



“Techno Electric & Engineering Company Limited
4Q FY 2015 Earnings Conference Call”

May 22, 2015



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Moderator: Ladies and gentlemen good day and welcome to the Techno Electric and Engineering Company Limited 4Q FY 2015 Earnings Conference Call, hosted by Asian Market Securities Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the 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 would now like to hand the conference over to Mr. Amber Singhania from Asian Market Securities. Thank you and over to you Sir!

Amber Singhania: Thank you. Good afternoon everyone. On behalf of Asian market, I welcome you all to the 4Q FY 2015 earnings conference call for Techno Electric and Engineering Company Limited. We have with us today Mr. PP Gupta – Chairman and Managing Director, Mr. Ankit Saraiya – Director and along with their management team representing the company. I now request Mr. PP Gupta to take us through the quarterly results and his outlook about the company and the sector as a whole. And then we shall begin the Q&A session. Over to you Sir!

PP Gupta: Thank you Amber. Thank you all the participants in this call. First of all I wish you a very good evening and welcome everyone. Thank you for joining us today to discuss our financial results for the quarter ended March 31, 2015 as well as the annual results for the financial year 2014-2015. 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 risks that the various sector faces or the company faces.

We have started the financial year on a very strong footing in our EPC business and had a good year in the same segment gone by. We have received new orders worth more than Rs.800 Crores during the last five months significantly we have secured the major orders out of the very green corridor now being constructed by POWERGRID as a first mover played through in this business by doing substation packages at Chittorgarh, Tirunelveli and Ajmer. The very value of these packages is more than 370 Crores. We are positive about converting a setcom solution installation at 400 kV at Solapur, Satna and Aurangabad at the package value for our scope of job will be about Rs.300 Crores. The package involves supply of first time in the world of a capacity of 250 MVA hours’ setcom solutions. It will be first time in India and first time in the world of this capacity.

Our order book by end of this month will stand at all time high of around Rs.2200 Crores. We have participated with various a new challenging tenders and are hopeful of good conversion into business. With a strong order book we are hopeful of achieving a growth of



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at least 30% in our EPC segment for the coming years with the matching growth in the bottomline. In wind segment, the related challenges are ongoing and therefore we are decided to focus more on our core competency that is our EPC business in transmission and distribution.

We have already sold 44.45 MW of wind power of sales in Tamil Nadu at an effective valuation of Rs.215 Crores during the very current quarter. That is April and June. We have been exit wind sales at the same price at which we entered further the transaction is completely and all proceeds have been received by the company. Since these assets were debt-free therefore the cash realization is almost equal to the very valuation of the deal.

Going forward we would like to concentrate on our EPC business as well as the PPP business in the varied transmission and distribution space. If the very reform has proposed in the Electricity Act in the distribution sector happens, which is likely to be revolutionary that is the disconnect of the carrier and content there will be a lot more opportunities for our company in this segment too.

Our project in Haryana is performing satisfactorily in partnership with Kalpataru as you all know and our project in Punjab in Patran is progressing as per very schedule and will be commissioned by May 2016.

We are looking to further diverse our wind assets to generate cash to improve return on capital, increase our reward for the very stakeholders and improve our financial strength to bid for PPP in transmission sector, which the government has already announced for about 1,00,000 Crores of the bidding to happen over the current year.

Let me quickly highlight our performance in EPC segment. The EPC revenue was up by 17% that is Rs.668 Crores against 570 Crores of the previous year. EBITDA for the EPC business for this year has improved by 44% over the previous years that is 2013-2014. It is at 117 Crores against 81 Crores during 2013-2014. PAT for EPC business has improved by 47% at Rs.90 Crores against Rs.70 Crores in 2013-2014. Consolidated EPS has improved by 20% last to Rs.18.4 as against Rs.15.3 in 2013-2014.

I hope I have covered the major briefing. With this I invite participation from the respected participants. You are welcome now.

Moderator:

Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Renu Baid from B&K Securities. Please go ahead.



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Renu Baid: Good evening Sir. Congratulations for a very strong performance. Sir, my first question is you did highlight a strong order book and apparently a healthy pipeline. I would request if you could elaborate a little more on how is the tendering pipeline looking for FY 2016 as in the next six to twelve months especially from the key customers of POWERGRID and select states, and which segment do you see the orders getting in with them further from green corridor augmentation setcom so a little more on the pipeline which can be expected in the coming financial year?

PP Gupta: The pipeline is full of opportunities going forward and there will be an opportunities both in the green corridor as well as in northeast. Let me share with you POWERGRID has been mandated by the Central Government to build sub-transmission network in the northeast and the pipeline, alone for substation packaging is almost about 5000 Crores.

Renu Baid: Only for POWERGRID?

PP Gupta: By POWERGRID. They have been mandated now to build such sub-transmission networks in the states of Assam, Tripura, Meghalaya, Arunachal, Sikkim and Nagaland, and because they have now HVDC link in place but due to the weakness in the sub-transmission link the HVDC link is poorly utilized at the moment. That is one focus area of POWERGRID. In green corridor at presently phase I is in implementation, which it is funded by KFW and it is largely happening in the State of Rajasthan, Gujarat and Tamil Nadu. This too will cover Maharashtra, Arunachal and Karnataka, That is how it is been programmed. The total capex outline on this scheme is no less than 10,000 Crores and it is funded by KFW loan of Germany entirely. Apart from this you see there will be lot more initiatives to improve the very safety, security and quality of the grid we possess presently and also upgrade it to the relevant to handle renewable power, let me put it. So that is the first package I discussed with you that we have a breakthrough in supply, dynamic load management packages at Solapur, Kolhapur and Satna. That is the very technologic. All power electronics and very strong package such kind of installations are going to be multiple in the country going forward and we are again the first mover in this segment of the business. In addition to this of course, business will continue to happen strongly in the states like UP as we see Rajasthan, in Andhra Pradesh, Telangana they are going to be very, very strong markets.

Renu Baid: So Sir overall other it seems that next year the financial year 2016 should be again how much stronger year in terms of business for the T&D sector overall?

PP Gupta: I believe that it should be a growth of no less than 40%-50% in this segment because we all know by now that India is more or less sufficient of overcapacitated on the generation side, but the deficits in the pockets which we observe is mainly because of the bottlenecks in the



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transmission networks or in the very inefficient occasion of the distribution side. I am sure this is going to be will be focus area for next three to five years to come in the country.

Renu Baid: Sir, but will this also imply as the volume of business improves? Can you explain the price pressure start easing out and probably margins the pricing on new orders to be better than what we have seen in the last one and a half to two years?

PP Gupta: Power is the regulated sector, Renu I will say. Margin will improve or will be able to pass through our increasing cost in the sector definitely. Additionally you know if you start a feeling like profitable you can anticipate we may have a regulatory climb downs on these processes but nevertheless it would not be as bad as we have seen over last two three years.

Renu Baid: Correct, and the fact that we are also targeting almost 30% plus growth in the EPC segment would it be right to say with operating leverage also flowing in next year we could be targeting higher double digit margins closer to only 20%. Would the 15% to 20% range of margins much more reasonable to look at now?

PP Gupta: Absolutely, we are on the mark.

Renu Baid: Sir, just one more small question, a bit more understanding required on the setcom portion, as in you mentioned the order with your scope of work approximately 300 Crores and understand setcom again is the very technically sophisticated technology and a few technically qualified players, so what is our medium-to-long term strategy with respect to technology tie-up with other players to participate in forthcoming and future tenders of POWERGRID?

PP Gupta: You see Techno have always maintained its presence or its passion to be always part of the very challenging and specialized solution provided in the country in transmission or in distribution side to enhance the performances of the networks and now it is the time for us to prove this. We have been doing it selectively in the past but we are confident we will have more such opportunities going forward. So definitely we are looking on high-end business more as a percentage of our order book as well as the business execution.

Renu Baid: But any comments on how are we tying up for the STATCOM technology per se with the peers. Would it be case-to-case tie-up or it would be, I mean what is the strategy in terms of a technical tie up with respect to the solution there?

PP Gupta: Presently since it is happening first time, it is a case-to-case tie-up. It has a mandatory clause of 'Made in India' also like the packaging involves STATCOMs, one has to be made



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in India, let us see how the partnerships dwell and fructify going forward accordingly we will be able to make a choice and call on the partners.

Renu Baid: But there would be no hesitation with respect to continuing with some of the Chinese and Korean players in terms of with the tie up?

PP Gupta: Absolutely, not Madam. We are very strong technologically, not only in terms of the solution provider, but even the very scale they operate at India they are almost seven eight times of Indian scale.

Renu Baid: Also would, you would be looking at any kind of capex aligned with these kinds of solutions or it would be undertaken by your technology partner?

PP Gupta: It will be largely taken by the technology partners. We like to be asset light as our strategy is by and large but we will definitely not like to do this strategic hold on the relationships also.

Renu Baid: Just a little on this side, I mean you did mentioned that you only sold almost 44.45 MW of wind power and I think Gupta Sir also mentioned that there are plans for further divest the non-core business to reduce the capital employed so when we say further divest, are there any other assets apart from these wind projects which we want to divest to build up the cash chest for PPP projects, little bit clarification on that side?

PP Gupta: No, Madam we have 207 MW of wind power with us after divesting 44 we are left with another 163 MW that capacity is worth another 850 to 900 Crores, so I was referring to that part of divesting.

Renu Baid: So Sir, nothing beyond the wind power assets that we have?

PP Gupta: Absolutely.

Renu Baid: That is it from my side Sir. All the best and look forward. Thanks.

Moderator: Thank you. Our next question is from the line of Abhinav Sharma from HDFC Securities. Please go ahead.

Abhinav Sharma: Good afternoon Sir. Sir, I just had two questions. One is on depreciation this quarter it seems to be down so what is the reason for that Sir?



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- PP Gupta:** The change in the Companies Act necessitated a marginal correction in the depreciation rate for the current year, so that is the only reason.
- Abhinav Sharma:** That change we have taken into effect from Q4 onwards?
- PP Gupta:** Absolutely.
- Abhinav Sharma:** So Sir, secondly what I wanted to ask is, Sir our order book has grown significantly over the last quarter so can you tell us in terms of number of project sites how many we are working right now and how many we would have been working for one or one and half years back?
- PP Gupta:** You see on an average Techno has been executing projects at no less than 30 locations countrywide. The average order value was almost 40 Crores to 50 Crores in the past which will now will improve to around 75 to 100 Crores on an average but we will make sure that we maintain the number of location and have more output or value added in those pockets. The complexity and the size of the projects will also make more value of the project happen, in a given pocket so that there is no much stress or the band on our project management capabilities than which is readily available in the company.
- Abhinav Sharma:** Yes, sir, that is what I wanted to ask you. Now that the project size is going up would that mean that will need to higher more employees or we need to have more overheads, we will be able to manage reasonably well or we will be having similar kind of margins going forward?
- PP Gupta:** Some addition of the management manpower is always a way of life of the company and we start right from the trainee level. We induct 40-50 engineers a year. We train them on the job and we have been doing it for last ten years more or less. I can only share with you that these are only 100% team in 2004 – 2005, which is now almost 500 people. So this team will definitely grow going forward. We will definitely build more stronger functional capability in compliances and accountability but these are all on-going processes with the growth in business because earnings stagnated for last two three years we believe we need to catch up in next three four years, so that these are buying on era.
- Abhinav Sharma:** Sir on the wind side our losses have reduced compared to Q4 of last year so what would you attribute this to? Would it be higher PLF or any other reason for that?



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PP Gupta: Firstly, I do not think the losses were reduced in Q4 over the last year I will say it may be only because the depreciation provision if at all you see any change but financially Q4 is worse than the last year, if you do not account for depreciation gain in the last quarter.

Abhinav Sharma: We would have operated at what kind of PLF Sir in this quarter?

PP Gupta: You see generally this quarter is a very dull quarter that way I will say. The measure in performance in wind on quarter-on-quarter is always a misnomer. It is generally a business of four to five months which happens largely from June to October in India and rest of the quarter is only very marginally by and large I will say but if you look on a year-to-year basis also this year is poorer over the last year also by almost about another 5% whereas 2012 - 2013 was the excellent performance that was a peak performance of the wind assets, we produced 470 million units in that year, last year it had come down to almost about 358 million unit which this may be almost around no more than 320 million plus minus.

Abhinav Sharma: Sir, one more question, I had on wind side. Sir, we keep hearing a lot about increasing wind capacity in India, but if you look at the actual performance of generators like us it has not been very good so what is your outlook on that if you can give us some perspective whether we would be able to achieve the kind of target which have been talked about?

PP Gupta: This quarter as a wind performance it is not good as we all know. It is over a yearly basis. It is poorer by almost about 10% to 15% lower than previous year also, but coming to your policy initiatives and frameworks you are talking, you see probably we were the first entrants when 510 MW project was escalated to 200 MW by us, but the policy initiatives were not in place, Mr. Sharma. The attempt was to implement renewable power under the Electricity Act 2003 and it largely remained an intrastate affair and we attempted to utilize the same grid, which we used for conventional power as well as the grid coal which is in place to handle the grids security for evacuation of power. I am sure if government creates some national framework to handle renewable power because obviously the cost of renewable power cannot be afforded by state discoms, they are neither financially healthy nor they have the capability to handle it. So it has to be a national business. It must be done by a proper regulatory framework, government is attempting to carry out the reforms but we still all need to be part of it to know, what exactly government wants to do, how it wants to do, if we still are not in the company's domain, so that is where we stand today. In the country whether it is wind power or solar power it is all very challenging from the investor perspective wise, I would say.

Abhinav Sharma: Thank you very much Sir.



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Moderator: Thank you. Next question is from the lien of Tanuj Mukhija from Ambit Capital. Please go ahead.

Tanuj Mukhija: Good evening Gupta Ji and Ankit. Thank you for giving me the chance to ask questions. My first question is the government plans to I think about more than around 30000 Crores projects on tariff based competitive bidding. Will Techno Electric also participate in these tenders?

PP Gupta: Yes, very much. We are participating in consortium with Kalpataru Power in these tenders wherever we find ourselves qualified.

Tanuj Mukhija: Okay, and Sir, if you can disclose what would be your hurdle rating for bidding such projects and the average size of bids that you would bid for?

PP Gupta: We are bidding power projects right up to 65000 to 7000 Crores, but the criteria of a qualification generally involved in the value of a single project dwells by us in terms of size and value. So if we are able to meet those criteria we are participating in packages worth 2000 Crores also and in a package 7000 Crores also so criteria is purely linked to QRs and the eligibility as available within Techno and Kalpataru.

Tanuj Mukhija: Sir, a follow up question in that, if the share of private players increases in the tariff based projects or construction transmission lines, do you believe players like L&T would give the projects in-house to their companies and that would affect Techno Electric's market share in constructing substations?

PP Gupta: I do not think it should happen so because L&T I should not be saying it is a very good company, very performing company but definitely when it comes to transmission segment or BOT power segment, we are not next to them if not ahead of them, I would like to say. So definitely Techno has its own place in the market players No.1 and No.2 for private to acquire even 20%-30% share of the market it will take no less than 10 years going forward. So still 70%-80% of the segment will be build by POWERGRID or the state utilities in this market place. So definitely we do not see that issue immediately.

Tanuj Mukhija: Sir, you mentioned that for STATCOM 'Make in India' was made mandatory. We have heard from other power T&D companies that 'Make in India' clause has not yet been inserted in the bidding qualification requirements so can you provide some colour as to which contracts or your thoughts on whether 'Make in India' would be mandatory?



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- PP Gupta:** 'Made in India' is made mandatory in the segments where India lacks capability like 765 KV GIS solutions or even specialized solutions like STATCOM. It is only not part of general AIS or GIS packages up to 400 KV in the country so otherwise 'Make in India' is a mandatory qualification requirement now in all specialized packages bring them first time or in 765 KV segment.
- Tanuj Mukhija:** So all the new upcoming tenders would have the 'Make in India' clause. Would that be a fair assumption?
- PP Gupta:** Yes, they have this clause for last three to four months already.
- Tanuj Mukhija:** Sir, just one bookkeeping question, can you give me your number of employees as on FY 2015?
- PP Gupta:** We have 500 people on our payroll today and indirectly we employ another 1500 people in the company.
- Tanuj Mukhija:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.
- Sandeep Tulsian:** Good evening Sir. Sir, I have a couple of questions. Number one you mentioned that you have a play on the GIS substation side also; however, the scope of work for Techno would be slightly lower as compared to an AIS substation. So, how would this value differ or would it decline meaningfully in absolute terms?
- PP Gupta:** No, I have not understood your question Sir. Can you repeat your question?
- Sandeep Tulsian:** In air insulated substation, what would be Techno Electric's scope of work as you mean Rs.100 for a cost of a contract.
- PP Gupta:** Can you speak a little loud Sir? Your voice is a little faint if you can speak a little loudly?
- Sandeep Tulsian:** Sir, I just want to understand the scope of work difference for Techno Electric between an air insulated and a gas-insulated substation? How would these values differ?
- PP Gupta:** You see first of all let us understand any AIS substation I do wholly end-to-end so the very value of the order depends on its configuration, layout, capacity, it ought to transform, it is



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all a combination of that. It is a transforming substation. It is only a switching substation. So, it depends on the parameters sometime we come across only 10 to 12 base solution, sometime we have seen the highest solution of 36 base also. So the question is how that scheme is configured accordingly the value of the order that is determined within AIS also you can have a 400 kV station within 400 kV in AIS ranging from 180 Crores to as high as 250 Crores for installation between you and me. Similarly when we come to GIS it is largely the bus work, bay work which gets into (**inaudible**). It is a gas insulated against air and rest of the scope like transforming capacity and other parameters are almost the same. Like the present package we are doing in Tirunelveli the total package value is almost 225 Crores and in which my scope is almost 60% and GIS is only 40% as a very equipment, but we have also seen on the like-to-like basis where GIS scope is 70% and enabling scope is more than 30%. So it is a very packaged specific how it is configured.

Sandeep Tulsian: So no thumb rule to go over there, it would really vary?

PP Gupta: No thumb rules applied, absolute because it is all linked to very transforming capacity where how much transforming capacity is there how much reactive load is to be handled there, how close it is to be generating station and what is the lines entering the substation and going out. So it all depends on that.

Sandeep Tulsian: Sir, my second question is I want to know the management thought process on two areas. Number one is with assuming all of the different assets that we are intending to sell off, if the sale goes through which are the potential business areas other than BOOT projects. Are we planning to deploy any investments in any of the areas, which are non-BOOT and number two we have taken one international project as of now? What is our thought process on expanding our international projects portfolio going ahead in future? Those are my two questions.

PP Gupta: First we have no known core business programme in the company, so we will be fully focused on power, number one, and BOOT opportunities within our sector, which we know the best are going to be very heavy like transmission or distribution, if this carrier and content disconnection as proposed in the Electricity Act amendment happens going forward the carrier of distribution schemes will also be our business in the PPP models going forward. So there is so much of business opportunity within our core competency, which brings back my own EPC business. That is going to be our focus. That is what we learned out in the induction business at the end of the day. We are merely investing money and expecting reward never happens unless you know the very business you do yourself. So that is where we will like to focus going forward firstly. Number two on overseas business we are very, very serious. We have participated in tenders no less than 1000 Crores in the last



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three months. There is scope in Indonesia. There is scope in Africa, Bangladesh, Afghanistan, Nepal. We are very serious to have no less than 20% to 30% order book from overseas markets in the next three to four years going forward.

Sandeep Tulsian: I thought maybe you are doing the first project so the move towards taking up incremental projects would be more gradual and we have seen historically many companies burning their hands in the markets. So, wanted to check your thoughts.

PP Gupta: Absolutely not. Absolutely not, our experience is very, very satisfactory and our team is very passionate and dedicated with us. So, I can share with you that even client is very happy with the quality of work done by us as is the case in our very domestic packages. So I think we are not a non-serious player in this segment.

Sandeep Tulsian: That is it from my side. Thank you so much for taking my questions.

Moderator: Thank you. We have the next question from the line of Deepak Nanrnolia from Antique Stock Broking. Please go ahead.

Deepak Nanrnolia: Good evening Sir. Thank you for the opportunity. Sir, you mentioned about opportunity from PGCIL in the northeast region and green energy corridor. Apart from that Sir, I wanted to know do you see any significant traction in your core orders from state utilities because some of the players are mentioning that the enquiries have tripled during this quarter, so do you see any such traction in investment from the SEBs?

PP Gupta: Absolutely. I shared this fact with you in my previous question to other participants. You see Techno has a very policy or cautious approach. We are very selective about the business we do with state utilities unless it is fully multilaterally or bilaterally funded by REC PFC, we do not want to be part of those schemes because we strongly believe that cash flow is essential input in a project apart from the project tendered by the utilities to see time out. Unless we see that in place, it is not an opportunity for us, but I did share with all of you that states are going to be equally strong in market place in strengthening their sub transmission networks and also upgrading their transmission networks. The only thing, which is lacking in the country today despite over generation than requirement as the Honorable Minister has confirmed that power can be easily made available 24/7 in the country to all the citizens if we are able to transmit it efficiently and distribute it end-to-end. That is where we are in the country today. So I am sure if government focuses little on the generation for three to four years and puts all efficiencies on transmission and distribution trust me the dream of providing 24/7 power to all the citizens of the country will be achieved.



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Deepak Nanrnolia: Sir, apart from futuristic statement, I mean, currently the traction is already there in the market you see that traction happening or you are expecting that will happen?

PP Gupta: I only said traction is happening, no doubt, but it is only a scratch on the surface. You will see lot more happening. It has to accelerate. The tendencies only adjust a beginning.

Deepak Nanrnolia: Sir, your 2200 Crores order book, can you break up customer wise like from PGCIL and from BOOT projects, I mean, can you break it?

PP Gupta: I do not have the order book chart.

Deepak Nanrnolia: A rough idea would also be fine.

PP Gupta: Say about 30% is from POWERGRID, 10% is from NTPC, and another 10% is of the industry and rest 50% is from the state utilities.

Deepak Nanrnolia: 50% is from the state utilities?

PP Gupta: Absolutely yes.

Deepak Nanrnolia: But in those 50% projects, you completely ensure the payment?

PP Gupta: Absolutely unless like ADB or Jaica or PHC or RDC we are not part of those schemes.

Deepak Nanrnolia: Thank you very much.

Moderator: Thank you. The next question is from the line of Chintan Seth from SKS Capital and Research. Please go ahead.

Chintan Seth: Good evening Sir. Thanks for taking my call. Just wanted to check on last year your other income was negative 22 Crores. I just want to recollect why that other income is negative?

PP Gupta: We already explained during the last year investor meet that we had taken dividend from our subsidiary which was appearing as other income in the parent company, but while consolidating the accounts over quarter-after-quarter it was not neutralized which was done in the last quarter, year end quarter.

Chintan Seth: So, last year we received around 16 Crores dividend from the subsidiary versus 13 Crores this year?



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- PP Gupta:** Right.
- Chintan Seth:** Sir, can I get an idea of what kind of market share we have in terms of PGCIL. You already mentioned that you got a breakthrough in the green corridor and northeast also you are very optimistic about the order booking going forward so how on a ballpark number what kind of market share we can have or what kind of peak order you can intake basically to execute smoothly with the given assets, we have currently?
- PP Gupta:** You see earlier our market share in POWERGRID was no more than 4% to 5%, which has improved to now 10% in the present scenario, I will say that and if you take all India basis our market share is no more than 5% per se I will say, but if you look on the very quality of business, very complex specialization of the business, you will find us on the top-end.
- Chintan Seth:** One more thing, your 2200 Crores order book any timelines like what is the average execution period, two years or something like that?
- PP Gupta:** Two years, generally all these projects are ranging in schedule from 20 months to 24 months so that remains the same for us also. That is why we can safely say that this year we would like to see our topline to 2000 Crores plus.
- Chintan Seth:** 2000 Crores plus?
- PP Gupta:** Yes 50% of that should be executed during the current year.
- Chintan Seth:** Sir, one more thing on depreciation. The current rate or the quarterly rate of 8 to 9 Crores will continue for the full year?
- PP Gupta:** Pardon.
- Chintan Seth:** Depreciation rate the charge on consolidated basis 8.5 Crores of depreciation this quarter the run rate will continue to be the same or there will be some?
- PP Gupta:** I have not understood your question.
- Chintan Seth:** The depreciation amortization expense for the quarter is 8.5 Crores on consolidated basis for the quarter whether this run rate will continue at 8.5 Crores or it will increase?
- PP Gupta:** If we continue, it definitely it will come down having sold 44 MW of assets in the current year and if we divest more of it the depreciation accordingly will go down because of our



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EPC business is very, very asset light and there is hardly any depreciation provision required for that. Whatever depreciation you are seeing in our books is purely on account of wind assets.

Chintan Seth: That can be looked at on your capital employed side also, your wind energy, energy power capital employed is mostly 75% whereas EPC contract is only 200-odd Crores out of 900 capital utilized?

PP Gupta: Absolutely.

Chintan Seth: So once the monetization of this asset will take place, the entire shift will be there?

PP Gupta: Depreciation will be off our books also.

Chintan Seth: Most of the cash will be utilized and reinvested in EPC business in the opportunity side?

PP Gupta: Absolutely, you are right.

Chintan Seth: Thank you. Best of luck.

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

Amber Singhania: Sir, just wanted to know this 2200 Crores of order book does this include the L1 orders also or that is separate?

PP Gupta: That is separate. This is a business, which is a business in hand with us.

Amber Singhania: How much would be the L1?

PP Gupta: L1 is this 300 Crores, which we are expecting immediately.

Amber Singhania: So that is as on the current date as on May?

PP Gupta: Right, absolutely.

Amber Singhania: Sir, secondly, though we have sold 44 MW and we have plans to sell the remaining part but whatever is remaining right now how is the business side panning out because we are just in the starting of the wind season. How the issues of evacuation and other issues, which we



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have faced in 2014 and 2015 has been addressed partly or fully. What is the current scenario on that part?

PP Gupta: We are all keeping our fingers crossed, Amber. We do not know how the utilities will really behave but definitely we are not expecting any miracles during the current year but definitely there is no space to go as you know worse than this also.

Amber Singhanian: Sir, in terms of EPC margin, we did around 16% EBITDA in this quarter as such. So, would it be fair to assume this kind of run rate for the full year basis or should we take a 14%, which we have done on the full year basis as such for EPC?

PP Gupta: 14% will be very appropriate assumption to go forward because in a given quarter, it is so difficult to measure a performance of a contract industries, because the very mix of the billing at times changes. In some quarters you happen to do a project, which is a little more juicy compared to the others but the best is when you do the average of most of the projects happening across the company, not one or two projects, which may have executed during that very quarters.

Amber Singhanian: Sir, on the REC front how many REC we have sold in this quarter and the full year and what kind of revenue we have booked in the quarter and the full year from REC sale?

PP Gupta: We sold about 80000 RECs in this quarter and the revenue realized was about 12 Crores on this account.

Amber Singhanian: How much would be the inventory with us on the REC?

PP Gupta: Inventory with us is now 2.5 lakhs RECs, but let me tell you the recent judgment on last Friday if you have seen, which is very, very encouraging. Let us hope this year is better of this one because 40 companies who were obligated and did not honor the REC schemes now with this Supreme Court order hopefully they would like to buy out RECs of no less than 500 Crores and their obligation is told in the order of the Supreme Court.

Amber Singhanian: Sir, that order is already been implemented in terms of effective from the current date or how that will be panning out? And is it for a pan India basis or only for the Rajasthan state where the case has been lodged to the Supreme Court?

PP Gupta: This is largely of Rajasthan as far as the order is concerned, but definitely it is applicable pan India. Even Reliance Industry is struggling in the High Court of Gujarat on the issue. You see the captive power producers will be a large obligatory that it is to meet these



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obligations going forward to my mind, but this order is now pan India and definitely most of the High Courts will have to follow the same order of the Supreme Court. So we do hope that coming days will be better for RECs.

Amber Singhania: Sir, one more thing on the overall BOOT assets like earlier we had a criteria that we will be investing roughly on the total 500 Crores including the debt towards the BOOT assets side on an annual basis. Now with the cash coming in by the way of sale of wind assets are we increasing that threshold or are we keeping it the same at 500 Crores including the debt equity?

PP Gupta: You see firstly these assets we bided in JV with Kalpataru as you know either we made jointly float a holding company going forward and we may both be a participant in that and we may eve have an external investor in that entity we do now know, but definitely project sizes are large now as bided out. Each project is ranging around plus minus 2000 Crores mostly but we have bided in a project, which is almost 7000 Crores also. So, you know we are keeping all our options open and preparing ourselves to be a strong participant in this business.

Amber Singhania: Because I was coming to on a different way as such like if suppose we sell entire wind asset, we would be left with approximately 1000 Crores of cash with us after repaying the debt for sure and in that case if we do not have a large commitment towards the BOOT side so would there be any chance of considering a large one time dividend or what is the thought process on that part or are we keeping the cash completely for the BOOT asset only.

PP Gupta: I can only say that we will definitely be looking for a growing dividend outgo year-after-year as you can see this year we have improved from under 50 to 200%, so I can assure you it will definitely be much more in the coming years to come irrespective how much we use it or not regarding special dividends we will seek the opinions of the stakeholders in our company when we meet in Mumbai on one-to-one basis with them.

Amber Singhania: Thanks a lot Sir. That is all from my side. All the best for the future.

Moderator: Thank you. Next question is from the line of Bharat Subramaniam from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Sir, I missed it. Did you mention that next year revenue target is 2000 Crores?



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PP Gupta: No, it is 1000 Crores I said. Order book is 2200 Crores with us presently and our topline 50% execution, 30% growth we should see over the year.

Madan Gopal: Sir, given we might be doing our wind sale assets over the next one year or so you might net get in hand somewhere close to 500 to 600 Crores sort of number and there are many BOT projects, which are coming up for bidding is what I believe from what I read from media articles what will be our appetite? How large projects in terms of value you will be able to pick it up?

PP Gupta: We have not laid down any target, but by and large our approach was to do at least one project a year to start with but since this opportunity is growing big we will be definitely revisiting our homework and I will be definitely in a better position to come out with our thought process over next three months.

Madan Gopal: You have any other plans for the cash or how do you plan to use it in case?

PP Gupta: We would definitely like to preserve cash as much as possible for our BOOT opportunities or PPP opportunities in the very distribution projects going forward but simultaneously we will also be rewarding the investors and stakeholders in the company by dividend regarding special dividend I already said when we meet one-to-one in Mumbai then we will take a call on it.

Madan Gopal: The STATCOM project that we are doing who is the supplier of STATCOM in that?

PP Gupta: Our partner is Rongxin Power of China. They operate out of China, Dubai and UK. They are one of the largest supplier.

Madan Gopal: Sir, if you can spell it will be helpful.

PP Gupta: Rongxin.

Madan Gopal: Sir, you see similar such projects, is this a state government project, right, Tamil Nadu you said.

PP Gupta: No. This is POWERGRID project to happen at Solapur, Kolhapur and Satna in the phase I. It is a PGCIL projects.

Madan Gopal: The total value of the project is 300 Crores including STATCOM?



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- PP Gupta:** My portion is 300 Crores. Total order value is 525 Crores.
- Madan Gopal:** Similar such orders you are looking or are they are in pipeline?
- PP Gupta:** Absolutely. This installation is must to handle to improve the security and the quality of the grid in the country because this is a dynamic load management solution. So far we only had static VAR compensation solutions in place in the country. So from static we are now migrating to dynamic load management.
- Madan Gopal:** In the last discussion with one of your peers, Alstom T&D he was saying like only three people have been qualified for bidding and he also got one order for static VAR compensator so now the scope has been increased is it to include more even the Chinese imports?
- PP Gupta:** What Alstom got was static VAR compensation those are static load management solutions. We are doing it over years in the country like this is largely the active power management but dynamic load management solution was the first time and the size of the solution required was so huge that Alstom did not meet the qualification in the country.
- Madan Gopal:** Alstom did not meet the qualification?
- PP Gupta:** Absolutely.
- Madan Gopal:** They are a global player. I am not able to understand?
- PP Gupta:** Global all right Sir, but everybody has some specialization in the segment of the business. They can do smaller capacity projects like presently 150 MVR solution is in tender, where Alstom may qualify. It was 250 MVR.
- Madan Gopal:** Who else qualified Sir?
- PP Gupta:** The qualified was Siemens, Hyosung and this very company of China.
- Madan Gopal:** So, what sort of overall pipeline you expect to happen like from your expected in the sector India might require how many such projects over the next two to three years and what is the plan, any idea, if you can throw some light?
- PP Gupta:** If emphasis on renewal power definitely renewable power happens we cannot manage properly evacuation of renewable power without these solutions in place. So how many I



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will not like to guesstimate but I am sure it is going to be a way of life. If India has to do 250 gigawatt of renewable power, over the next seven years, Mr. Subramaniam I am sure with your background you will be competent to estimate how many of these solutions will be required.

Madan Gopal: What size of power it can handle? I am just trying to estimate like the project that you have got will be handling what megawatt of power roughly or technically to kind of come to a judgment on what size?

PP Gupta: Basically it is not a capacity enhancer. I will only need to beat and discuss if you are from a technical background, but basically the solutions in the grid smoothens out the grid once you have a gushed power in place.

Madan Gopal: I completely understand. We will take it offline. I will call you probably to understand what proportion?

PP Gupta: You are welcome to visit us in Kolkata. We will share our technical side of the process with you.

Madan Gopal: Thank you Sir.

Moderator: Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Sir good evening. Sir, I just have one question. This 44 MW which you sold the total consideration is around 215 Crores and for the remaining you are expecting around 850 to 900 Crores. So in totality around 1100 Crores is what can be expected. Just wanted to understand will there be any tax implication on this 1100 Crores?

PP Gupta: Yes, some tax implication should be there. We really have not quantified because it will entirely depend on the mode of transaction. So, I would not be able to comment if at all we come under some tax net, it will be very nominal because it will be in the form of capital gain only linked to no more than capital gain.

Ankit Babel: Sir, why capital gain? Would not that be a business asset?

PP Gupta: No, you see, particularly when you do...

Ankit Babel: I just wanted to understand if there is any profit involved?



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- PP Gupta:** No there should not be. There will be no profit. It will only be, if at all it fall under tax net it will only be capital gain.
- Ankit Babel:** This falls into your subsidiary. In that subsidiary you will receive the cash, so will you transfer that cash to the parent or you will keep it into the subsidiary for BOT projects?
- PP Gupta:** It will be kept in the very subsidiary on the time being. So there is no question of transferring it to the parent company because that may have some taxation implication.
- Ankit Babel:** Since you have mentioned to a previous participant's question that you might look at a higher dividend payout or a one time special dividend. I was just wondering that if you transfer the money from the subsidiary to the parent then there will be a dividend distribution tax. I know you will get the credit of that but would that be a possibility?
- PP Gupta:** You cannot avoid that if whatever we do that will be we will have to comply the laws of the land. Government is always the first partner in whatever you make money in this country.
- Ankit Babel:** So there will be some tax implications, you are saying, I am excluding the detail?
- PP Gupta:** No, but if I hive off the subsidiary itself then it is a shared transaction. So then you have locked pursued planning or optimization.
- Ankit Babel:** Why I was asking that question was just wanted to understand out of the 1100 Crores whatever odd you received, how much will remain in the company in the form of cash? Can there be 100 Crores cash outflow on account of taxation or not?
- PP Gupta:** Yes, first there is a debt of around 400 Crores, so that has to go out first. So, it remains only 700 Crores, and then you can assume a tax of about 50 Crores if not more. Just no commitment please, it is a basic number because it all depends on mode of transaction, quantum of transaction and all that.
- Ankit Babel:** Sir, in this EPC business you have done a turnover of around 670 Crores in this year as a whole, Sir, just wanted to understand what kind of growth are we expecting just in the EPC. I know you have given a 1000 Crores guidance for the company as a whole, but just EPC what can it be Sir?
- PP Gupta:** No I am not saying 1000 Crores for EPC.
- Ankit Babel:** That gives a growth of 48%.



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- PP Gupta:** Whatever it is. The percentage is your business to calculate.
- Ankit Babel:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Abhinav Sharma from HDFC Securities. Please go ahead.
- Abhinav Sharma:** Sir, I just had one question on capital employed in our EPC business has almost doubled year-on-year while our revenues have grown by around 17%. So what would be the reason for that?
- PP Gupta:** Sir, I explained in my previous Mumbai visits also to investors that lately client whatever contract or projected was there they were paying us at the time of the award of the job, they have largely becoming interest bearing keeping in view the failure of some of the companies of not progressing with the project despite having awarded the project to them. So just as a matter of caution, they have started levying interest on that advances. So we have stopped the recent advances, interest-bearing advance. So earlier what we used to have in our company a customer advance of no less than 90 to 100 Crores today it is no more than 30 Crores with us so we only pickup that advance, which is non-interest bearing, so rest of the working capital is funded by us by our own capital fund.
- Abhinav Sharma:** Sir, on our transmission assets which is under execution when should we expect it to get commissioned and how much capex has been incurred so far?
- PP Gupta:** We have incurred a capex of about 40 Crores project is in active execution now and it is to be commissioned by May 16. The COD date is May 16.
- Abhinav Sharma:** Thank you Sir.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand over the floor back to Mr. Amber Singhanian for his closing comments. Over to you Sir!
- Amber Singhanian:** Thank you Karuna. On behalf of Asian Markets, I thank everyone for joining for this call and a special thanks to Mr. PP Gupta, Mr. Ankit Saraiya and his team for providing us insights about the company's business and financial performance. With that we conclude the call. Sir any closing remarks you would like to add?



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PP Gupta:

I would like to thank all the participant for joining our conference call. In case anyone of you still have any queries related to our performance or on any thing, please drop a mail to us or you are welcome to visit our office. With that I would like to say thanks once again to all of you and for everybody for joining in this conference call.

Moderator:

Thank you very much Sir. Ladies and gentlemen on behalf of Asian Market Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.