #1, but secondly, I do not know how you are so affirmative that it is going to be higher than service tax, only slabs have been specified by the government. It is quite likely that our business may fall in 12%, not 18%. So if it is 12%, we are better off, if it is 18%, definitely we are bit on the negative side. But the major impact on our business is let me highlight that so far we all pay taxes on the purchase side. So GST will force us to pay taxes on our sale side. That is the bigger change to EPC completion.
- Amber Singhania:** We would not be able to pass it on in the current projects?
- PP Gupta:** No, there are provisions in our contract is that impact of GST will be reimbursed on ongoing contracts. So we have kept that provision with all our customers. That is how the industry is today.
- Amber Singhania:** According to your understanding, by when do we see this GST getting implemented from whatever you are interacting in the industry sources as such?
- PP Gupta:** I think this nation is already late in this regard, we were expecting this to happen this year only, but now people say April, now demonetization has become a bigger issue than GST, so I hope this demonetization is not derailing GST.
- Amber Singhania:** Secondly, just wanted to understand, on the TBCB projects, whoever has got I believe most of the projects have got tendered out for execution, have we got any such projects from PGCIL because I understand private sectors are more competitive and more less attractive so we are not going for that, but TBCB project which PGCIL has won, have we bid for any of those and have we got any?
- PP Gupta:** No, we are now bidding for one which is happening in Bengal and tender is due tomorrow or day after. So far whatever Power Grid has won, more TBCB happened on the line side barring Gurgaon package which was Sterlite surprised everybody with the offer of Rs.125 crores against L2 of Rs.225 crores. So that is all I will say. But more tenders are in pipeline in next 6-months.
- Amber Singhania:** How big is that tender which you are bidding in L2?
- PP Gupta:** This is about Rs.500 crores.



- Amber Singhania:** In the kind of scenario which you just mentioned that Sterlite has gone way too below the L2, do we see any scope of these projects getting reviewed by the authorities and coming for retender or how do we see the scenario panning out in this kind of situation?
- PP Gupta:** No, I do not think there is any set ups to review these things in the country today. I think Sterlite has to go through it. There is no capability in our institutions to review it and correct it or set it right.
- Amber Singhania:** A couple of book-keeping side things: What is the cash balance as of now we would be having in the books?
- PP Gupta:** About Rs.225 crores.
- Amber Singhania:** This is after repaying the debt in this quarter, right?
- PP Gupta:** Yes-yes, absolutely.
- Amber Singhania:** Debt has been repaid in fag end of this quarter or how is that sir?
- PP Gupta:** Debts have been repaid constantly in Techno because they were mostly in working capital nature and similar it is locked up that so it gets paid in installments as per the lenders norms.
- Amber Singhania:** Why I am asking this sir because on a sequential basis as well as YoY basis, interest cost has gone up from Rs.9.8 crores to Rs.12.6 crores and from Rs.9.2 crores in Q1 to Rs.12.6 crores now despite debt coming down. So any particular reason behind that... was there any one-off or anything on that?
- PP Gupta:** No, sir, what happened basically was that our call was that rupee is looking weak against dollar but in reality happened little later. So we converted all our dollar loan, either repaid them or converted them into rupee cost. So rupee loan cost is always higher than a dollar loan, sir... either you pay lower interest cost and more on the depreciation of the rupee, because when you see on FOREX provision in this balance sheet, you will see a gain of Rs.36 lakhs. When you will migrate to third quarter, you will find another gain of Rs. 1 crore. So this is only a trade-off between rupee loan versus dollar loan. We converted into rupee loan little earlier and the downfall of rupee started only after Trump win. So in last 15-days you can see rupee is down by Rs.2. So otherwise I would have taken a hit of Rs.2 crores on rupee which got reflected in the interest up to September by additional cost of a crore and crore-and-a-half which will make up in this quarter.
- Amber Singhania:** Secondly, out of this gross debt of Rs.300 crores, how much is there in Simran which is a phase wise payment?



- PP Gupta:** It is largely in Simran, Rs.275 crores and Rs.25 crores only in Techno.
- Amber Singhania:** Now there is very limited scope for us to prepay the loan because Simran loan anyways we will be paying as per the schedule?
- PP Gupta:** Absolutely right.
- Amber Singhania:** How much money is due to the Patran subsidiary sir now after all the advances?
- PP Gupta:** Rs.120 crores.
- Amber Singhania:** That will be come by December onwards?
- PP Gupta:** Yes.
- Amber Singhania:** There is no equity commitment pending from our side in any of these projects side?
- PP Gupta:** Absolutely.
- Amber Singhania:** How big is this project which we are bidding along with Kalpataru on BOOT side?
- PP Gupta:** This is Rs.1100 crores project and our portion will be 26%.
- Amber Singhania:** Similar will be the execution size also?
- PP Gupta:** Absolutely.
- Amber Singhania:** By when we expect this thing to get concluded sir?
- PP Gupta:** Maybe January end because now government has introduced a concept of 'Reverse Option' also sir. So that may take another two months. So bids are due in November. They take up reverse bidding in first week of January. It should be concluded by January end.
- Amber Singhania:** Out of this total order book of Rs.2350 crores plus Rs.150 crores of L1, just if you can give us breakup of PGCIL, states and others?
- PP Gupta:** PGCIL is almost about Rs.1900 crores and NTPC is another Rs.200 crores and states is bottomed out now with no more than Rs.400 crores.
- Amber Singhania:** There are no private orders as of now in your kitties?
- PP Gupta:** Zero.



*Techno Electric & Engineering Compa
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Amber Singhania:

On behalf of Asian Market Securities, I thank everyone for joining this call and special thanks to the management for taking out time and sharing their views about the company's performance and the industry outlook. That is all from my side. Sir, would you like to add any closing comments?

PP Gupta:

I like to very-very thank you all for joining our conference call. You are our partners in progress and we feel so satisfied and happy that you are happy with our performance. In case you still have any queries related to our performance, please drop a mail to us. Secondly, we are not based in Mumbai, Chennai or Delhi, which are preferred destinations for you, so if you happen to be in Kolkata, we will be very-very happy and to express our gratitude of your investments in our establishment, we like to host you in our office. Please visit us, see us how we work and how we take care of our deals in the company. With that, I would like to close the concall. I once again thank you very-very much to everybody for joining this conference. Thank you so much and welcome.

Moderator:

Thank you very much. On behalf of Asian Market Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.