



“Techno Electric & Engineering Company Ltd.
Conference Call”

June 3, 2013



MODERATORS **MR. ANKIT SARAIYA – DIRECTOR, SIMRAN WIND
PROJECT PVT. LTD.**
**MR. JOY SAXENA – WHOLE TIME DIRECTOR, SIMRAN
WIND PROJECT PVT. LTD.**



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Moderator:

Ladies and gentlemen, good day and welcome to the Techno Electric & Engineering Company Ltd. Q4 FY13 & FY 12-13 Results Conference Call. We have with us on the call, Mr. Ankit Saraiya – Director, Simran Wind Project Pvt. Ltd. & Mr. Joy Saxena – Whole Time Director, Simran Wind Project Pvt. Ltd., a subsidiary of Techno Electric & Engineering Company Ltd. As a reminder, for the duration of this conference all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you need assistance during the conference, please signal an operator by pressing * followed by 0 on your touch tone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Joy Saxena. Thank you and over to you sir.

Joy Saxena:

Thank you. Ladies and gentlemen, welcome to the con-call of Techno Electric & Engineering Company Ltd. On the behalf of the company, myself along with my colleague, Mr. Ankit Saraiya, welcome all of you once again.

I would like to start this discussion with the highlighting notes of the financial year which we have recently concluded. Our net sales were down by 14.6% to Rs 700 crores, as far as the consolidated numbers are concerned against Rs 819 crores which we clocked last year. Operating profit margins (EBITDA) have gone up to 33.52% against 27.36%, which was in absolute numbers Rs 234.68 crores this year against Rs 224.3 crore last year. Net profit stood Rs 120.35 crores against Rs 120.89 crores recorded during 2011-12. EPS was at Rs 21.08 against Rs 21.18 in last year.

As you know, we wind power generation segment whose share in total revenue has been around 26.31% against 14.13% in last year implying Revenue from the segment was Rs 184.23 crores on consolidated basis against Rs 115.82 crores recorded in last year. There was a jump of 59%. Operating profit stood at Rs 177.33 crores against Rs 111.47 crores and operating margin for the segment was 96.25% which was almost the same percent, 96.24%, as we had last year.

As far as Simran Wind is concerned, the financial highlights of Simran were as follows:

Total income from operations was Rs 148.65 crores against Rs 87.66 crores which is up by 69.58%. This was possible because last year in 2012, we had commissioned our 111.9 MW wind plant and we have captured revenue for the entire year. That is the reason that total income has gone up by 69.58%. EBITDA was Rs 142.15 crores against Rs 83.48 crores, an increase of 70.3%. EBITDA margin has gone up to 95.63% against 95.22%. PAT was Rs 61.84 crores against Rs 28.94 crores and PAT margin also increased from 31.87% to 41.36%. With this, I think there will be questions which will be coming for



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different segmental revenues and segmental profits along with various numbers of the balance sheet which we will be discussing on a case to case basis, based on the questions coming from your side. You can please carry on with the question answer session.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Amber Singhania from Quant Capital. Please go ahead.

Amber Singhania: My first question is towards the debt position, what is the total debt and how much is in the foreign currency and how much is in the domestic currency?

Joy Saxena: On a consolidated basis, we have got around Rs 627 crores debt. Out of which, the long term debt which belongs to the wind assets of Simran is around Rs 417 crores. As far as Techno is concerned, we have a long term debt of Rs 100 crore and there is a bit of short term loan also, which is Rs 110 crore. In total, Rs 210 crore is in Techno and Rs 417 crore with Simran - Consolidated Rs 627 crore. As far as external commercial borrowings are concerned, in Simran we have \$55 million as you know. We have taken from Standard Chartered and DBS - 30 million and 25 million each. That is the loan which is outstanding in ECB as far as Simran is concerned. In Techno, in the short term loan, we have around Rs.58 crore of foreign currency, others are all Indian currency loans.

Amber Singhania: Rs.58 crores. And how is the hedging formula in this and what is the total loss from currency fluctuation. Have we taken this in the current interest cost ?

Joy Saxena: The project finance that we had initially, as we have been discussing, the Company has a policy to hedge as far as LIBOR is concerned so we have fully hedged LIBOR. As far as the currency is concerned, we have kept it open, the reason being, this is a loan which is for 10 to 12 years and the fluctuation in Dollars against Rupees for 10 to 12 years is difficult to predict. So that is the reason we have kept this open.

Amber Singhania: So in this year like when we see the rupee depreciating by more than 10%, what were the losses you have incurred on the foreign currency and where exactly that is featuring in.

Joy Saxena: They will be featuring in the outstanding loan along with the capital assets because this will be capitalized. **Amber Singhania:** If I am correct, most of our assets were already started before FY13 itself. So could you just throw some light on how much has been part of the P&L this year and how much is capitalized this year and what are the total loss on that part.



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Joy Saxena: We will give you the number, we have to work it out. We have the numbers but immediately on the con-call it is difficult to give you the exact number. But as per the accounting policy, you have to take care with the depreciation reserve account and charge it off according to Accounting Standard..

Amber Singhanian: Okay sir. The second thing is towards the REC side, how much total inventory of REC we have and at what price we have booked it?

Joy Saxena: See, the REC market, this financial year all of us know has been mostly on the floor price. So our RECs were also sold out based on the floor price itself and we had initially 6,500 RECs to start the year. We accumulated another 2,50,187 RECs and we could sell 1,50,288. We are carrying an inventory of close to 1,05,000-1,06,000 RECs as of 31st March, which is valued at Rs.1.5 only on floor price basis.

Amber Singhanian: And when it is going to get expired?

Joy Saxena: In our case, they are all 3-4 months old. Because now, the policy is that the expiry deadline has been extended for 2 years by the Government. So we have absolutely no exposure against any risk.

Amber Singhanian: So sir, in case of let's say on hypothetical basis if suppose after two years also, we are not able to, REC market is not that conducive and it is not getting sold, so we need to write it off from P&L?

Joy Saxena: Yes, as far as the policy and accounting is concerned you are right. But as far as the market dynamics are concerned, definitely we will have to look and then accordingly decide. But the company is very hopeful that in less than one year, this will all be sold out. There is no question of waiting for another two years.

Amber Singhanian: And sir, what is capacity expansion plan in the power generation site in this year FY14?

Joy Saxena: See, our plan is to definitely build up another capacity of say 100 MW plus in this financial year before March. So that, we can capture the next wind season and for that, first of all we are looking at various projects. Discussions are on with various turbine manufactures and project developers to take this forward.

Amber Singhanian: Okay. Sir, on the macro level, could you just throw some light how the Tamil Nadu Electricity Board is panning out and how are the receivables and what kind of realizations we are able to get from there? Any revision has happened?



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Joy Saxena:

I would say that it has been really an excellent time from the last three, four, five months because the payments are really coming very fast from Tamil Nadu Electricity Board and the outstanding which happened to be at one-time around 11 to 12 months, has now reduced to as low as five to six months. At today's date, if you ask me, we have only outstanding of around Rs 45 crore. At the balance sheet date, we must be having close to Rs 90 crore crore but today it has been drastically reduced and you will find that the balance sheet also has some investments done based on the cash received from TNEB.

Amber Singhanian:

Okay, now the second part on the EPC side, could you just throw some light on how is overall business panning out because FY13 has been a very challenging year, both in terms of top line as well as with the margin. How do you see that going forward and what is your take on that?

Joy Saxena:

As far as Techno is concerned in EPC business also, we have done remarkably good. But if you compare from the top line, probably you will find that the top line has not increased. That's the outlook we had already given to the market in our second and third con-call in the previous financial year. The year has not been good for the power industry. There have not been many orders coming from the various power plant manufacturers. Now, in the last three to four months, there have been a lot of changes that we have been observing. I will give you the details of the order book as well so that you can understand that the situation has drastically improved. As far as the top line margins are concerned, in our case we have not reduced our margins drastically, Yes, there has been a marginal correction of 50 to 100 basis points as far as PAT margins are concerned as we have already discussed. Our order book which was initially, to start with, in the previous financial year, Rs 950 odd crores. We have received new orders of Rs 569 crores and we have delivered and executed orders of Rs 515 crores. So we are sitting at more than Rs.1000 crores of order book today. One more good news that I want to share with all of you, that we are L1 in almost around Rs 500 crores of orders. We have also received one order from NTPC after March ended and in four-five other orders –we are L1. In fact today again, we received information of being L1 in one of the NTPC orders. So, the time looks very good now onwards in power generation and in transmission distribution.

Moderator:

The next question is from the line of Rahul Gajare from Edelweiss. Please go ahead.

Rahul:

Rahul Here. Sir, on the wind business you said you're looking at adding 100 MW in this year. On the EPC side you know, with an order book of almost Rs 1000 crores, what is the kind of execution you are looking at doing this year and what is the margin window that you are looking at achieving in this year?



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Joy Saxena: See as far as the margins are concerned, we feel that we will be improving the margins as we have delivered in 2013 or neck-to-neck we will be in a position to maintain the margins. The reason is that last year when the execution was low in that scenario also, we spent on our salaries and administrative cost. So those are the fixed overheads which in any case you have to incur. Going forward, our execution will go up so therefore the advantage in any case we will get as far as our bottom line is concerned. So we are not very worried about that. We are a company who believes in the bottom line only. So the growth will give us margins which can be kept intact at the percentages which we are today. As far as the top line growth is concerned, we are definitely in the position to do something close to 20-25% higher than we have delivered this financial year.

Rahul: We have done like Rs. 515 odd crores in FY13 so you are looking at 20 to 25% growth in EPC business?

Joy Saxena: Right.

Rahul: And for the full year, we have done close to 11% margin and this is drastically different from what we have been doing about 15-16%. So you see yourself coming to the 15% level or you think may be 100 basis points plus from here is what you are looking at?

Ankit Saraiya: To answer the question, today the margin levels have actually come down in the EPC business. Going forward, I don't see that the margin levels are going to be what they used to be before at 15-16%. But surely, it would be above industry average and it should continue to be roughly around 10-11%. But what has improved in the last few months as Joy was also pointing out before, is that even the bad competition from the market has actually got eradicated and therefore we are seeing a huge increase in our order book. We have bagged orders which we didn't even expect to win even though we had tendered for them. And you know, there has been a slight improvement in the industry overall. So going forward, we believe that order book should continue to remain even though the margins may not be what we saw previously with Techno. But as the years will go on, may not be FY14 but by FY15 and FY16, the margins should come back to the levels where we at one point of time saw. Because the correction in the industry first comes from the fact that the competition gets over and then the quality business starts coming up. So at least today, we are on the first phase of correction where the business is flowing into the company, then the quality business as far as the margins are considered should start coming in after a year, year and half. Going forward, I believe the PAT margin should remain roughly around 10 to 11%.



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- Rahul:** Okay, a large part of you know the higher margin that we have enjoyed in our EPC business was essentially because of a lot of industrial work, which basically seems to be missing. That's the reason why we are looking at 10-12% margin.
- Ankit Saraiya:** That is also true because today our order book maximum consists of PGCIL and NTPC.
- Rahul:** So can you tell in our order book how much is industrial business right now?
- Joy Saxena:** Industrial, we have close to 5% only, but we have transmission which is around 60% odd and balance 30-35% is coming from power generation.
- Rahul:** Fair enough, industrial, if it is only 5% I think that can explain the margin level that it should be.
- Joy Saxena:** Right.
- Moderator:** Mr. Saxena, there are no further questions in the queue sir.
- Joy Saxena:** Okay. So, on behalf of Techno Electric Engineering Company Ltd., myself and Ankit convey our thanks for sparing your valuable time to come for the con-call and as we discussed if you had any other query, you are welcome to send queries on our email and we will have the responses sent back to you. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen, on the behalf of Techno Electric & Engineering Company Ltd. that concludes the conference. Thanks for joining us. You may now disconnect your lines. Thank you.