tdps™ is relations

TD Power Systems Limited
(CIN -L31103KA1999PLC025071)

REGISTERED OFFICE & FACTORY:
27, 28 and 29, KIADB Industrial Area
Dabaspet, Nelamangala Taluk
Bengaluru Rural District
Bengaluru – 562 111 India

Tel +91 80 229 95700 / 6633 7700
Fax +91 80 7734439 / 2299 5718
Mail tdps@tdps.co.in

www.tdps.co.in

February 8, 2021

The Corporate Service Department	The Listing Department
BSE Limited	**The National Stock Exchange of India Ltd.**
P J Towers, Dalal Street	Exchange Plaza, Bandra- Kurla Complex
Mumbai – 400 001	Bandra (East)
	Mumbai 400 051

Sirs,

Sub: Disclosure under Regulation 30 of SEBI LODR - Transcript of Analyst & Investors call

With respect to the above subject, please find attached transcript of Analyst & Investors conference call relating to Un-audited Financial Results of the Company for the period ended December 31, 2020 held on February 5, 2021.

Please take the above on your record.

Yours faithfully,
For **TD Power Systems Limited**

N. Srivatsa
Company Secretary

TD Power Systems Limited Bangalore

Encl: A/a

TD Power
Q3 & 9M FY21 Earnings Conference Call
February 05, 2021

Moderator: Good morning, ladies and gentlemen, welcome to the TD Power Systems Limited Earnings Conference Call. 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 '*' then '0' on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Devrishi Singh of CDR India. Thank you and over to you, sir.

Devrishi Singh: Thank you. Good morning everyone and thank you for joining us on the Q3 and 9M FY21 earnings conference call off TD Power Systems Limited. We have with us Mr. Nikhil Kumar – Managing Director, Mrs. M.N Varalakshmi – Chief Financial Officer and some of their colleagues in the management team on this call. We will begin the call with brief opening remarks from the management following which we will have the forum open for an interactive Q&A session.

Before we begin, I would like to mention that some of the statements made in today's call may be forward looking in nature and may involve risk and uncertainties. Documents related to the company's financial performance have already been emailed to all of you earlier. I would now like to invite Mr. Nikhil Kumar to make his opening remarks. Thank you and over to you, sir.

Nikhil Kumar: Good morning everybody. Thank you once again for joining us today on our earnings call. I would like to now discuss with you financial performance for the nine months ended 31st, December, 2020.

First standalone:

Our total income on a standalone basis for nine months was 337 crore versus 346 crore for the same period last year. Profit after tax, including comprehensive income for nine months was 8.12 crore versus a profit of 9.24 crore for the same period last year. Previous year's PAT included an exceptional income of 2.16 crore from the sale of land. Manufacturing revenues for nine months was 324 crore versus 328 crore in the previous year. Exports and deemed exports contributed to 61% of our manufacturing revenues. Manufacturing order book, including our Turkey operation stands at 1045 crore, 276 crore from our generator business, 692 crore form our Railways business and 77 crore from our Turkey business. Exports and deemed exports including Turkey, but excluding the railway business is 73%.

Order inflow:

Nine months order inflow, including our Turkey operation stands at 372 crore versus 419 crore from last year. Project business revenue for nine months is flat at 10 crore versus 10 crore last year. Our order book for the project business stands at 22 crore.

Consolidated:

Our total income on consol basis is 432 crore versus 375 crore for the same period of the previous year, an increase of 15%. Profit after tax, including comprehensive and exceptional income is 30 crore, including 6 crore coming from the right back of payables during the quarter from our subsidiary DFPS versus a profit of 11 crore from the same period of last year. Previous period of last year included an exceptional income of 2.16 crore in favor of the land as discussed earlier.

Order book on consol basis stands at 1067 crore. We continue to maintain a strong cash balance of 170 crore. Order book, market situation, and guidance; in turbine business, we see a strong recovery and demand coming in from the domestic market. We expect a long CAPEX cycle to begin, especially with the recent announcements on the budget from the government of India and vast allocations for infrastructure spending. We expect metals; cement chemicals are the key areas where we expect robust demand. Our export orders have also been very strong, especially from Europe. We have won a number of projects in the steam turbine segment from European OEMs for end-use, both in Europe and outside.

Hydro:

This segment will lag compared to FY21 but over the past two months, we have seen a rapid recovery of the pipeline and many order finalizations. We expect good recovery of this segment in FY22 and a full recovery in FY23. Most of the business that we are currently getting is in Nepal and Vietnam and we are well-placed in these markets.

Engine business:

We continue to get steady and growing business from our customer base in Austria. We have got some non-binding forecast from our new engine customer. These look really good at the moment, but they are not firm. However it is on track and this customer will surely give us good orders in FY22.

Railways:

Our major customer has increased the offtake for FY22 by 10% and is negotiating for more business with the Indian Railways for an increased contractual quantity. Further we are bidding with this customer for the new upcoming private train tender and we expect this will also be a big business for TDPS in years to come. We're happy to announce that we got the first order from Indian Railways and there are at least two more trial orders that we are expecting to win in the next few months. We have to supply these machines by the end of H1 FY22 and then there'll be a 6 month qualification period. Once we are qualified, you can expect the segment to be at least 75 crore per year and growing since the Indian Railways has ambition and plan for growth and also the Government of India has allocated huge funds for expansion of railways.

Wind:

We have delivered our first trial generator to a customer in Germany. It's under qualification; we will keep you updated on the potential volumes and the update on this development. Turkey; the new incentives have been announced by the government and while it is lower than before, it is still very lucrative for the power plant owners to buy a local generator. We have a full Q1 for FY22 and we also see after the announcement of these incentives, Q2 is also filling up. The new local content is 70% and we will have to make investments to make the complete generator in Turkey. We have already started our actions to make a full generator in Turkey and keep our market leadership in this market.

Overall, we are expanding our product range and geography in the core generator business and we are moving rapidly to create our railway business to become a big part of our company sales in the future.

Let me now move to the guidance:

Manufacturing business, we expect to end the year with the top line of 600 crore, including Turkey, up by about 5% from our initial guidance, which we have given earlier, which was 575 to 580 crore, including our Turkey subsidiary. All other subsidiaries are going to be profitable except for the US subsidiary, which will make a small loss due to some postponement of deliveries.

I would also like to give my first guidance or FY22; based on the current order book and visibility we expect the manufacturing revenues to be between 640 crore and 650 crore, including Turkey business.

This brings me to the end of my initial remarks. I'll now be happy to answer any questions that you have. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is in the line of Ankit from Bamboo Capital.

Ankit: Nikhil, in your writings for next year, what are the major assumptions the growth that we are expecting from 600 to 640 crore in FY20, is it primarily driven by the exports or you are seeing some uptick in domestic market also compared to what you were expecting 3-4 months back? If you can just give some brief update on how we're looking at next year, from perspective of both domestic and export markets?

Nikhil Kumar: The 600 crore this year includes a substantial portion from Turkey, which is around 120 crore and the Turkey business this year is definitely a peak because many of the power plant owners and investors wanted to cash the incentives, which are very high currently. There was a peak demand, which we saw this year and with the new incentive regime in place, we don't expect it to be at this level that we experienced this year. There'll be a drop off in Turkey. Probably the Turkey business will be somewhere between 90 to a 100 crore. The growth then will come from the other parts of the business. And, we are seeing that one is railway business and also domestic steam turbine, will also increase. We're also seeing that the export steam turbine, like I mentioned to you earlier, engine business will increase. So it's a mixture of everything, we have made some estimates based on the current situation and we have a pretty firm guidance what we've given to you in terms of the overall number. It could be a shifting of numbers from one segment to the other segment, depending on how the things pan out finally for the year. But the number that we put on the table is a fairly firm guidance.

Ankit: On the margin side, with that expectation of around 7%-8% growth in revenues next year, do you think our margins will also inch towards 14%-15% despite significant increase in the commodity prices.

Nikhil Kumar: The commodity prices will have an impact, but we have been working on increasing our margin profile for quite a while. Now it's been about six months and we have been getting price increases from customers across the board. We believe that the increase in realizations will more than offset the increase in the raw material prices. So, by a small amount but not a big amount, but definitely we will not have a negative situation coming from that. While there has been a dramatic increase in raw material prices. Based on the work that we were doing with the past six months, we expect overall the company to be net zero-zero on this situation.

Ankit: Do you think with this kind of run rate of 630-640 crore of revenue at least let's take a broad range of 13% to 15% EBITDA margin is possible next year.

Nikhil Kumar: This year we will end with EBITDA (+11). So we're not going to be adding a significant amount of costs in terms of new capacities and things like that. We have to definitely increase salaries and there'll be some fixed costs expenses which will go up because we have not done very much this year and people have worked hard and we have to do something for them next year. But if we increase our business, our increase in business will be definitely more compared to the increase in the fixed cost. So there will be an improvement in the EBITDA margins.

Ankit: Just last question on the railway side, you had mentioned over the past few con-calls you have been talking about engagement with the railways for supplies directly and this quarter in the con-call you had mentioned about, 75 crore of order flow from them in the medium term.

Nikhil Kumar: No, I didn't I say it is a 75 crore order inflow. I said this is a potential small trial orders and this can become a 75 crore business in the years to come, probably starting from, after we get the qualification.

Ankit: So you had mentioned in the earlier con-calls that this business has been largely concentrated with few companies. And, we are looking to entering that, is it that we are displacing an existing supplier or the order inflow itself from railways has increased significantly and we are getting some market share.

Nikhil Kumar: Yes bit of both.

Ankit: The margin profile of this business also will be in line with our existing business.

Nikhil Kumar: Yes. Once we are qualified, it will be good.

Ankit: One thing on the Navy side, we have been talking about it for the past few concalls, any update on that, any significant wins there and how are you seeing that business shaping up for us?

Nikhil Kumar: The Navy business, we will deliver the first set of machines in April, 2021 and there are new tenders in the market, but it will take some time for it to materialize. Right now we are focused on delivering the first set of machines to the Navy in April, and then they will be installed on the ships and I think the business, we don't see big business coming in FY22 but this can, after the machines are installed we will definitely push for more business from the Navy. So let's just wait and see until all the machines are installed. Navy also made this, so the first time they are buying the machine from us, they need to also get some experience and then I am sure once they are satisfied with the product this business will go up for us.

Moderator: The next question is on the line of from Himanshu Upadhyay from PGIM.

Himanshu Upadhyay: My first question was on the locomotives side or Indian railways, what business we have, what is the opportunity to grow outside Indian railways also or let's say global railways or locomotives. And how competitive is that scenario and can we think of that business coming up in next three years type of time frame? Or how are you looking at that business, scale up geographically?

Nikhil Kumar: Right now we are looking only the domestic opportunity and domestic opportunity is large. We are not yet in the stage where we can roll this out globally. And we are focusing on the domestic right now and as I said it's a large market. We have a lot of space to grow, it is a lot of work to do also, but we have started the journey and I am pretty sure that we will deliver good results from this. But to answer your question, our focus is domestic.

Himanshu Upadhyay: One more question, we had stated in one of previous call that it's a 600-700 crore market in India. And the opportunity size for us is 75 crore.

Nikhil Kumar: I am taking 10% market share which I feel we can get. I think once we get there we can, of course, think of expanding the market share, but I am putting a conservative 10% market share on the table which I believe TDP with its ability and technology and quality can deliver. Of course, scope to grow is much more, 10% is not a big market share.

Himanshu Upadhyay: So, my question was, do we have the technology for all, I mean that 700 crore is the market size, let us say theoretically, but do we have a product or the presence across products that we can cater to all 700 crore? Or let's say 30-40…

Nikhil Kumar: It's a good question. See, the basic technology is available but to get qualified for different locomotive types and with different divisions of Indian railways whether it is in CLW or DLW or Patiala, it takes time. That's why I am not being overambitious in saying that we will have all the products rolled out in the next 12 months. 3-4 product types which we expect to win some trial orders this year, we are going to focus on those and that's how we will deliver the first set of numbers. But we are going to continuously keep penetrating and try to get qualified across the whole range. It will take its own time. It will take two years, three year, but we just want to keep going at it.

Himanshu Upadhyay: One last question from my side, you said that there is consolidation which is happening across a Siemens and GE and everybody is trying to consolidate on the turbines side. Do you think the pricing is also going to get better from here on or what is the situation right now? Just your thoughts of their consolidation in the new orders, how are they panning out? Is pricing coming back or the cutthroat competitive pricing still remains globally and domestic market also?

Nikhil Kumar: The cut back in the capacity has definitely taken place. One first round has taken place. And we have increased our penetration in the market and the prices that are existing in the market are attractive for us at this moment. I have no idea what they are planning next. And I think as we take in this side below 50 as we keeping increasing or putting more and more machines in the market it becomes difficult for the big brands to justify their increased price level or their premiums. So that's all I can say at this point of time, we are just steadily increasing our market share.

Moderator: The next question is from the line of Hiral Shah from Phillip capital.

Hiral Shah: With this renewed thrust on capital expenditure by the government of India, do we have enough capacity to cater the incremental demand?

Nikhil Kumar: Yes. So, the intention of the government are very good and they have allocated a huge sum of money to infrastructure spending and we have to see, I mean, everyone's expecting now immediate results, but I think the deployment of money and capital into projects and then ordering, that whole cycle will start. And once it builds momentum there will be a huge demand, should be a huge demand. It's hard to say. We have a capacity of around 700 crore for the manufacturing business and we are now coming to something like 550-560 next year. And we have plans to get into different segments to take it to 700. So if the domestic infrastructure spending is really extremely high and demand goes through the roof, you see at that point of time we have options to incrementally increase our capacity without going for major investments in the existing plants.

Hiral Shah: So with the existing capacity we can touch 700 crore kind of a manufacturing revenue?

Nikhil Kumar: Yes, from India.

Hiral Shah: And this new 75 crore business, should we expect this would start kicking in from FY23?

Nikhil Kumar: Yes, kicking in, yes, FY23.

Hiral Shah: And there has been a substantial rise in inventory. So, if you can explain what has led to this rise, if I see the Balance Sheet?

Nikhil Kumar: We have a very heavy Q4. We have heavy dispatches planned in Q4, almost coming to (+160) for India business alone and in anticipation of this large production and sale, there's been a buildup of inventory.

Hiral Shah: Lastly, let's say for next 3 to 5 years, what according to you will be a key growth driver for your company and what kind of topline and margins we would like to achieve let's say next 4 to 5 years.

Nikhil Kumar: I think that's a hard question to answer on this call so we can definitely do another call offline and we can get into those details. It's hard to answer that question talking about a 4 to 5-year horizon.

Hiral Shah: Sure. And for the incremental revenue let's say we can do around 700 crore kind of a revenue. Let's say, if we want to achieve 1000 crore kind of a revenue what kind of CAPEX we need to incur to touch that kind of a mark?

Nikhil Kumar: These are hard questions to put to an earning call. Let's focus on the earnings and these long-term things we can take it later.

Moderator: The next question is from the line of Dhwanil Desai from Turtle Capital.

Dhwanil Desai: Three questions, the first one is, in your guidance of 640-650 crore next year, you alluded to 2-3 things. One is that, strong sentiment and revival in domestic market. Second is some non-binding indication from a new customer. And third is FY22 offtake by our railway customer. So, are you building in all those things in your guidance or there are some parts which you are saying that since it is not firm, so kept it out?

Nikhil Kumar: I have given a guidance which I am pretty sure to achieve. So, let me say, I am not going to put something on the table and go down on that number. There's only an upside potential and we will get back to you and once we see clarity on that the upside direction.

Dhwanil Desai: This non-binding order you won't be counting?

Nikhil Kumar: It's really-really hard for me to answer customer specific questions. We take all permutations and combinations when we arrive at a guidance. So we take a best case situation, worst case situation. Then we come up with a set of numbers which we are pretty confident to achieve. And that's the number we should put on the table today. And as I said, we expect an upside potential and we will be happy to share that with you as the time goes by.

Dhwanil Desai: Second question is on Turkey, so I think you indicated that this year is a peak year in terms of the revenue for Turkey. And next year also maybe is reasonably good, but how should we think about Turkey with that on a steady state basis, any thoughts on that?

Nikhil Kumar: I believe the Turkish market is between 90 to 100 crore for us on a steady state basis.

Dhwanil Desai: Last question is on; we are sitting still on a very reasonably good amount of cash. So any thoughts on buybacks or whether you need any capital to be deployed, any initiative on that side? Can you throw some light?

Nikhil Kumar: The share buyback is definitely the number one preferred option for excess cash. And if there are no opportunities for investment and investment into our regular business for large capacity expansions, so that's all I want to say at this point of time. We are just watching the market little bit if some of those large capacity expansion things don't happen, then the first preferred option is to use the excess capital excess money for buybacks.

Dhwanil Desai: So does it mean that there are some things on the table which you may be evaluating for the large expansion kind of a thing?

Nikhil Kumar: There are some things which are in the air. Let us see. I don't want to talk about it right now, but there's always some opportunities that come up and we need to see where it goes and we will wait another 2-3 months and if it doesn't happen then we will definitely deploy the cash into buybacks.

Moderator: The next question is from the line of Dhruvesh Sanghvi from Prespero Tree.

Dhruvesh Sanghvi: One further follow-up on the consolidation piece. Broadly over the last 3-4 years, what happened is some large units got shut, your OEM partnership increased and there seems to be the sectoral economics which is helping us with India base, your technology, will this trend incrementally continue? You can see more traction towards this type of opportunity where OEMs start looking to completely outsource their small generator businesses to companies like TD Power?

Nikhil Kumar: We are not in this outsourcing game of (Inaudible) 30.29 saying that we have to make generators for you, and you put your brand name on it and sell it, we are out of that game completely.

Dhruvesh Sanghvi: Sorry. When I say outsourcing, I am not talking about not using TD Power's brand name, but yes, I am saying from an angle that why don't you use TD Power's generator instead of…

Nikhil Kumar: We are not pursuing that business model at all anymore? It is unstable. It is unpredictable and it is one sided. And we end up getting into a situation where we don't really create a base for ourselves which ensures steady business as well as margins. So when it suits them they come to us and when it doesn't suit them they drop us. So we have stopped that business model a long time ago and we have pursued the market with our own brand name and with our own products. And this is a longer and harder road but it is giving results now.

Dhruvesh Sanghvi: Second is a little bit longer term, maybe 5-7 years because every alternate day we keep hearing something about batteries and we really don't understand what these technologies are, how much time they will take, some of your thoughts on, and I understand it's an evolving situation. Nobody can say for sure anything about how fast batteries will come up, but some of your personal thoughts will probably help. And how are you thinking about your business from 7-8 years from this battery perspective?

Nikhil Kumar: 7-8 years I don't have any thoughts. I think 7-8 years is too short of time for batteries to really impact the power generation business. Taking it back to technology really gets to the point where it really becomes, first is electric vehicles and that we are going to see the big shift in electric vehicles in the next 8-10 years. We are already seeing it but large scale batteries for storage, electricity and completely depending on renewables and moving away from fossil. I personally do not think that this is going to happen in the next 10 years. So if your investment horizon is more than 10 years in TDP then it's meaningful to ask this question. But I think from a short-term perspective, I am not seeing any threats.

Moderator: The next question is from the line of Arun Garje, an investor.

Arun Garje: I have 2-3 questions. One is about the railways which you have three things, so I just wanted a clarification. One is, 10% extra order on extra order quantity on that existing what order we have with the Railways, is that correct?

Nikhil Kumar: This is 10% additional volume for the year.

Arun Garje: So we were to do around 100 crore for FY22 so it would become 110, is that what you are saying?

Nikhil Kumar: Yes.

Arun Garje: Then in the same, Railways we are also going to take part in the private train tender process with our partner. That is a second opportunity, correct?

Nikhil Kumar: Yes.

Arun Garje: And other than this, the third one which you talked about is receiving an order from Railways which is around 75 crore potential, is that understanding correct?

Nikhil Kumar: Yes.

Arun Garje: My next question is about the EBITDA margins for the TDPS India to reach Turkey's level of 15%, what should be the quarter revenue?

Nikhil Kumar: 800 crore.

Participant: So that would be 200 crore per quarter.

Nikhil Kumar: Yes, sir.

Arun Garje: The second thing, I think the CFO had informed that there is no more write-off in whatever till date we have done and we have written back from 5.8 crore during this quarter. Is there any more such write back options or opportunities are there?

Nikhil Kumar: Yes, some small amounts are still pending and at the appropriate time we will reverse those. It's not meaningful, could be 1 or 2 crore more.

Arun Garje: Lastly, the project businesses we are not making any money. I believe we were running it keeping some obligations in mind. Is there any plan or timeline to close this division?

Nikhil Kumar: No, it's not losing money. It's making a small margin and at the moment we don't have any plans to, there are just a few people left and they are managing it and we get 30 crore of topline and some decent bottom-line and we will continue this business. I don't see any reason to completely shut it down. The manpower is just a few people, so it will run.

Moderator: The next question is from the line of Manoj Dua, an investor.

Manoj Dua: All your hard work is paying up. Can you throw some color on the wind side? Any new opportunity developing on wind side, how it is going in Europe?

Nikhil Kumar: I have just mentioned in the earning speech that we have delivered 1 generator to a German customer, it's under qualification. They are going to monitor, put it on the windmill and do some testing and get local certifications from the German authorities. We talked about some volumes after that, but there is a large domestic market and there are two or three major companies in the domestic market. We are evaluating whether we should again, re-enter this space and develop the products for these people. But it's a low margin, high risk business; it continues to be a low margin, high risk business. So we are not going full, not putting our 100% effort into going into this business because just the risk levels are extremely high and demand also has a big variation. You can put big capacity and some years you will have it really good and then some years you could have just 50% or even 30% of capacity utilization and that also is the risk factor for us. So, at the moment, Manoj it only this one customer and we are talking to other people, but it's not something which I want to highlight to the investment community.

Manoj Dua: In the last con-call we were talking about our Turkey customer taking us to more geography going forward, any development on that?

Nikhil Kumar: We are still waiting for the six months, for the first few generators to run six months. The first one was commissioned in October, so, as soon as the six-month expiry is over we will be sitting on their heads. So we will keep you informed.

Moderator: The next question is from the line of Rohit Balakrishna from Vrddhi Capital.

Rohit Balakrishna: Just few questions, you mentioned on hydro, you are seeing a recovery. So, what do you think about FY22, will it be still a runoff from FY21 and if so, if you can broadly guide how much? And you were saying FY23 you will expect a full recovery by what you are seeing today?

Nikhil Kumar: Yes, that's what I said.

Rohit Balakrishna: So this is on the base of FY20?

Nikhil Kumar: On the base of FY21.

Rohit Balakrishna: On the base of FY21. So just on this hydro, FY21 would be how much lower in FY20 broadly?

Nikhil Kumar: It's about flat.

Rohit Balakrishna: So FY21 and FY20 would be broadly similar and you would expect this to come back in FY22.

Nikhil Kumar: Correct.

Rohit Balakrishna: So next year broadly what kind of runoff are you looking at in hydro based on what you are seeing today?

Nikhil Kumar: I don't want to put a number for the specific segments right now. I have a number internally but I don't want to share this number because it can change.

Rohit Balakrishna: Not an issue. I understand. To an earlier question around margins, so if you were saying next year 650 odd crore. So, just looking at our numbers and taking some cost increases, seeing that we can do between 12%-13% EBITDA, is that a fair estimate in your mind?

Nikhil Kumar: I think 12 is a fair estimate and we are constantly striving for more, but I think 12 is a fair estimate.

Rohit Balakrishna: This quarter, obviously we had a 35% gross margin. So, was there any one-off in this, like some inventory or do you think this, maybe we can touch 33%-34% kind of gross margins going forward as well?

Nikhil Kumar: No. This was one off, we had one very large export order which we got some great prices and we had also done taking the currency in Euros and we had got 90 to the Euro for that order where we had estimated much lower Euro realization at the time of taking the order. So it was a bumper. I think steady state you can expect 30%-31% gross margin and we are pushing, we trying to hit something like 32 next year, but for calculations I think you can take 30-31.

Rohit Balakrishna: And just one clarification, when you are broadly saying 640-650 for next year, so you are looking at probably 550 to 560 in TDPS India.

Nikhil Kumar: Yes, exactly right. Around 540-550 from TDPS India and the rest from Turkey.

Rohit Balakrishna: So, just this question when you talked about 700 being peak capacity. So, we have come to a situation where people are now asking, are we going to put CAPEX, so just wanted to ask from your perspective, how are you thinking about that? You would still want to wait out and see a year or so to see if the revival comes or how are you thinking?

Nikhil Kumar: First, as I said, we can make incremental investments and we can increase the capacity or output from 700 maybe 800. We also have that large generator 2 pole facility which is still totally not used and that space is fully available. So if I get further demand and if I want to make some products over there, I have a large building, I just have to put machines and people and start production. So I don't need to start from a greenfield situation. We have a long way to go before we can think of big capacity greenfield. We are still found ways on that.

Rohit Balakrishna: In Turkey, you mentioned you need to put up some investment. What would be the quantum of that?

Nikhil Kumar: About 1 million Euros.

Moderator: The next question is from the line of Hardik Shah from Vibrant Securities.

Hardik Shah: My question is that this year how much railway revenue are you budgeting for FY21? I think 40 odd crore is the number you mentioned earlier, is that the number which we will be ending this year?

Nikhil Kumar: Yes, around 60.

Hardik Shah: 60 for railways this year?

Nikhil Kumar: Yes.

Hardik Shah: And this will go to 110 next year?

Nikhil Kumar: Yes.

Hardik Shah: And Turkey will go down from 120 to around 80 to 90 crore.

Nikhil Kumar: 90, yes around 10 million Euros.

Hardik Shah: So, if I broadly exclude these two segments especially Turkey and Railways basically we are debiting a fully conservative I think 10% growth if I am not wrong.

Nikhil Kumar: Yes. It's conservative, I have admitted that, we are very happy to declare the upside as and when it develops and gets confirmed.

Hardik Shah: Second question on the OPEX side, I see that this quarter was at least a bit higher than generally the run rate which was around 30 to 31 crore a quarter. This quarter was 34, so was there something which was not recurring in nature?

MN Varalakshmi: Yes. There were some expenses which we had to incur during the quarter under the revenue expenses; these are that of one time, the overall annual budget it will get off later in Q4.

Hardik Shah: My third question is I think you have said that gross margin for next year we should assume anywhere between 30% to 31%. So if my understanding is correct, the current cost structure, making 12% on that gross margin will be a bit tricky, right? To do 12% don't you think that our gross margin needs to be a bit higher than 30% odd.

Nikhil Kumar: 31%, so what is your question?

Hardik Shah: The question is that; do you see a downside risk to your EBITDA margin guidance of 12% that's my question basically.

Nikhil Kumar: As I said cost increases will be lower than the growth in the business and we will not have an impact of the raw material price increases on the gross contribution level. So we will be able to expand the EBITDA margin by around 1%.

Hardik Shah: Because on gross margin levels that's clearly saying will go down? Because this year I think we have been doing more than 32%, at least 10 months basis its more than 32, so on one side you are saying that might go down but you are saying that will be compensated by decrease in the OPEX much more than the revenue increase, right? That's what you are saying.

Nikhil Kumar: Your question is that the gross margins are at lower, you said?

Hardik Shah: Yes, for the next year, the guidance given implies that they may go down versus this year, right?

Nikhil Kumar: If you give us a call after this earnings call we will answer your question with full numbers.

Moderator: The next question is from the line of Anish Jobalia from Banyan Capital Advisors.

Anish Jobalia: First of all, great performance as per the guidance and also great to see the much better order book outlook. Just one question, which I would like to understand in terms of our FY22 we are making 650 crore. One thing that I would like to understand in that 650 crore is that like a now a very steady revenue base to look at on which we will be building up all these positives that have been happening as you mentioned in the initial comments. How are we thinking about that in terms of the sturdiness of order book?

Nikhil Kumar: There are three components to this 650 crore. There is a generator business, there is a railway business and there is a Turkey business. These are the three at a very fundamental level we can divide our total manufacturing business into these three parts. And we see the railway business at the current level steady, it is a long-term contract and it's going to grow with additional opportunities that we have been working on. Turkey business I said, it's a steady state, 1900 crore business. I don't expect big growth over there, but it will be steady. And the generator business, remaining generator business will grow because we have opportunities on the engine side, steam turbine side, domestic it is definitely going to grow. Also, we said hydro is going to be not a very good year for the upcoming year, but it's going to get back to where it was. So, Yes, I think 650 is definitely steady state number and there is only upside potential from there.

Anish Jobalia: In terms of upside potential now in terms of CAPEX coming into this commodities and metals, how should one think about this in terms of the upside potential, how would you think about it? Without maybe talking about specific numbers, but can this itself be a big opportunity with order inflows translating into FY22 and execution happening say FY23?

Nikhil Kumar: We are going after everything and we are not letting anything just pass us by. We are in many segments, we have many geographies in many verticals and as I said, I put a number on the table, which I am pretty sure I can achieve and I have been conservative so there is scope for growth and I will be happy to share that with you as the time goes by as we get into next financial year. That's all I can say right now. I mean, I really can't say anything further on that.

Anish Jobalia: My second question in terms of capital allocations, so with the kind of cash that we have on the books, do you think we returning back to the shareholders is a better proposition versus in terms of understanding the opportunities let's say for inorganic growth also, as a counter cyclical move before things start happening better, is there a scope for that and before getting the tailwinds of growth coming back, we can actually become more robust in terms of our capacity or let's say the overall capability of the company.

Nikhil Kumar: First priority would be to invest in the business and second priority would be return money to the shareholders. So, first priority is, invest in the business and invest in robust opportunity, which have clear visibility of giving returns over a long-term period. Once those come up, money will go there first.

Anish Jobalia: But are we evaluating those opportunities because the kind of cash that we have…

Nikhil Kumar: Yes, we are. I am not in a position to share these with you at the moment. There are a few, but that has to pan out before I can share news with you. All I can say is that we are not in a position to take a decision on the second option, a share buyback because the first option of investing in the business is not yet come to the stage where we say, okay, this is not going to happen. So it's still an ongoing conversation.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Nikhil Kumar: Thank you very much for joining us on this call. There are a few unanswered questions and we would be happy to go offline and talk to individual investors in more detail about those unanswered questions. We look forward to interacting with all of you once again at the end of next quarter. Thank you for your time today.

Moderator: Thank you. Ladies and gentlemen, on behalf of TD Power Systems Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.