



"Techno Electric & Engineering Company Limited"

Q3FY12 Earnings Call

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MODERATORS:

MR. PRADEEP LOHIA (PRESIDENT-FINANCE, TEECL)

MR. ANKIT GUPTA (MANAGER, STRATEGY & PLANNING, TEECL)

MR. JOY SAXENA (DIRECTOR-FINANCE, SIMRAN WIND PROJECT)



Moderator: Ladies and gentlemen, Good evening and welcome to the Techno Electric & Engineering Company Limited Q3 FY12 Earnings Conference Call. We have with us today Mr. Pradeep Lohia, President – Finance, Mr. Ankit Gupta, Manager – Strategy and Planning and Mr. Joy Saxena, Director – Finance of Simran Wind Project Private Limited, a subsidiary of Techno Electric & Engineering Company Limited. At this time, I would now like to hand the conference over to Mr. Pradeep Lohia. Thank you and over to you, Sir.

Pradeep Lohia: Thank you ladies and gentleman. Good afternoon and welcome to the conference call on Q3FY12 earnings of Techno Electric. Let me first introduce you to my colleague, Mr. Joy

Saxena who has joined us in Simran Wind Project Pvt Ltd as Director – Finance and who will be glad to take you through the business prospects of windmills. I will now take you on our lines of business and give the highlights for the quarter. We had an order backlog of around Rs 1,200 crore as on 31st Dec'11. We are confident of maintaining orders in the range of 1.5–2 times of our annual sales. Further, we would like to inform you that we have upgraded our capabilities in substation space of 765 KV and have bagged 3 orders from



PGCIL of a total value of around Rs 300 crore. We are pleased to inform you that we have successfully completed the first-of-its-kind transmission link project in Jhajjar, Haryana in a Joint Venture. The project involved building of 400 KV double circuit lines, 100 km long transmission links on DBFOT basis to evacuate 1,320 MW of power from Jhajjar Power Plant and building two 400/200 KV substations of 24 bays each connecting Rohtak and Sonapat. The project was the first PPP transmission project under Viability Gap Funding provided by the Central Government and the project has been completed in a record time of 15 months. On wind generation side, we are one of the largest IPPs in the country and the first project developer to cross the 100 MW mark under the Renewal Energy Certificate Scheme. Wind projects of 108 MW are registered for GBI benefits. As Q3 and Q4 are the lean period for wind power generation and accounts for only 20-25% of full year revenue, figures for the quarter are not comparable to the previous quarter. We are successful in clearing almost 100% of our REC stock, average price realized is around Rs 2,900 per REC. With this, ladies and gentleman I am done with my opening remarks. I would like to now pass it back to the moderator who will open the floor for questions.



Moderator: Thank you very much, Sir. Our first question is from **Aliasgar Shakir from Elara Capital**. Please go ahead.

Aliasgar Shakir: Sir, this quarter in EPC our execution was little weak, was this particularly because we were completing our transmission project where we are at the final stages, large part of the effort went in to completion and execution?

Pradeep Lohia: No it's not like that. If you go through our past record also, Q3 remains weak to some extent because Q2 is a monsoon season when we cannot do any execution work but lots of design and engineering work is placed and supplies take place. So due to execution work in Q3, the topline suffers to some extent.

Aliasgar Shakir: So, should we expect this to probably ramp up in Q4? Last year also Q4 was one of the biggest quarters.

Pradeep Lohia: Yes. If you see last year's Q3 figure also, it is negative to some extent with respect to Q2.

Aliasgar Shakir: So probably because of a higher base in Q4 last year, should we be able to exceed that base as well in this quarter?

Pradeep Lohia: Yes, that is not a problem. We are targeting total revenue of around Rs 750 crore, typically a growth of around 8–10%.



Aliasgar Shakir: Rs 750 cr would mean in Q4 we would have to do somewhere around Rs 250–260 crore.

Pradeep Lohia: It will be Rs 225 cr plus.

Aliasgar Shakir: Then Q4 probably would do around 15% type of growth. Sir, on the margin front, I have to applaud the kind of margins you have done this quarter and I think it has largely come from EPC. So, was this like a one-off case or we expect to have such high margins going forward as well?

Pradeep Lohia: I think you are seeing the consolidated figures & not the standalone EPC figure.

Aliasgar Shakir: No, even if you see the standalone EPC numbers, the margins particularly in EPC were in the range of about 20% on EBIT levels, right?

Pradeep Lohia: Yes, margins are so high this quarter because we have done execution work. Otherwise the EBIDTA level would be around 14–15%.

Aliasgar Shakir: So, annualized would come to about 14%, the higher margins in this quarter would get set-off against a little lower in the next quarter probably.

Pradeep Lohia: That is right.



Aliasgar Shakir: And in the 45 MW, the units generated is significantly low. I understand Q3 is a smaller quarter but if you compare it with last year as well, it was like almost 25% of last year. Q3 last year, we generated around 18 million units wherein this year we just generated about 7 million for 45 MW.

Pradeep Lohia: Basically there were two factors, firstly this is a lean season and secondly, we all have heard about the evacuation problem in Tamil Nadu, which has affected us to some extent.

Ankit Gupta: Second thing, last year the peak season extended by one month and it started one month late. This year the peak season started one month earlier compared to last year and ended one month earlier as well, therefore the effect that we are seeing goes to Q3.

Aliasgar Shakir: Since this time Q3 did not do very good due to the wind pattern, I thought probably the wind pattern may have shifted in a way that large part would come in Q4, so that assumption does not hold true?

Ankit Gupta: That will not hold true in this case.

Aliasgar Shakir: So it might be in the same region what we saw in last quarter?



Ankit Gupta: Right, it will be very similar to last quarter.

Aliasgar Shakir: And, how are we approaching on the capex front in wind business as there are lots of aggressive plans that we have in terms of capacity additions?

Joy Saxena: Hi Everybody. Going forward, we want to build up a capacity of close to 600–700 MW in Simran in the next 4 years. At the moment, we already have a commissioned capacity of around 152 MW in Simran. Our capex plan would be a mixed model, from whatever internal accrual Techno has, may not be getting transferred to entire equity but we will be going ahead with Private Equity options. We would raise some Private Equity blended with internal accrual and get funding to the extent of 70:30 ratio, Debt to Equity . So, we plan to expand with acquisition of certain inorganic assets as well as organic growth. By 2016, if we successfully achieve the numbers, we may plan an IPO as well to take the company on stock exchanges. That is the overall strategy.

Aliasgar Shakir: Over the next one year what would be our target in terms of capacity additions?

Joy Saxena: This model does not give an entire quarter-to-quarter or year-on-year break up but broadly we are targeting not less than 100–150 MW in this financial year, followed by another



100–150 MW next year. So may be in two years time, we see around 250 MW of capacity additions and going forward the model will get repeated for another two years.

Aliasgar Shakir: Then, by FY13, we would add another about 150 MW.

Joy Saxena: Yes, we are also looking forward for those numbers.

Aliasgar Shakir: And, there is a Corporate item, which is about Rs 83 crore as Capital Employed, is this the cash on the books?

Joy Saxena: Yes. Going forward, this cash will be deployed in the assets itself.

Aliasgar Shakir: Coming to the same point, if we want to add about 100–150 MW in the next one year, this Rs 83 crore probably by end of this year could be about Rs 100 odd crore?

Ankit Gupta: The options with Techno are not only one but we have 2–3 options to expand as far as the asset base is concerned. Like KT Jhajjar, we already have one capex done. Similarly on other equity projects related to transmission or substation set up, in BOOT or annuity segment also, we will be putting up our equity. So out of the profit coming in Techno, some percent will go to the expansion like business model of your annuity and some portion may go to the windmill set up. In the wind



sector, as I told you there will be a model which will have Private Equity as well along with certain accruals which would come from Techno. These models will be a mixed set of model for expansion, going forward.

Aliasgar Shakir: With a target of adding another 150 MW, if we have Rs 100 crore cash in hand and a target of about 70:30, Debt – Equity, is my assumption then we may require approximately another 100–150 crore in terms of equity infusion to meet our capex plan?

Joy Saxena: It will depend on our option which is most suitable to the company. If we get Private Equity on good terms and conditions and as is acceptable to the company then initially we will explore the possibility of taking more Private Equity rather putting Techno's money into the subsidiary company. But in case that does not happen, we have both the options to take similar stance.

Aliasgar Shakir: The cash yield in this quarter seems pretty high, somewhere on the 83 crore, we had Other Income of somewhere about 6 odd crore, so is it somewhere in the range of 12–13%?

Joy Saxena: That is right.



Aliasgar Shakir: Are we particularly investing, because 12–13% seemed to be pretty good investment return that you are making?

Pradeep Lohia: It is our past track record also.

Aliasgar Shakir: Sir, just wanted to get some visibility on your order book in EPC, you said 300 crore that you did in Q3FY12, correct?

Pradeep Lohia: Not in Q3FY12, in the entire financial year you may say Rs 300 crore from PGCIL.

Aliasgar Shakir: Okay, and what is your current order book size?

Pradeep Lohia: Rs 1,200 crore as of December 2011. Out of 1,200 crore, around 38% is from PGCIL with execution time of 24 months.

Aliasgar Shakir: Remaining is also of the same execution period?

Pradeep Lohia: Yes.

Aliasgar Shakir: Do we have any significant L1 in our pipeline or are we expecting significant orders in the near term?

Pradeep Lohia: L1 is around Rs 200 crore and we are expecting the same shortly.



Aliasgar Shakir: We started the year with a guidance of about Rs 800–1000 crore target of doing orders and 300 crore is what we have done...

Pradeep Lohia: Rs 300 crore is only from PGCIL.

Aliasgar Shakir: What is the overall that we did in 9 months?

Pradeep Lohia: Around Rs 450 crore.

Aliasgar Shakir: In Q3 it was a very minimal amount?

Pradeep Lohia: Last quarter was not so significant; it was around Rs 60–70 crore.

Aliasgar Shakir: So we would probably be changing our guidance for Rs 800–1000 crore that we had given in the beginning of the year for FY'12?

Pradeep Lohia: We are planning to close the year with an order backlog of 1.5–2 times of our total turnover.

Aliasgar Shakir: That means out of 1,200, we do another 250 in this quarter, then we would have about 1000 crore. So, are we expecting to add about 300–400 odd crore?

Pradeep Lohia: We are already L1 in Rs 200 crore.



Aliasgar Shakir: So we are expecting about 300–400 odd crore of orders in Q4?

Pradeep Lohia: Yes.

Moderator: Thank you very much. Our next question is from the line of **Swarnim Maheshwari from Edelweiss**. Please go ahead.

S Maheshwari: Sir, I just have a couple of questions on your EPC business. This quarter you have done margin of close to 20%. Last year same quarter you did about 19%. Steady–state margins in this business is anywhere around 14–15%. I want to understand what is the kind of projects that you have done to have got these kinds of margins?

Pradeep Lohia: It is a mix of projects.

S Maheshwari: Is it a project mix which has moved the margin towards higher range, because I understand substations have a lot of bought outs. So obviously the margins on those kinds of projects are lower.

Pradeep Lohia: Together with substation we also cater to some industrial segment like we are doing projects for Hindalco in Mahan. We are setting up a power distribution system for an aluminum



smelter, which gives us a good margin, 100% service-oriented, no supply content is there.

S Maheshwari: It is fair to say that on the industrial side you got significantly higher margins of more than 20–22% odd. So, in this quarterly EPC number of close to Rs.150 crore, what would be the amount, which is coming from the industrial side and what would be the one coming from the power side, if that is possible?

Pradeep Lohia: We shall provide the details later on.

Moderator: Thank you very much. Our next question is from the line of **Subhabrata Mitra from Jet Age Securities**. Please go ahead.

Subhabrata Mitra: Good afternoon Sir. I have a question on wind power. Are you facing any kind of payment problem from the Tamil Nadu Electricity Board and also what is the debtor period currently?

Joy Saxena: Yes, definitely. As far as Tamil Nadu Board is concerned, we are facing problems and payments are coming a bit late, at times even 9–10 months delayed payments. Obviously whenever we talk to them, 2–3 month's payment comes in at one shot but the cycle remains like this, i.e., after 9–10 months we are receiving payments.



Pradeep Lohia: I would like to further add on this, in our earlier project of 50 MW, the revenue of that was 100% exposed to TNEB but in case of this expansion of 101 MW, only 40% of the revenue is exposed to TNEB, the rest comes in from the sale of REC. If you see our debtor cycle with respect to our topline, it is very close to 3 months, though the payments are coming late but the debtor cycle is closer to 3 months.

Subhabrata Mitra: In this quarter we have a cash balance of Rs 83 crore, which was Rs 104 crore last quarter. We have deployed this money in EPC business as there is no new wind power capacity commissioned?

Pradeep Lohia: Yes, the money has gone to our EPC business.

Moderator: Thank you very much. Our next question is from the line of **Vinay Rao from ICICI Prudential**. Please go ahead.

Vinay Rao: Sir, could you give me the standalone debt number?

Pradeep Lohia: Rs 213 crore.

Vinay Rao: You mentioned that you were expecting to win Rs 300–400 crore in last quarter. So could you tell me the bids in pipeline and number of bids you had submitted?



Pradeep Lohia: We are already L1 in 200 crore and bidding is a continuous process. It is not possible to exactly tell you how many bids are in pipeline.

Moderator: Thank you very much. Our next question is a followup question from the line of **S Maheshwari from Edelweiss**. Please go ahead.

S Maheshwari: Sir, could you tell us in your order book of close to Rs 1,200 crore, how much is from the industrial side? You mentioned 38% from PGCIL.

Pradeep Lohia: Industrial is around Rs 70 crore.

Moderator: Thank you. Our next question is from the line of **Devang Patel from Avendus**. Please go ahead.

Devang Patel: Sir, on the REC market and the trading that is happening, could you give us a sense of how the volumes are expected to shape up in Q4 and where do you see the pricing heading?

Ankit Gupta: Going forward, REC market will be a bit different because whatever wind power were generated and the RECs that were issued for wind power generation would have been exhausted because now the lean period of wind has started and therefore not much RECs are going to be issued through wind



capacity. It will be the biomass and cogen plants which will have the majority of the RECs being issued in Q3 and half of Q4. Because the RPO obligations or REC obligations have to be fulfilled by March, we can see a significant rise in demand of REC in the coming 2–3 months. While the supply side will also rise but only through cogen and biomass and not from wind. Interestingly, 50% of REC projects today are wind registered or may be more than 50%. So going forward we can see a significant rise in price of REC for the next 2 months and I would specially say for the month of March, we can see a good price of REC coming through.

Devang Patel: Are we seeing constant demand across all months in REC?

Ankit Gupta: Yes, there is a constant demand throughout and the demand has been increasing significantly. For initial months we cannot compare when the REC market started because at that time it was irrational month-on-month but since the market is getting matured in last 3–4 months, we have almost seen demand increasing by 10–15% every month. And last month, we almost saw demand increasing by 80%, from say a demand of 2.8 lakh RECs, which went up to 4.5 lakhs.

Devang Patel: The demand–supply mismatch is large or is that there is demand only at a certain price?



Ankit Gupta: As I said demand–supply gap is really determined by the number of RECs that have been issued in the market at that point of time. So during September–October–November period, we see a lot of REC supply the wind capacity has generated at that point, peak season has gone by and lot of RECs are getting issued to wind, which are ready to be sold. So, at that time supply side is heavier but it is not heavier than the demand side. The gap is, like if the demand is 2.8 lakh, then the supply side would be around 1.25–1.5 lakh. But going forward, since the lean period has started, not much RECs are going to be issued to the wind capacity, we will see a supply side going down and demand side increasing, again demand side may go around 4.5 lakhs as I said and the supply side would be around 80,000 or 70,000 RECs. So it is a yearly phenomena depending on when which project generates power and when they get the RECs issued but overall on an yearly basis or annualized basis there is a lot of gap between the demand and supply and that is where the REC prices have opportunity of rising and that is why the REC prices have risen in last 6 months.

Devang Patel: The RECs have validity for a year, right?

Ankit Gupta: Yes, it is one year from the date of issue.



Devang Patel: So, would't there be a lot of inventory also with generators?

Ankit Gupta: It is not necessary that there will be inventory with the generators. It really depends on generator to generator, how we take the call. If we find the market to be significantly priced at level at which he is happy, he might just go and bid for it and he may sell off his RECs. One year is a long period to sell off the RECs and it is not a short time. So some people would like to keep some RECs in the stock as well to wait for the markets to improve. I would not say that there is any inventory kind of problem right now because since the demand is higher and there is lot of opportunity for you to sell.

Pradeep Lohia: But at least there will be no inventory for wind generators as RECs are generated only for the first 6 months and for the last 6 months generally there is no REC.

Devang Patel: For the upcoming capacities of ours what kind of tariffs are we looking at?

Ankit Gupta: We have a PPA with the State Government at an average procurement price which is Rs 2.37 and which is bound to increase on a yearly basis because the average procurement price will change on yearly basis. Plus we have traded REC at an average price of Rs. 2.9 a unit. So, Rs. 2.3 is what we get



today plus Rs. 2.9 at an average of REC, so we have traded at Rs. 5.2 per unit. And additionally we get 50 paise from the Central Government as GBI benefit. So around Rs.5.6–5.7 per unit is what we have realized.

Moderator: Thank you very much. Our next question is from the line of **Subhabrata Mitra from Jet Age Securities**. Please go ahead.

Subhabrata Mitra: How much stock of REC are we left with currently?

Ankit Gupta: We are left with zero. We have sold out all our RECs. For this month we have generated some power so we are expecting that we should have 1800–1900 RECs to trade on month-to-month basis up till March and in total we should have 6000 RECs to trade till March. But right now we are sitting on zero stock.

Subhabrata Mitra: So RECs that would be generated till March, we can sell it by next March or this has to be done in the financial year?

Ankit Gupta: It is from one year from the date of issue.

Subhabrata Mitra: Okay and there is a lot of talk that GBI benefits may go away from FY'13, any view on that?

Ankit Gupta: We had a round table conference where MNRE was present and they at least made us feel confident that Accelerated



Depreciation benefits may go away from wind system, but GBI may still be there because GBI is independent and it is to promote wind power, to make wind farms viable. And today the current policy of GBI is for 4000 MW, out of which only 800 MW has been registered with them under GBI scheme. 3200 MW has been left empty, so MNRE is in a view to extend this policy at least till end of 12th plan. That is the view of experts.

Subhabrata Mitra: I have just missed out on the consolidated debt figure can you repeat that?

Pradeep Lohia: It is around Rs 640 crore.

Moderator: Thank you very much. Our next question is from the line of **Gaurav Malik from Locus Investments**. Please go ahead.

Gaurav Malik: Sir, you mentioned about the upcoming capacity where you have a straight tariff of Rs.2.7, where is this project located?

Joy Saxena: Capacity expansion is not determined based on the available projects which are in the hunt. Actually what happens, companies which have already set up those capacities in getting the Accelerated Depreciation, they are in the lookout for a buyer. They would like to sell those companies as such. So the option available to us are 2, one is inorganic growth

going forward and taking over those companies along with the asset and the second option would still remain to go and get our own plant commissioned by virtue of capex plans. So we are in talks with few companies who are in lookout for buyers. So we are in active discussion with them and finally we are also planning to raise equity and at an appropriate time will declare how this goes on.

Gaurav Malik: Right, but you also mentioned the state tariff that you signed PPA with, the state has a tariff of Rs. 2.7, at the average purchase price. Which state have you signed with and what is expected increase in the tariff if you think you could come through?

Ankit Gupta: We have signed at Rs 2.37 and as per the guidelines of CERC they have stated the APPC should increase by 5% every year. It is just a formula or just a notional number that CERC had put up. And since we have signed it with TNEB we know that about few months back TNEB has filed a petition with the regulator for asking an increase of 30% raise in the tariff for the consumer level. So if they are asking for that kind of increase, their APPC has to be revised which will be much significant than 5%. Because they will not be able to justify a 30% increase in consumer level tariff if there is only 5% increase in APPC.



Gaurav Malik: So apart from the 30% tariff you are also hopeful of linking it to certain benchmark where it goes up by 5% every year right?

Ankit Gupta: 5% is the benchmark that we take under our calculation when we are putting a project, but we are confident somewhere that it may be more because as we all know currently the actual APPC cost in Tamil Nadu is almost Rs.3.3. But the way they are calculating APPC cost is bringing it down to Rs 2.37. So there is a challenge with the regulator as well right now by someone asking for a proper calculation of APPC because Tamil Nadu is not ready to include the cost of buying power from liquid fuel and certain other kinds of power. So this challenge has been laid down by CERC where it has completely given a guideline that liquid fuel should be a part of APPC cost whereas they are just not following it. So we already know that there is a Re 1 difference over here. Plus 30% that we know they have asked for a rise and there is a 5% number that has been given by the CERC. So we are hopeful there has to be an increase of APPC going forward and add up to a significant percentage.

Gaurav Malik: Okay and the Tamil Nadu State Electricity Board is contingent upon increasing APPC prices, but any idea by when can this go through?



Ankit Gupta: As per policy, they have to declare APPC every year and whatever number they declare becomes my new number for that year. If APPC for 2010–11 becomes Rs 2.7 or 2.8 then that will be the number at which I will be selling power in the next year.

Gaurav Malik: What is the consolidated cash?

Ankit Gupta: Consolidated cash is around Rs 80 crore.

Moderator: Thank you very much. Our next question is from the line of **Vinay Rao from ICICI Prudential**. Please go ahead.

Vinay Rao: Sir, you mentioned that currently the demand for REC would be 2.8 lakhs and the supply is 1.5 lakhs REC per year, right?

Ankit Gupta: This is what we saw in last 4 months. Going trend will not be the same because the number of REC that will get issued will be less since wind farms are not generating any more. So the number of RECs they will be eligible for would be less. So number of issuance would be less, therefore supply side would weaken out and demand side would increase because the REC obligations have to be met by March, so suddenly there may be many buyers of REC that may come up.



Vinay Rao: So, if we look at overall for yearly basis, the supply of REC would be less than the demand?

Ankit Gupta: Yes.

Vinay Rao: Then do we believe that CERC can force State Board to fulfill the obligation because there is no supply; there is supply-demand mismatch, so how can they buy if there is not enough REC in the market?

Ankit Gupta: First is that are they even attempting to buy, that is the question today. As a participant, SEBs have still not participated in buying REC. The real buyers today are the private distribution companies and the captive consumers of power. Today SEBs have not even participated in it, so penalizing them is very secondary. First they have to attempt to buy REC and the second question is how much of your obligation have you fulfilled. Because RP Obligation set by each state is different. CERC has guided them to set a RP Obligation but does not mean that they are following that. Every state has set an RP Obligation as per what they think will be fulfilled easily. So if they are not even able to fulfill that RP Obligation out of REC, then we are talking about the kind of a situation that you are asking. But today, we are far



way from those kind of penalization or are even thinking of those kind of terms.

Vinay Rao: Okay, if they don't buy what could be the steps taken by CERC?

Pradeep Lohia: Also, supply of REC tends to increase because at present only those units are eligible for RECs, which have been set up after this policy date. This is also one of the constraints, so much of variation is there in demand and supply, but going forward it wouldn't be there.

Ankit Gupta: And, variation is the only reason why we will tomorrow see lot of renewable energy projects coming in India because that is where the opportunity CERC has created for renewable energy. If there is no gap, then why would there be any projects, because the price of REC anyway would have been determined and would have been fixed better.

Vinay Rao: Okay and you are in discussions for buying some projects of Accelerated Depreciation, so can't these projects be registered under REC?

Ankit Gupta: No, the whole project cannot come under REC scheme because there is a limitation by CERC saying only new projects can come and old projects can only join after 2016



or 2017 which CERC has not clarified yet, but are still discussing that part.

Pradeep Lohia: It is 4 years after the date of policy.

Moderator: Thank you very much. I would now like to hand the conference over to Mr. Pradeep Lohia. Please go ahead Sir.

Pradeep Lohia: Thank you very much everybody. Hope we were able to answer all your queries and if anything remains unanswered or you want further clarifications, you may send an e-mail to us. Thank you.