



“Techno Electric & Engineering Company Ltd.
Q1 FY12 Earnings Conference Call”

July 18, 2011



MODERATORS **MR. PRADEEP LOHIA – PRESIDENT, FINANCE, TECHNO ELECTRIC & ENGINEERING COMPANY LTD.**
MR. ANKIT GUPTA – TECHNO ELECTRIC & ENGINEERING COMPANY LTD.
MR. MANOJ CHANDAK – TECHNO ELECTRIC & ENGINEERING COMPANY LTD.



Moderator: Ladies and gentlemen, good day and welcome to the Techno Electric & Engineering Company Ltd. Q1FY12 Earnings Conference Call. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal the operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Mr. Pradeep Lohia, President-Finance of Techno Electric & Engineering Company Ltd. Thank you & over to you, Sir.

Pradeep Lohia: Good day ladies and gentlemen and welcome to our first quarter financial results conference call. Along with me, I have Mr. Ankit Gupta and Manoj Chandak to assist me in this conference call.

As you know, Techno Electric has historically been an EPC company in the power sector and we diversified into power generation business in the year 2009. As on date, our EPC has an unexecuted order book of around Rs 1,300 crore. As a policy of the company, we would maintain our order book of 1.5-2 times of our total turnover. As on date, our generating capacity is around 151 MW and this would be expanded by another 50 MW by mid-August 2011. On our Transmission side, the execution of the transmission project which we bagged on a PPP based model is on schedule and we expect to get it commissioned by December '11.

Now, I will take you through the financial performance of the company for Q1. For the quarter ended 30th June we have achieved net sales of Rs 189.71 crore against Rs 159.31 crore recorded in the corresponding quarter in the previous year. There was an increase of 19% in Net Sales in this quarter on y-o-y basis. Operating profit for the quarter was up by 45% at Rs. 53.09 crore with operating margin growing by 506 bps. Net profit for the quarter at Rs. 30.72 crore, was up by 24% with Net Profit margin growing by 108 bps at 15.93%.



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In EPC segment, our sales grew by 12.85% to Rs. 161 crore and operating margin grew by 9 bps to 15.73% at Rs. 25.41 crore. In the Energy segment, we generated a total 83.87 million units against 49.38 million units generated in the corresponding quarter of previous year. Out of 83.87 million units, 19 million units have been generated by new capacity. On the existing capacity, there was an increase of 15.48 million units, representing a growth of 31.35%.

I would now like to hand over to the moderator who will open the floor for questions. Thank you.

Moderator: Thank you. The first question is from the line of **Parin Gala from Gandhi Securities**. Please go ahead.

Parin Gala: Sir, the entire 151 MW which you are generating now is all from wind power?

Pradeep Lohia: Yes, it is all from wind power.

Parin Gala: Okay. So, what are the current realizations per unit from wind?

Pradeep Lohia: Earlier, we had 95 MW generating capacity. Those were under preferential tariff of Rs 3.39 per unit in Tamil Nadu and Rs 3.40 per unit in Karnataka. The expansion in Tamil Nadu is under REC mechanism and the tariff is under APPC with Renewable Energy Certificate of Rs. 1.5-3.9 per unit.

Parin Gala: Sir, if you could give me the break-up of the PPA that we signed for new power generation plus the GBI, CDM and REC all put together?

Pradeep Lohia: We are not sure whether we will be getting CDM or not, although we have appointed a consultant and are working on it. But of course REC is there. We have entered into PPA with TNEB under REC mechanism. The rates of power is under APPC, which is Rs 2.37 per unit along with it you get REC, for which the floor price is Rs 1.5 and maximum price is Rs 3.9 per unit. And along with this, you get GBI of Rs. 50 per unit generated with an upper limit of Rs 62.5 lakh per MW.

Parin Gala: Okay. By FY12 what would be our total capacity generated?



- Pradeep Lohia:** By FY12, our total capacity may be around 300 MW.
- Parin Gala:** And sir, subsequently over the next 2 years?
- Pradeep Lohia:** Subsequently, we would be going on adding 100-150 MW every year till 2017 and we propose to have a capacity of 1,250 MW by 2017.
- Parin Gala:** Have we substantially been successful in land acquisition for our next 2 years of capacity expansion for wind power?
- Pradeep Lohia:** Land acquisition and all these things are taken up by the developer itself. We do not have any role in land acquisition. However, shortlisting of sites is done by us.
- Parin Gala:** And mainly our work is given to Suzlon or we are giving businesses across the board to various other developers?
- Pradeep Lohia:** For the present expansion, we have given to Suzlon. For the next we are working over it, let's see.
- Parin Gala:** And sir, finally what are the fund raising plans for wind power and would Simran will eventually get listed or what are your plans with the subsidiary?
- Pradeep Lohia:** We plan to list Simran by 2015-16, when we have a total operating capacity of more than 500 MW. Regarding fund raising, all our future expansion will be with a debt-equity of 60:40. Techno would be supporting from its internal accruals, we may also look for PEs in days to come.
- Parin Gala:** Okay. Just like how IFC and the various people have put?
- Pradeep Lohia:** Right.
- Moderator:** Thank you. The next question is from the line of **Sourab Kishore from B&K Securities**. Please go ahead.
- Sourab Kishore:** Sir, interest for this quarter has increased, what is the reason for ESOPS?



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- Pradeep Lohia:** Basically, till date we have not availed a single loan in the books of Simran. To support certain expenses, Techno has raised certain debt which would be now repaid in days to come and the interest expenses will go down.
- Sourab Kishore:** For the EPC business which were the sectors which contributed the most?
- Pradeep Lohia:** We are present in all the 3 segments, Generation, Transmission & Distribution. And we do not look on a consolidated basis; we look for margin of at least 15-20%.
- Moderator:** Thank you. The next question is from the line of **Amber Singhania from Quant Capital**. Please go ahead.
- Amber Singhania:** Sir, I have a question regarding our new capacity in power; we have sold 19 million units this quarter under new capacity. Could you give me a breakup of what was the total revenue from 19 million units and how much was from PPA, REC and GBI?
- Pradeep Lohia:** Right now, I do not have so much of detailed information with me. Amber, I will give it you later on?
- Amber Singhania:** That is fine. Secondly, how easily are REC's tradable and what kind of liquidity do we have on exchanges, is it very easy to sell REC's at a rate here on?
- Pradeep Lohia:** REC sales have started only about 4 months back, and we have observed that it is growing day-by-day but it is still premature. So, going ahead in days to come we are optimistic that transactions would be increasing.
- Amber Singhania:** But in case we have any unsold unit of REC, does it have any timeline that it should be sold within this period of time or can it be accrued with the company as such for a long time?
- Pradeep Lohia:** At present, they have a timeline of 1 year from the day you receive the REC.
- Amber Singhania:** Okay. Sir, could you just give me the total revenue generated from this 19 million units if that is available?



- Pradeep Lohia:** You can just multiply it by 2.37.
- Amber Singhania:** So that is the PPA thing?
- Pradeep Lohia:** Yes. In your new machine we have total Rs 4.46 crore from sales, GBI is Rs 95 lakh and around Rs 1.43 crore is REC.
- Amber Singhania:** Okay. On the EPC side, the current order book which we have, could you give us a broad breakup, like how much is from T&D and how much is from generation side, and what kind of margins you see in these two sectors?
- Pradeep Lohia:** We have Rs 1,300 crore almost equally distributed between Generation, Distribution and Transmission. On margin, we don't book orders unless we have a margin of 15-20% on a consolidated basis.
- Amber Singhania:** So I believe that current order book of Rs 1,300 crore is also built on the basis of 15% plus margins?
- Pradeep Lohia:** Yes.
- Moderator:** Thank you. The next question is from the line of **Misal Singh from Religare Capital**. Please go ahead.
- Misal Singh:** The number of units that were generated in this quarter was 83 million units, right? And of that, 19 million units is from the new capacity?
- Pradeep Lohia:** Yes.
- Misal Singh:** Okay. What was the capacity in Simran now?
- Pradeep Lohia:** 106 MW.
- Moderator:** Thank you. The next question is from the line of **Ganesh Ram from Kim Eng Securities**. Please go ahead.
- Ganesh Ram:** What would be the source of funding for your 500 MW of new capacity? You have signed an agreement with Suzlon few months back?



- Pradeep Lohia:** Source of funding will be our internal accruals, some support from PE investors and debt of 60-65%.
- Ganesh Ram:** 65% will be debt? Are we tied up with any banks or others for debt?
- Pradeep Lohia:** No. For the existing 100 MW we have already tied up with IFC, StanC and DBS. They are supporting this project with \$80 million, and for the rest, we would be tying up soon.
- Ganesh Ram:** Okay. So what is the timeline expected to tie up for new debt?
- Pradeep Lohia:** At present, we are evaluating the project location. We are working on Gujarat, Karnataka, Tamil Nadu also, and as soon as we finalize the location, only then we would be approaching for further debt.
- Ganesh Ram:** So what is the timeline in which your 500 MW will come into generation?
- Pradeep Lohia:** Generation by around March 2014.
- Ganesh Ram:** I am also interested in knowing about the Renewable Minister canceling Accelerated Depreciation benefits and the related tax benefits on renewable energy or wind energy, in particular. So I wanted to know your comments on that. He is saying that this would be canceled once the DTC would be in effect which would be from March 2012, I suppose.
- Pradeep Lohia:** Canceling Accelerated Depreciation is a very good move. Because till today this business was nothing but an investing business. It was just a financial jugglery, nothing else. You invest, avail your tax benefits and forget about your energy production. So now, the government has substituted this AD, they have given you another way that either you avail AD or you avail GBI of Rs. 0.50 per unit generated. And if you are availing GBI, it means you have to generate power. And in that case most of the wind mills will be in operation. Only those persons would be coming into this business or setting up wind mills, who want to run this as a business but not as a financial jugglery.
- Ganesh Ram:** Okay. So you are already receiving Rs. 0.50 per unit under GBI?



- Pradeep Lohia:** Yes.
- Ganesh Ram:** And, you mentioned a tariff of Rs. 3.4 per unit in Karnataka. That is inclusive of REC and GBI or is it excluding REC and GBI?
- Pradeep Lohia:** It is under preferential tariff. Under preferential tariff, there was no REC scheme at that time. GBI was there but it was a draft scheme & only 50 MW was eligible in that draft scheme, wherein we got 7.5 MW listed.
- Ganesh Ram:** Okay. And if you have to sell your new power from incremental capacity at a PPA, so what would be the new rates like?
- Pradeep Lohia:** If you are signing new capacity under REC mechanism, it will be the average procurement price of that state or DISCOM together with that you will be getting in REC. Again, if you are not interested in REC then you would be signing the PPA under preferential tariff of that DISCOM.
- Ganesh Ram:** So for example, let us take Karnataka itself, what will be the preferential rate; is it the same Rs 3.4?
- Pradeep Lohia:** Yes, it will be the same Rs 3.4.
- Ganesh Ram:** So if you are taking preferential tariff, you will get Rs. 3.4 plus GBI of Rs. 0.50 per unit?
- Pradeep Lohia:** Yes, you would be getting GBI only if you are not availing accelerated depreciation.
- Moderator:** Thank you. The next question is from the line of **Rahul Gajare from Edelweiss Securities**. Please go ahead.
- Rahul Gajare:** Sir, what was the order book last year in this quarter?
- Pradeep Lohia:** In Q1 2010-11, we ended up with an order backlog of Rs 1,100 crore. In Q4 2010-11, we ended up with an order book of Rs 1,400 crore.
- Rahul Gajare:** Okay, fair enough. How has been the enquiry level on the EPC side?



- Pradeep Lohia:** It is slow.
- Rahul Gajare:** And what is the kind of order inflow that you are expecting during this year?
- Pradeep Lohia:** We would be closing Q2 by adding another Rs 100-150 crore order and we expect to close the year by Rs 1000 crore order.
- Rahul Gajare:** In the next three quarters, you expect another Rs 1,000 crore inflows?
- Pradeep Lohia:** Yes.
- Rahul Gajare:** Okay. On the wind side, since you added capacity, what has been the average PLF that we have had during the 1st quarter?
- Pradeep Lohia:** The average PLF is around 32%.
- Rahul Gajare:** Okay, that is better than what we normally have?
- Pradeep Lohia:** Yes.
- Moderator:** Thank you. The next question is from the line of **Nidhi Agarwal from Sharekhan**. Please go ahead.
- Nidhi Agarwal:** My question is on BoP space. Now we have moved on to become a renewable energy player. But how is the competition looking in that sector and what is the outlook for growth for you in this sector for next 2-3 years?
- Pradeep Lohia:** We are a bottom-line driven company, not a top-line driven company and we expect the growth of 15-20% in EPC business, and that is achievable, it is not a problem.
- Nidhi Agarwal:** Okay. And sir, you would be adding about 150 MW each year under renewable energy for next 5 years. So in that we will be signing PPA or how do you go about it? You will sell in short-term trading?
- Pradeep Lohia:** Everything depends how the regime will behave or what will be the policies in near future, but as of now if I would like to say it will be under REC only.



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- Moderator:** Thank you. The next question is from the line of **Ali Asgar S from Elara Capital**. Please go ahead.
- Ali Azgar S:** Sir, first of all it would be great if you could give me the bifurcation of PLF for Super Wind and Simran, separately, is that possible?
- Pradeep Lohia:** It is more or less the same, at about 32%.
- Ali Azgar S:** Okay & what is the current debt on the books on consolidated basis?
- Pradeep Lohia:** Consolidated debt is about Rs 250 crore as on date. On Standalone basis, Techno Rs 200 crore and Simran Rs 50 crore.
- Abhinav:** Hi Sir, Abhinav here. So basically for this new capacity which has come, 50 MW, pertaining to that there is no debt which you have taken till now?
- Pradeep Lohia:** Yes, at present we have not drawn any debt but it would be drawn on within a couple of days' time.
- Abhinav:** And that would be the entire Rs 360 crore, is it?
- Pradeep Lohia:** The Rs 360 crore of debt will be drawn in phases.
- Abhinav:** Okay. And on this Rs 360 crore of debt that we have tied up, at what interest rate and what moratorium period this has?
- Pradeep Lohia:** In case of StanC and IFC, it has a moratorium of 2 years and door-to-door is 11 years, and DBS has 3 years moratorium and door-to-door is 7 years. The interest is on an average L plus 300 bps.
- Abhinav:** This L plus 300 bps is locked in for the next 2 years?
- Pradeep Lohia:** It is locked up for entire period.
- Abhinav:** I mean you would be capitalizing a part of it or from day one it would be expense out of P&L only?



- Pradeep Lohia:** From day one it would be expensed out. Already, 50% of the capacity has been installed. We have not drawn down a single penny.
- Abhinav:** So by when do you expect the whole draw down would happen, by Q3?
- Pradeep Lohia:** Not by Q3, it may happen by Q2.
- Abhinav:** Okay. And just pertaining to our equity portion, on this new 100 MW, we would have put almost about 80-85% now of Rs 240 crore?
- Pradeep Lohia:** No, 100% has been put up. Along with IFC we have put up 100%.
- Ali Azgar S:** Out of total equity in this project, what percentage was put in Q1 and what percentage in FY11?
- Pradeep Lohia:** Equity put in by Techno was Rs 218 crore, out of which Rs 180 crore was put up in FY11 and the balance we have put up in this quarter.
- Moderator:** Thank you. The next question is from the line of **Amber Singhania from Quant Capital**. Please go ahead.
- Amber Singhania:** We have a negative working capital of around Rs 158 crore on the consolidated balance sheet. Could you just give a brief idea about why the current liabilities are so high at Rs 461 crore this year?
- Pradeep Lohia:** If you see this is only because we have booked liability for Suzlon. We were observing the performance of certain machines, so we did not pay them out.
- Amber Singhania:** Okay. Is there any chance of some default from Suzlon's side or something?
- Pradeep Lohia:** No default is there. It is just to create pressure on them so that they commission the project on time and the machine could perform in a better way.
- Amber Singhania:** Okay. So on EPC what would be the total working capital, if we remove that portion of Suzlon? Would it like earlier what we had, around 48-50 days odd working capital.



- Pradeep Lohia:** It is on the same level, it will be 50-55 days.
- Amber Singhanian:** There is no big jump or big reduction in that if you remove that?
- Pradeep Lohia:** No.
- Moderator:** Thank you. The next question is from the line of **Janakiraman from Franklin Templeton**. Please go ahead.
- Janakiraman:** I have a very elementary question to start with. If I look at many of this power EPC companies, it is very hard to find them generating free cash flow. Many of them have growth but generally, the growth does not result in surplus cash flow. How do you manage to generate surplus cash flow from your EPC business now?
- Pradeep Lohia:** At Techno, we work with certain policies. Like we are a bottom-line driven company, not top-line driven company. We book only those orders, which give us a decent cash flow and cash flow in time. What we believe is that we are building asset for others so that the assets should be self-funded. We should not involve our money to build asset for others and we believe in closing of an order rather than bagging an order. And by closing we mean you have to realize your bank guarantees and retention money. If you are unable to realize your retention money you would not be having a positive cash flow.
- Janakiraman:** Right, so does it mean that you primarily work with companies like NTPC and Power Grid and generally avoid the other entities?
- Pradeep Lohia:** We do not avoid other entities. We work for other entities also. But we look for good projects with good companies. Our work is to commission a good quality project and we look for a good quality company, where they are interested in getting their projects commissioned in time and paying us in time.
- Janakiraman:** Right. From being an EPC contractor with reasonably attractive return on equity and cash flow, you have entered into two businesses which are very



capital-intensive and have long gestation time namely, the wind power business and PPP business. Do you think the free cash flows from your core EPC business will be sufficient to at least partially fund the equity requirements of these new capital-intensive businesses?

Pradeep Lohia: Yes. We would be generating at least Rs 100 crore per year in EPC business and we would be investing the same in building assets for others, along with some key partners.

Janakiraman: Right. The PLF figure that you mentioned for your wind power portfolio was a very impressive number. Now at that PLF and the current realization what kind of return on capital or return on equity will you get for your wind mill investments?

Pradeep Lohia: Calculating PLF on quarterly basis is not prudent in wind business. Wind business is a seasonal business and at present we are in a high wind zone period. On an annual basis, you can expect PLF of around 27-28% and we expect a return on equity of around 16-17% for the company.

Janakiraman: Right. The other thing is many of the other wind mill owners in Tamil Nadu are complaining about receivable issue from the local electricity board, are you also facing such issues?

Pradeep Lohia: Yes, this issue is for everybody.

Janakiraman: In one of the earlier answers you mentioned about availing a foreign currency loan at Libor plus 300. So what is the company policy on hedging such long-term loans?

Pradeep Lohia: On the hedging side, we are evaluating this everyday. On the day we find that it is prudent to hedge; we would be hedging the same.

Janakiraman: Okay. Does that imply that right now the capex loan that you have availed for establishing these wind mill projects is unhedged?

Pradeep Lohia: Yes, we have not availed at the moment. Nothing has been drawn down.



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Janakiraman: Okay. And lastly, in terms of capacity addition, let me see whether I got the number right, your current capacity is 150 MW and another 50 MW will come up in August?

Pradeep Lohia: Yes, that is right.

Janakiraman: And is there any large capacity addition that will happen in the next financial year?

Pradeep Lohia: We would be adding up another 100-150 MW every year. We will have 1,250 MW capacity by 2017.

Janakiraman: Okay. And in the renewable energy, are you going to focus and restrict yourself to wind mills or are you also evaluating other opportunities like solar or other sources?

Pradeep Lohia: No, we are not working on solar at this moment. The majority will be wind mill around 1000 MW, balance may come up by way of biomass or small hydros.

Moderator: Thank you. The next question is from the line of **Padmanabhan Mohta, an independent market analyst**. Please go ahead.

Padmanabhan Mohta: What is the update on your JV with Kalpataru Power and when would the transmission line be in operation?

Pradeep Lohia: The project is under schedule and would be commissioned by December 2011.

Padmanabhan Mohta: And what is the kind of revenues that we can expect out of it in FY13?

Pradeep Lohia: It is an annuity-type business and under the SPV we would be getting annuity of Rs 54 crore every year.

Moderator: Thank you. As we have no further questions I would like to hand the floor back to Mr. Lohia for closing comments. Please go ahead sir.



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Pradeep Lohia:

Thank you very much for all your interest in Techno & attending our Q1 con-call. We are really impressed seeing your interest in our company and would like to see this growing in the days to come. Thank you very much once again.

Moderator:

Thank you. Ladies and gentlemen, on behalf of Techno Electric and Engineering Company Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.