



“Techno Electric & Engineering Company Limited Q1  
FY17 Earnings Conference Call”

**August 08, 2016**



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**MODERATOR:** **MR. AMBER SINGHANIA – SENIOR ANALYST - CAPITAL  
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LIMITED**



**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Q1 FY17 Earnings Conference Call of Techno Electric & Engineering Company Limited hosted by Asian Markets 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 questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Amber Singhania of Asian Market Securities. Thank you and over to you, sir.

**Amber Singhania:** Thank you, Raymond. Good afternoon, everyone. On behalf of Asian Market, I welcome you all for Q1 FY17 Earnings Conference Call of Techno Electric & Engineering Company Limited. We have with us today Mr. P.P. Gupta – Chairman and Managing Director of the Company, Mr. Ankit Saraiya – Director of the Company along with his team. I now request Mr. P.P. Gupta to take us through the quarterly results, outlook of the Company and the industry as a whole. And then we shall begin with Q&A session. Over to you, sir.

**P.P. Gupta:** Good afternoon, everybody. Welcome everyone for joining us today to discuss our financial result for the first quarter earnings 31st June, 2016. Anything said on this call which reflects our outlook for the future or that could be construed as a forward-looking statement, must be reviewed in conjunction with the very risk that the Company or the industry faces.

We have started the financial year on a very strong footing, in both PPC and Energy segment. During the quarter, we have received many prestigious orders, mainly among them I would like to say is 765 KV GIS extension package at Jharsuguda in Orissa from Power Grid. Additionally, we are also now L1 in second STATCOM package to happen in the northern region. As you all know, we are already executing package in WR region for STATCOM installations at Sholapur, Kolhapur and Satna. With this, our order book for the quarter, along with advance, stands at more or less around Rs. 3,000 crores. We are continuously participating in various tenders and are hopeful of good conversion. With a strong order book, we are confident of achieving 30% growth in our EPC segment and 50% in energy business during the current year.

In EPC segment, we are witnessing greater investment from Power Grid, but within Power Grid we are also seeing that stress is more on adding transforming capacity now. In 12th Plan, the target of transforming capacity was 2.86 lakhs MVA, that means during the current year it will be around 30,000 MVA. Though PGCL's budget for the year remains the same, but the ratio of investment between the line work and transforming capacity i.e. substation, will undergo a change from 80:20 to 70:30 or more. This has increased our adjustable profits and markets. Focus on dynamic management of ours continues, giving us opportunity to participate in more STATCOM installations. I have already said we are L1 in a STATCOM package with



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Power Grid for northern region which envisages installations at Gwalior, Lucknow and Nalagarh in Himachal Pradesh.

We expect states to play an equally dominant role towards investment in transmission infrastructure, as well as Power Grid. Many states are facing such transmission challenges due to historic infrastructure that needs immediate upgradation. Our particularly focus is visible in the states which have renewable power presence like Rajasthan, Andhra, Tamil Nadu, Madhya Pradesh and a number of projects are being envisaged backed by funding.

Energy segment the related challenges have eased a lot over last six months. We are witnessing improved grid availability in the state of Tamil Nadu, apart from excellent wind flow this year. We expect to close this current year at least with a growth of 50% over last year and on like-to-like basis it is going to be at par with financial year 2013. Even the regulations have been positive for the industry, to add namely a few, all the cogenerating plant or mills are no more eligible for REC or for captive consumption of power from 1<sup>st</sup> April of this year. The Tamil Nadu High Court as well as the APTEL has strictly directed the Tamil Nadu state to curtail the grid back down and ensure offtake to solar and wind power.

Additionally, you must have seen in today's Economic Times a mentioning about MNRE writing back to CRC to also ensure this implementation. The honorable Supreme Court directed TANGEDCO to pay interest on the delayed payments. Most important thing, we have won the case at Tamil Nadu High Court for removing the capping on the preferential tariff for determining BAPPC. Till such time the very BAPPC breaches into our preferential tariff. This implies that our tariff for the current year and for the previous three years progressively will rise to Rs. 3.35 in the current year and we are eligible for arrear payment from the financial year 2013-2014 onwards. Honorable Supreme Court has also passed an order directing TANGEDCO to pay interest on delayed payments, which will have positive impact on the bottom-line of the Company.

Though the above changes are positive, our intention to exit wind business remains equally serious. We are now hoping for better valuation and shall exit at the valuation that is beneficial to all the stakeholders.

Regarding PPP business – we like to concentrate going forward on PPP business in T&D space apart from PPCA in this very space. Our PPP projects at Haryana in partnership with Kalpataru is operating successfully with no major challenges, and our second PPP project at Patran, Punjab, was successfully commissioned in June 2016 in a record time and within the cost parameters and in time. We are eligible for all the tariffs as quoted of Rs. 1,000 crores over 35 years.

Let me quickly summarize our performance for this quarter:



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Revenue from EPC business almost jumped by 30% from Rs. 178 crores to Rs. 231 crores. Our consolidated revenue for the quarter also grew by 35% to Rs. 279 crores against Rs. 206 crores achieved during the same quarter of the previous year. Operating profit for the EPC segment for the quarter stands at Rs. 34.96 crores from Rs. 23 crores, showing a jump of 39.5%. Operating profit margin for the quarters is at 15.13%.

Standalone PAT for the quarter stood at Rs. 26.54 crores against Rs. 16.97 crores, showing a jump of 56%. Consolidated PAT jumped by Rs. 136% for the quarter, to Rs. 48 crores against Rs. 20.32 crores. The consolidated EPS for the current quarter stands at 8.41 against 3.56. While the revenue has grown, our trade receivables remain very healthy. Our focus remains to efficiently manage working capital while growing your Company profitably.

I will also like to mention the present focus is largely on our corporate governance. We have recently in this meeting now inducted Dr. R.P. Singh as our Additional Director in place as an Independent Director. The ex-chairman of Power Grid, the Director of Bajaj Electricals, L&T in place of Shri. V D. Mohile. We are also looking forward to induct more people from the industry who have played successful innings in building this very sector.

With this, I invite questions from the participants.

- Moderator:** Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Ranjeet Shivram of Antique Stock Broking. Please go ahead.
- Ranjeet Shivram:** Sir, this Rs. 3,000 crores of order book which you told, this includes the L1 STATCOM package, right?
- P.P. Gupta:** Absolutely.
- Ranjeet Shivram:** So how much will be that in terms of quantum the STATCOM package?
- P.P. Gupta:** The total package is Rs. 530 crores in which our scope is Rs. 275 crores.
- Ranjeet Shivram:** So this Rs. 275 crores is included in our order book?
- P.P. Gupta:** Yes, in L1 status as an outstanding order.
- Ranjeet Shivram:** And how much will be our order intake for the quarter?
- P.P. Gupta:** It is about Rs. 350 crores.
- Ranjeet Shivram:** And for the full year what are we targeting sir, in terms of order intake?
- P.P. Gupta:** We are targeting about Rs. 2,000 crores this year as a order intake.



- Ranjeet Shivram:** And in the last concall you had spoke about this TBCB order and because of this TBCB ordering we will be getting the subcontract. So what is the progress out there and how much have we expecting from that portion of the order booking?
- P.P. Gupta:** Fortunately, that segment is not included in Rs. 2,000 crores, this we are basically talking as a business from utility including Power Grid in India. If that happens, it will be add one, number one. Number two, you see the tendering is due in this month also for two packages of North East which we will be participating. And we could not be successful if the last bidding which happened in May for Gurgaon package which is bought by Sterlite Grid being the lowest bidder intentionally. But we are continuously participating but our participation will be very matured and healthy.
- Ranjeet Shivram:** So, if we read it correctly, we do not want to compromise on margins for taking these orders?
- P.P. Gupta:** Absolutely right.
- Ranjeet Shivram:** And lastly, this tariff thing which you told, this High Court case, if you can help us how much will be the arrear payments and can we just repeat like how much will be the tariff increase and because of that if you win that TN High Court that wind tariff.
- P.P. Gupta:** Yes, earlier we were getting about Rs. 2.67 which now improves to Rs. 3.35 and our arrear involvement is about Rs. 30.5 crores.
- Ranjeet Shivram:** This arrear can be a one-time income for us?
- P.P. Gupta:** Absolutely right.
- Ranjeet Shivram:** And this tariff will move from Rs. 2.67 to?
- P.P. Gupta:** Rs. 3.35 for the current year. But the biggest advantage is, the tariff eligibility will be year-after-year, it has to be reset year-after-year in our case.
- Moderator:** Thank you. We have the next question from the line of Utsav Mehta of Ambit Capital. Please go ahead.
- Utsav Mehta:** Sir, just first up, I think when we spoke last quarter you had highlighted that there were some receivables which were yet to come from Patran, just wanted to understand whether these have been settled or not?
- P.P. Gupta:** Not yet settled, Utsav.



**Utsav Mehta:** So is that the reason why the capital employed in the EPC business is up so significantly year-on-year because both segment assets and liabilities are down?

**P.P. Gupta:** No, for last quarter yes you can say, but this will be soon set right as we receive money from Patran and pay out to our creditors.

**Utsav Mehta:** Sir, any reason for the delay, because this is supposed to get settled on commissioning right, and that was June.

**P.P. Gupta:** Yes, because we want to draw these loans as and when payments to creditors fall due, strictly to pay to the creditors. Because whatever outstanding we have is back to back with the suppliers of the equipment. In terms of the equipment negotiated with them was that they will be paid only 30 days within the commissioning.

**Utsav Mehta:** And sir, secondly on PGCIL ordering, now that reverse bidding has been there for I think a couple of months now, are you seeing any sort of margin pressure on bids? And if so, then would you just not bid for new projects for the next six months or you are not focused on winning projects for two months until it sort of dies down and becomes more reasonable again?

**P.P. Gupta:** You see, it is very difficult to quantify whether the earlier system was healthier or the present one. In earlier system, till the 11th hour we used to juggle with the discount numbers and quote the very number which any bidder will be comfortable to work with; however, destroying or comfortable it may be otherwise. In the present case, we all quote comfortably assuming that there is right to borrow the bidders. So as far as Techno is concerned, it is rather a betterment for us in a way you see as a prospective, because we do not have any layers of decision making within the organization. So we can be very strategic and spontaneous in the bidding process, unlike many others. So to my mind, it really does not affect as far as Techno Electric is concerned, but definitely we have to keep ourselves in check emotionally and otherwise also while sitting on the roulette you should not be carried away with the greed. So, as long as head is above the shoulder, I think there is no greater threat.

**Utsav Mehta:** But in the projects that you have already seen this bidding, have you seen some aggressive players coming in or sort of some projects in which bids went significantly below what you thought was appropriate?

**P.P. Gupta:** Yes, in GIS packages we have seen that is happening, particularly competition among Chinese versus Koreans tremendously. But in the last auction of the STATCOM package we saw it was very little, hardly 1%, it took no more than an hour to close. And in our own case, in one package nobody reduced the price because we were L1. So we have seen three auctions and three are of different varieties. I think we need to experience more.



- Utsav Mehta:** And sir, just one last question, you mentioned that you would be bidding for the Northeastern projects, these would include line elements as well, right?
- P.P. Gupta:** Actually.
- Utsav Mehta:** So would you be looking for a partner for these projects?
- P.P. Gupta:** Yes, our partner is Kalpataru, if they agree, fine, otherwise we will like to do on our own.
- Utsav Mehta:** Even the line?
- P.P. Gupta:** Yes, we would like to handle line because substation content is more than 60% in this package. So in this field line is not very huge let me say that way. Although it is little challenging because of the tariff, but length of the line is relatively neutral in the whole process. So we feel that we will be able to take a good partner as a subcontract or a large entity like if Kalpataru do not come forward the we will partner KEC or somebody else equally or maybe L&T for doing the line work for us.
- Moderator:** Thank you very much. We have the next question from the line of Abhijeet Vara of Sundaram Mutual Funds. Please go ahead.
- Abhijeet Vara:** I wanted one clarification, you said Rs. 350 crores of order inflow, this does not include the L1 of Rs. 275 crores, right?
- P.P. Gupta:** Yes, absolutely.
- Abhijeet Vara:** And sir, could you give us an idea how much is PGCIL orders and other SEB orders in this Rs. 350 crores order inflow?
- P.P. Gupta:** The Rs. 350 crores is all PGCIL.
- Participant:** Good afternoon, sir. Madan here from Sundaram, I have one additional question. Sir, can you take us through, in the next one or two years how do you see this PGCIL CAPEX to pan out more from grid rated projects, service strengthening projects and even the STATCOM type of projects, how do you see CAPEX happening? Do you think overall because of the generation CAPEX itself has sort of come off over the last two years, you think the transmission CAPEX also would face a similar situation in the next two, three years?
- P.P. Gupta:** See, basically generation has happened so much over last six, seven years and mainly through private sector that today this county has almost 300 gigawatt plus in terms of the generating capacity. Whereas the demand in the system is no more than 160 gigawatts to 170 gigawatts, let me first tell you, number one. Number two, the industrial norms are or prudent power sector



norms globally are a transforming capacity should be no less than 7 times as thumb down, right from generation to the distribution. But technically speaking, in our country it is no more than 4 times at the moment. And even the interstate transmissions transforming capacity, I am not talking about line, is no more than 300,000 ampere as of now, which is only 1 times. The challenge today in our sector is that more and more DISCOMS think they have a choice of power in terms of procurement because the generation availability is all over the country and they are tied up to certain PPAs and most of the DISCOMS are having more PPAs than their ability to buy power and distribute in their command areas as of now. So, they are willing to pay out certain fixed tariff under two power tariff schemes, but still looking or a cheap procurement of power under the exchange procurement mechanism. But they all get stuck because there is no availability of the transmission network additionally along with it. So, as far as transmission is concerned, what recording generation over last six, seven years are yet to happen, let me share this way. So I do not think it is a journey of two, three years, it is a minimum journey of no less than 10 years to my mind. We have to mature from 4x to 7x in terms of the transforming ability and you will see going forward that even our grid will be scaled up, most of the solutions will happen at 765 KV and in the 13th Plan you will see that we will migrate to 1100 KV networks also or 1200 KV networks additionally to handle this kind of power situation in the country.

**Abhijeet Vara:**

So, do you think it will be states who will be spending more on the 765 KV GIS types or 400 KV GIS types and also some bit of investment would happen at the state level for the STATCOMS and SVGs compared to Power Grid as we move on?

**P.P. Gupta:**

See, I see more happening in GIS space with 400 KV at the state levels, you are very right. 765 KV and 1200 KV will be caused in AIS as a way of life. STATCOMS solutions will more shift to the generating plant side given the standards of connectivity in the country being implemented by state regulators. But, definitely selectively in the interstate evacuation of power certain STATCOM solutions will remain relevant with the Power Grid also, additionally. But STATCOM will definitely find more applications because it is cheaper than HVDC in the renewable power handling. With the renewable power handling will necessitate more use of the STATCOMS in place of SVCs what we used historically in the past.

**Abhijeet Vara:**

Sir, what do you mean by using STATCOMs generating, closer to renewable sites you expect more STATCOMs to come?

**P.P. Gupta:**

Yes, absolutely. You see, question is, let's talk of quality of power, what you feed in the grid has to have a power factor as genocidal curve, properly embedded into the grid at the point of connectivity. Otherwise you are knocking the stability of the grid. No sooner the mix of the power in the grid changes radically, like it happened in Tamil Nadu last three, four years, it is today happening in Rajasthan now. Up to 10% - 15% of renewable injection without measuring power factor of genocidal curve is okay, but beyond that it is not stable, you need a matching thermal power additionally the system of hydro power entries to balance out the grid.



So, if you do not have that kind of balancing in place you defiantly need STATCOM installations to even out the very stability of the grid, these processes are more margin stability of the grids to keep the grid within the given parameters and frequency.

**Moderator:** Thank you. We have the next question from the line of Vivek Sharma of ICICI Securities. Please go ahead.

**Vivek Sharma:** Sir, just one doubt, you said your order book at the end of this quarter is Rs. 3,000 crores, your order inflow is Rs. 350 crores.

**P.P. Gupta:** Including L1, I said including L1s.

**Abhijeet Vara:** But your order inflow of Rs. 350 crores do not include the L1 but your order book includes L1?

**P.P. Gupta:** Yes, but Rs. 350 crores included means Rs. 2,600 plus minus, another Rs. 400 crores is L1.

**Abhijeet Vara:** And second question, in the past we have met you said, even in the television I saw, you mention about the possible sale of a 33 megawatt wind parcel. When can we expect the balance to be sold, is it likely to sold this year or what is the plan going forward, will we keep those assets, will we sell?

**P.P. Gupta:** No, I have already mentioned in the opening note that we are keen to exit this business, but very improvement this year has happened like your stock market, that is what is making us to reset the benchmark valuations of the assets, I will say. So definitely we will experience out this year's full cycle and maybe towards the end of this year we will be again in the market for the balance assets with the new set of prices.

**Abhijeet Vara:** So 33 megawatt the deal has been signed or is there due diligence and all still going on?

**P.P. Gupta:** See, we have a non disclosure agreement at the moment with the buyers and they are under due diligence.

**Moderator:** Thank you. We have the next question from the line of Chetan Wadia of JHP Securities. Please go ahead.

**Chetan Wadia:** Sir, my question is on your outlook for FY17 in terms of revenue growth and margins, what was that?

**P.P. Gupta:** It is intact, we have always said quarter-to-quarter EBITDA in EPC business is difficult to say, but over the years you can take it as 14% what we have already stated earlier, we mentioned that. And additionally we should see upside from the energy business this year.



**Chetan Wadia:** And sir, in terms of key orders that may come up for bidding in the rest of the FY17 for the EPC segment, what may be those?

**P.P. Gupta:** We will not be able to say so much as much we know we are L1 because today Power Grid apply the formula of reverse bidding additionally integrally. So, but in states we are seeing a good traction, particularly in Rajasthan, MP, Andhra and selectively in the Tamil Nadu, we are seeing a good amount of interest backed by additional funds, corridors of channel 65 KV and 400 KV as well as 220 KV additionally. So I see good amount of business in states as well, I will say, which is largely multilaterally funded which will be as strong as Power Grid's business. So let's see how much we succeed in Power Grid, but additionally we will have place in these states also.

**Moderator:** Thank you. We have the next question from the line of Nitin Arora of Aviva Life Insurance. Please go ahead.

**Nitin Arora:** Sir, my question is from the Annual Report, we have certainly reduced our stake in the Patran project, just wanted to know the rationale behind this transaction and are we still going to consolidated going forward the Patran earnings?

**P.P. Gupta:** See, firstly it is a very good question and I like to highlight to the whole investment community that Patran is held by Techno only but it is done to keeping the roll of associate because we do not intend consolidating the accounts. Generally, our experience from Haryana asset is that first four, five years generally the balance sheet we made a loss due to heavy depreciation moving up and it has no value in consolidating the balance sheet because otherwise also we want to keep out parent balance sheet as asset light. Patran is held 49% by Techno Electric and we have constituted a new vehicle called Techno Power Grid Corporation that has another 49% in Patran with 2% in my name. So, we will ultimately be collecting all these assets into Techno Power Grid which will ultimately be divesting it in the interest of the stakeholders in the market like you.

**Nitin Arora:** Sir, just to understand, what means going forward if we are going to bid any project and we win in any BOOT project, I will give my whole balance sheet strength to it till the day it gets commissioned, near to the commissioning and once it gets commissioned I move it out to Techno Power Grid some part of the stake. Is that what is the strategy going forward?

**P.P. Gupta:** No, not at all. Firstly, let me share with you we do not move out with these assets closing collectively owned by Techno Power Grid and Techno Electric and they invest simultaneously because Techno Power Grid got constituted in the latter half of the second year, so all the additional capital beyond what Techno has subscribed, prior to the close over last year was done in Techno Power Grid. So it was nothing but transfer of the shares from Techno Electric to Techno Power Grid between you and me. So they have selectively implemented the project and they are both part of the very family tree additionally let me tell you.



- Nitin Arora:** And sir, sorry, I missed that, you will be consolidating line-by-line each, revenue and everything for it?
- P.P. Gupta:** Yes, see as we have more cash flow assets with us that it can ultimately show some dividend paying ability over our profitability in the bottom-line down three, four years, that will be the time to hive it off to stand on its own feet.
- Nitin Arora:** And sir lastly, any tax benefit you incur due to which consolidated tax rate might start coming down from next quarter, let's say for a year's time?
- P.P. Gupta:** Can you elaborate your question, I could not get you.
- Nitin Arora:** Sir, any tax benefit you get in terms of doing this in your consolidated numbers?
- P.P. Gupta:** No, in other income tax in India each incorporate entity is liable for its own balance sheet for taxation.
- Moderator:** Thank you. We have the next question from the line of Pawan Parekh of HDFC Securities. Please go ahead.
- Pawan Parekh:** Sir, first of all on this Patran thing again, so as I understand about 14.5% stake is now held by Techno, the listed company, 2% in your personal capacity and the balance by Techno Power Grid?
- P.P. Gupta:** Absolutely.
- Pawan Parekh:** And sir, what is the shareholding pattern of Techno Power Grid?
- P.P. Gupta:** It is again 49.1% to Simran, our subsidiary and balance by the promoter and family.
- Pawan Parekh:** And sir, if I understood it right, you will do proportionate consolidation line by line?
- P.P. Gupta:** Yes, absolutely.
- Pawan Parekh:** And sir, I have also seen the Annual Report, we have created several new other subsidiaries also like Techno Green and Techno Clean and things like that, I mean, any thought process behind these entities?
- P.P. Gupta:** Yes, you are very right. We created these companies at one them when we wanted to stay in the business of wind power, and everybody was educating us to migrate to group CAPEX. In group CAPEX you need a capacity, you need something no more than 20 megawatt. So these companies were incorporated to move the assets from Techno Electric that is parent company to the wholly owned subsidiary and park them into group captive mode. But subsequently we



took a call to exit them itself. So these entities have remained unutilized so far. Maybe going forward they may be of some use, but immediately we have no plan for them.

**Pawan Parekh:** Sir, but my question was that, so like this company called Techno Clean Energy Private Limited, this was newly incorporated in FY16?

**P.P. Gupta:** Right.

**Pawan Parekh:** So you are creating a group kind of structure now?

**P.P. Gupta:** No, not now, we wanted to do in the beginning of 2015-2016 on this one, before the wind season of last year.

**Pawan Parekh:** So sir, with this Patran transaction what is the cash that has exchanged hand between Techno Power Grid and Techno Electric?

**P.P. Gupta:** I could not get your question, can you repeat.

**Pawan Parekh:** So, when you have divested stake in this Patran company...

**P.P. Gupta:** No, we have not divested any stake.

**Pawan Parekh:** I mean, additional fund has been infused?

**P.P. Gupta:** Yes, we were to subscribe Rs. 50 crores, in the first tranche Rs. 24 crores came from Techno Electric and Rs. 30.26 crores came out of Techno Power Grid and from the P.P. Gupta's personal balance sheet, 2%. So we did not get an cash per say in techno electric.

**Pawan Parekh:** And sir lastly on the tax rate, our tax rate continues to be quite low, even if I adjust for the wind energy thing. So how long are we going to sustain this low tax rate?

**P.P. Gupta:** Sir, we are in a little difficult situation, the profit of Simran is tax free product because the company is under API. So then it remains tax free, so in that company we end up paying MAT, whereas Techno Electric we pay little more tax on a standalone basis. So, our attempt may be initially to merge the two entities to keep the going entity for next two, three years at MAT only. And we will consider it as a wind asset as a plum sale out of the single entity.

**Pawan Parekh:** So when is the MAT benefit by the way ending for Simran?

**P.P. Gupta:** It will end by no earlier than 2024, technically.

**Pawan Parekh:** But sir, even on a standalone basis I looked at your effective tax rate, its about 18% and if I knock out the profit from wind energy, even then the tax rate is quite low actually, in fact the



contribution in EBIT is hardly Rs. 2 crores from wind, so it is about 18% - 19% for the core EPC business in FY16.

**P.P. Gupta:** You are talking of March?

**Pawan Parekh:** I am talking about full year FY16.

**P.P. Gupta:** I am not very handy with the number, you send me a query I will email you up after studying the numbers.

**Pawan Parekh:** So as a guidance on a standalone basis we should be looking at a 20% tax for next two years at least?

**P.P. Gupta:** Yes, you can do on MAT rate.

**Moderator:** Thank you very much. We have the next question from the line of Sachin Mehta of Centrum Broking. Please go ahead.

**Sachin Mehta:** Sir, my question relates to the working capital, if you could probably throw some light on how it is distributed between your EPC and wind business? And have you seen any improvement, though in a very short span but anything that has improved on the wind side?

**P.P. Gupta:** No, on the win side still the payment cycle with the main utility that is Tamil Nadu is almost about a year, but in Karnataka we get within 30 days, that is very good. But Tamil Nadu is one year cycle. And on EPC we face no challenge, our working capital cycle is no more than two months, apart from retention money receivables which may add another two months by and large. If you look for March status, it is largely skewed because our entry between creditors and Patran receivables. If you take away that Rs. 125 crores, your more or less numbers will match with this statement of mie.

**Sachin Mehta:** So I think Patran, the receivables would come off once we don a rent for Patran after the new shareholding structure that we have right now, I think once we draw all the debt the company will be paying off the debt and the loans that we have given at the Techno level would probably get utilized or getting reflected as debt on our books going forward?

**P.P. Gupta:** It will see in Patran books. Firstly, there are no loans in Techno book.

**Sachin Mehta:** No, loans and advances which you would have given to Patran.

**P.P. Gupta:** Yes, no advances.

**Sachin Mehta:** Yes, advances, I was referring to that.



**P.P. Gupta:** So by and large, I will say this exercise will be over by mid-September or this month end. So next quarter it will be all neutralized, in the current quarter it will be taken care of.

**Moderator:** Thank you. We have the next question from the line of Salil Utagi of Systematix Shares. Please go ahead.

**Salil Utagi:** Sir, my question is on the order booking in last one year, so can you throw some light on our market share in PGCIL as well as in ACB orders in the target category?

**P.P. Gupta:** Yes, you see in PGCIL I will say our share last year has improved significantly in our segment of business which two years back used to be 5% - 6% has improved to (+15%) in last one year. Out of our outstanding order book of other than L1, say 2,600 crores, Power Grid pursues almost 1,750 crores, so it is almost 70%.

**Salil Utagi:** So that is kind of 15% market share?

**P.P. Gupta:** Yes, absolutely.

**Salil Utagi:** And in the SEBs, because it is just...

**P.P. Gupta:** SEBs we are very-very selective as our market share may be no more than 2% because we look for quality business only from that which is funded by multi lateral funding bilateral funding. We are very shy to work with their own products, but we simply focus on the timeline of completion. And more important, which matters most to techno is the contract closing immediately after the execution of the projects.

**Salil Utagi:** So, the same reasons you can attribute to your gaining market share in PGCIL?

**P.P. Gupta:** Yes, absolutely, because PGCIL or NTPC or any central government utilities are lot more better in terms of the pay banks, financial discipline as well as contract manufacturing.

**Salil Utagi:** Sir, then who are losing in the market, means probably Indian players or Chinese players?

**P.P. Gupta:** It is mostly I would say Indian players only because as far as Chinese or Koreans are concerned they are basically equipment suppliers, they are partners with companies like us or L&T within this market. So their market share on equipment stays as it is, definitely European entities more like ABB, Siemens, they are definitely focusing more on products now than projects because with the higher voltaging the project element has disproportionately grown up in the solution. So that is bringing some change in the market place, number one. Number two, additionally what I mentioned, let me elaborate a bit. A lot more stress is on the transforming capacity but whenever transforming capacity happens it is a network, it means this year tender is packaged with four or five pockets because it is extension of the existing stations for



greenfield. So whenever extension package happens it invariably breaches certain JV and content enhancement which are technological in nature additionally. So this again brings back the business to solution providers like us or equipment suppliers. These are the two phenomena at the root level which are part of this dynamic you will be sensitively able to discharge how do things are happening. But whether it is a greenfield package certainly these entities are fairly competitive to compliance.

**Salil Utagi:**

Sir and on the wind side, you said evacuation has improved and tariffs have also improved, so tariffs we can understand that it will remain constant over next one or two years, but on evacuation side are you confident, I mean, have the changes been significant enough that it will last for the future or would there be any changes that you can foresee?

**P.P. Gupta:**

I would say it is a difficult question to answer, simply because it is less technical and more political. As I mentioned in my briefing, more and more DISCOMS have a choice of power on their table. So their tendency is to buy more of cheap power than costly power. So, whenever they are over supplied with power they will like to shed that power which is costly to them. So, that is where Techo again becomes a preferable to the utilities because with the present governance and sensibilities on cost management of DISCOMS which was lacking a year or two behind. So this will go then, like we are the cheapest power producer in the country in renewable power, my cost of wind power is no more than Rs. 2.5 a unit between you and me, because I am in the wind pocket of the country. But now the same experience is happening with the solar people down, you can see in Rajasthan and Tamil Nadu they do want to procure whole of solar power because it is still priced at Rs. 4.5, thermal power they get at no more than Rs. 3 and wind power is also priced no more than Rs. 3.5. So, obviously first choice is thermal, next is wind and last is solar. So all this will continuously bring balance, it will create a regulatory pressure in the networks that despite we having a must run status immunity in the regions they are not being monitored and implemented with equal fair legality in the system. So you have to constantly struggle to achieve it like it almost took us a year to win a case in High Court of Tamil Nadu, in APTEL to reinforce personal status. So this does not mean you will always remain in the system. Even a year before they had an excuse that you don't schedule and forecast the power availability, we are all able to do it scientifically now. So, constantly these challenges will keep coming and keep get addressed in the system, but I am sure with all misgivings we are moving towards healthier regime at the end of the day.

**Moderator:**

Thank you. We have the next question from the line of Abhijeet Vara of Sundaram Mutual Funds. Please go ahead.

**Abhijeet Vara:**

Sir, what is the current debt for the Company, overall?

**P.P. Gupta:**

Total debt is about Rs. 300 crores at the consolidated level.

**Moderator:**

Thank you. We have the next question from the line of Renu Baid of IIFL. Please go ahead.



**Renu Baid:** Sir, couple of questions from my end. I am sorry, in case this question was already answered kindly excuse me, I logged in a little late in the call. First, just a quick update on STATCOM venture, so I guess the execution would have picked up now but how is the status from our JV partner with respect to localization and setting up facility in India? Are we on track or how are things moving on that end?

**P.P. Gupta:** Yes, it is very much on track and factory is in place, set of equipments are all in place, Power Grid is coming day after to witness that and supplies may be ready for shipment by December from these works.

**Renu Baid:** And we have not made any contribution with respect to the CAPEX for this facility is entirely in the scope of the JV partner?

**P.P. Gupta:** Absolutely right, it is the Chinese 100% own by them.

**Renu Baid:** So at least no concerns on delays or deferments on account of this?

**P.P. Gupta:** Right, actually.

**Renu Baid:** And sir, second, if we see relatively in the last I would say year, year and a half there have been quite a few power generation projects which have been tendered out and now probably the BOP rated packages are getting awarded. So are we seeing the EBOP market also picking up? And aligned with that, apart from the substations and allied expansion that we are doing in two of the STATCOMS and other space, have we outlined any areas where you would want to diversify or expand for a future growth?

**P.P. Gupta:** No, we are selective as I have been always mentioning and it is a niche segment, we are part of EBOP with NTPC for most of their projects, we are presently involved with them at MEJA, Kudgi. Vindhyachal, and latest we have got from them is another. So we see no dearth of business and as you know historically we have been shy of private sector project, with retrospect it has been good to us. So we will continue to focus on strong experienced entities in EPC as a solution provider to them. So definitely NTPC and Power Grid remain our strong bets. And also selectively the state utilities wherever they have multilateral funding for their projects.

**Renu Baid:** But any signs of comfort with any of the recent new private sector transmission operators or probably you will still continue to shy away from them?

**P.P. Gupta:** We will continue to be shy of them.

**Moderator:** Thank you. We have the next question from the line of Amber Singhania of Asian Market Securities.



- Amber Singhania:** Sir, couple of things. One, in the recently won STATCOM solution who was the L2 and what was the difference between us and the L2?
- P.P. Gupta:** L2 was Siemens and it was a reverse auction bid, in any reverse auction bid there is no difference between the two bidders, except whatever slab of discounting is involved, plus 25 lakhs.
- Amber Singhania:** And sir I believe there were today around five packages which were supposed to be coming from PGCIL and three have been so far bided out, so any two have been pending or is there any further updation on the number of packages or orders to be bided or to be tendered by PGCIL in the future?
- P.P. Gupta:** No, out of five, four are done, only one is left that is for Southern region.
- Amber Singhania:** Sir then how big will that be, sir?
- P.P. Gupta:** It should be about Rs. 500 crores.
- Amber Singhania:** And any timeline expected for that?
- P.P. Gupta:** No, not yet.
- Amber Singhania:** Secondly sir, as you mentioned about the TBCB tenders, would we be interested in doing work for private players who have won this TBCB in future be it Adani or Sterlite or anyone like that? And if yes, then any talk or any progress on that part?
- P.P. Gupta:** You are asking a difficult question sir, you know historically Techno has little appetite for private sector. We never worked with them historically, by and large, unless it helps us to better our qualifications like we did 765 KV station for Reliance at Sasan we were part of it as a BOP. But other than that, we have really not worked with private sector. The policy of the Company remains the same.
- Amber Singhania:** And sir, what is the status on our foray towards solar and we were also eying some international orders, so what are their status in these two aspects which we are planning to?
- P.P. Gupta:** We are very serious, we are constantly working on it, upgrading our learning curve, technologies, processes but we are yet to see a inflow.
- Amber Singhania:** And any tendering on the solar part we are seeing in the near term where we are bidding or any color on that if you can throw some light on that?



- P.P. Gupta:** Yes, we have participated in the tender of Tamil Nadu of NTPC at Salem and we will also be participating in their tender in Andhra Pradesh which is due this month and they have also come out with a tender in Andaman. So, Power Grid has panned out quite few opportunities in next three, four months. We are hopeful to be successful in one of them.
- Amber Singhanian:** Sir, this Andhra Pradesh is a rebidding one right, if I am not wrong?
- P.P. Gupta:** Yes.
- Amber Singhanian:** And how big these would be sir, Salem, Andhra Pradesh and Andaman?
- P.P. Gupta:** Salem is basically value of about Rs. 350 crores, Andhra Pradesh will be about Rs. 750 crores and Andaman may be about Rs. 100 crores.
- Amber Singhanian:** These are without equipment, only EBC part?
- P.P. Gupta:** No, EBC with full equipment. We go with full equipment, single stage solution.
- Amber Singhanian:** Sir you mentioned we have a debt of around Rs. 300 crores on a consol level as of now, what would be the cash level with us on a consol basis?
- P.P. Gupta:** About Rs. 250 crores.
- Amber Singhanian:** And similarly sir, what would be the total working capital and how much would be towards wind and how much would be towards Patran?
- P.P. Gupta:** No, towards Patran I will say there is no working capital because it is a contrast for payment to be received versus payable to suppliers by and large, if you see that way, net working capital could be steady. And other one, our working capital in EPC business will be about Rs. 100 crores and wind power will be another Rs. 50 crores in terms of the receivables.
- Amber Singhanian:** So receivable sides, no improvement has happened from the Tamil Nadu state yet?
- P.P. Gupta:** Actually, it remains to be a year but definitely it will be cost neutral now because they are bound to pay interest now as per Supreme Court order on delayed payments.
- Amber Singhanian:** Even on the delayed payments also, and area also we will be getting with interest?
- P.P. Gupta:** Yes, absolutely. The PPAs are like that, the very PPA has a clause that if not paid in 30 days they ought to pay us interest at 12%.
- Amber Singhanian:** And sir, what is the inventory of REC carrying as of now and are we seeing any improvement on that market yet?



**P.P. Gupta:** Generally REC has more or less in country become a L1 event with the last quarter of the year which is 80% of the trade, and remaining nine months we see 20%. So as an unsold inventory with us today is about 2.7 lakhs REC as of now.

**Amber Singhania:** And sir, just last question from my side, we mentioned that Tamil Nadu state is now allowing us to sell power outside also for the renewable energy, so they are not bound to buy entire power generation themselves but we are allowed to open. At the same time, there has been a High Court order which has given the status of must run status has to be maintained. So how these two things will go hand in hand because when Tamil Nadu will not be compelled to buy 100% because we are open to sell outside, how that will be implemented and what are the technical issues on that, sir?

**P.P. Gupta:** See, this subject is a bit dynamic and not static, number one. Those who have committed PPAs with the electricity board they have to buy that power. The choice they have given to the existing PPA energy generators is I can go back to the regulator with a request that I want to move out my power from the state and they will suo-moto approve it but this not my request to them, number one. Number two, they will definitely exercise this discretion in the future periods with the future generators. But in Tamil Nadu, I must tell you, as the collector of the market rates, almost 60% of the market is captive, all textile mills who have a captive wind power with them where state electricity board only has a reading of the power source, transferring the power from the wind mill to his factory. So state is not buying that power, number one. And number two, another 20% are all in good captive who do not sell power again to the state, that power is again bought by the very industry from the generators directly. And only 20% capacity of the power goes to the state where Techno comes in, largely. So in Tamil Nadu the state is not buying anyway more than 1,000 megawatt of power. So it is a very difficult market typically, it is a little difficult and complex market. So state government does not have that kind of complexity as much is made out to be.

**Moderator:** Thank you. We have the next question from the line of Ranjeet Shivram of Antique Stock Broking. Please go ahead.

**Ranjeet Shivram:** Sir, just a clarification on the previous question of this Patran project, so the basic idea if we want to look into a longer term, sir we are expecting more of these kind of projects coming forward and at that time we do not want the balance sheet of the consol entity to be impacted, that is why going forward this Techno Power Grid will also participate 51% of the money and Techno Electric will be putting 49% of the equity going forward in whatever BOOT project we will be taking. Is that the thought process in a longer term perspective if we understand it rightly?

**P.P. Gupta:** Yes, you are right. Not longer term, but at least next two, three years till we are able to consolidate or consol all assets in Techno Power Grid.



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- Ranjeet Shivram:** So later on after four, five years when it becomes profitable, we will be consolidating it back into Techno Electric?
- P.P. Gupta:** No, Techno Power Grid. And Techno Power Grid will become wholly owned subsidiary of Techno Electric.
- Moderator:** Thank you very much. That was the last question. As there are no further questions, I would like to hand the conference back to Mr. Amber Singhania for any closing comments.
- Amber Singhania:** Thank you, Raymond. On behalf of Asian Markets, I thank everyone for joining the call. And special thanks to the management for providing us insights about the Company's performance and the industry and their future outlook. Sir, would you like to add any closing comments?
- P.P. Gupta:** Yes, I will only like to say that apart from our improvement in the business, Techno will be particularly focusing on corporate governance going forward this year and going forward. So we will be reconstructing our Board, with more industry experienced and reputed players and also be communicating more with our investors as well as with the stock exchange, so please keep your watch over us. So with this, I will thank you all for joining the conference call. Still I will say, in case you have any queries related to our performance, please drop a mail to us. With that, I would like to close the conference and once again thank everybody for joining us. And whenever you are in Calcutta, you will be our honored guest to be a part of our office. You are welcome to visit us and see in person how we execute projects and our processes. Thank you so much for joining the call.
- Amber Singhania:** Thank you, sir.
- Moderator:** Thank you very much. On behalf of the Asian Markets Securities Limited, that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.