

TD Power Systems Limited
(CIN -L31103KA1999PLC025071)

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May 16, 2022

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The Listing Department
The National Stock Exchange of India Ltd.
Exchange Plaza, Bandra- Kurla Complex
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Mumbai 400 051

Sirs,

Sub: Transcript of Earning Conference Call – Q4 and Year Ended March 31, 2022

In furtherance of our letter dated May 11, 2022, the transcript of Q4FY2022 earning conference call held on May 11, 2022 has been uploaded on the website of the Company at <https://tdps.co.in/investor-relations/investor-services/analyst-investors/>

Kindly take the above on record.

Yours faithfully,
For TD Power Systems Limited

N Srivatsa
Company Secretary



“TD Power Systems Limited Q4 FY22 Earnings
Conference Call”

May 11, 2022



MANAGEMENT: **MR. NIKHIL KUMAR – MANAGING DIRECTOR,
TD POWER SYSTEMS LIMITED**
**MS. M.N. VARALAKSHMI – CHIEF FINANCIAL
OFFICER, TD POWER SYSTEMS LIMITED**
**MR. VINAY HEGDE – HEAD (GLOBAL SALES AND
MARKETING), TD POWER SYSTEMS LIMITED**



Moderator:

Good morning, and thank you for joining us on this call to discuss Financial Performance of TD Power Systems Limited for the Quarter and Year Ended 31st March 2022. We have with us Mr. Nikhil Kumar – Managing Director; Ms. M. N. Varalakshmi – Chief Financial Officer; Mr. Vinay Hegde, Head of Global Sales and Marketing and some other of their colleagues from the management team on this call.

Before we begin, I would like to mention that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. Documents relating to the company's financial performance have already been uploaded on the Stock Exchange and company's website. 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 touchtone phone. Please note that this conference is being recorded. I now invite Mr. Nikhil Kumar, Managing Director for TD Power Systems Limited to provide key highlights of the company's performance for the year ended 31st March 2022. Thank you, and over to you, Mr. Kumar.

Nikhil Kumar:

Good morning, everybody. Thank you once again for joining us today on our earnings call. I trust all of you would have received our results and investor presentation.

Now I would like to discuss with you TDPS' Financial Performance for the year ended 31st March 2022:

Our full year total income on a standalone basis was Rs. 7.36 billion versus Rs. 5.12 billion for the same period in the previous year, an increase of 44%. Profit after tax and comprehensive income was Rs. 532 million versus a profit of Rs. 179 million for the same period in the previous year, an increase of 197%. This is the highest profit for the manufacturing business since the inception of the company. We'd also like to point out and mention that the investment that we've been making in automation and productivity has given us good results, our operating costs have increased only by Rs. 36 million and the turnover has gone up by Rs. 22 billion. Clearly, we're seeing the benefits of the investments we made in increased productivity.

Full year manufacturing revenues was Rs. 7.04 billion versus Rs. 4.85 billion. Exports and deemed exports contributed to 50% of manufacturing revenues with the railway business included and 61% if one only considers the generator business. Manufacturing order book, including Turkey operations, stands at Rs. 13.92 billion, out of which Rs. 3.77 billion is a regular manufacturing business, Rs. 9.89 billion is railways business, which is executable over the next 6 years and Rs. 0.26 billion for the Turkey business. Export and deemed exports, excluding the railway business constitute around 59%.

Order inflow:

We are happy to report a big increase in the order inflow for TDPS India from Rs. 4.7 billion last year to Rs. 6.05 billion this year. That means from FY21 to FY22, an increase of 22%. Full year order inflow, including Turkey business is as follows; TDPS India is Rs. 6.05 billion, Turkey is Rs. 0.35 billion, total Rs. 6.4 billion, and the previous year was Rs. 4.7 billion for TDPS India, Rs. 0.69 billion is for TDPS Turkey, giving a total of Rs. 5.39 billion. Order inflow from direct in these exports were Rs. 3.74 billion, which is 62% of the total order inflows for the generator the business. Full year project business revenue was Rs. 173 million versus Rs. 203 million in the same period last year. Order book for the project business stands at Rs. 415 million.

Consolidated:

On a consolidated basis, our full year total income, including exceptional items is Rs. 8.22 billion versus Rs. 6.1 billion for the same period last year. Profit after tax, including comprehensive and exceptional income is Rs. 614 million including the write-back of DFPS versus a profit of Rs. 437 million for the same period in the previous year. Profits have been impacted due to the foreign exchange translation loss of Rs. 75.23 million, this is a notional loss from our Turkish subsidiary due to the sharp depreciation of the Turkish lira (TRY) to the Indian rupee from TRY 8.84 at the beginning of the year to TRY 5.16 at the end of the year, a drop of 42%. It is important to note that TDPS Turkey has an actual operational PAT of Rs. 39.52 million. Our consol order book is Rs. 14.34 billion. We continue to maintain a strong cash position of Rs. 1.81 billion.

Order book:

Market situation and guidance. Order book. Despite the highly volatile situation in the global markets caused by the war in Ukraine, high inflation and consequent interest rate increases, we are seeing a huge increase in order inflow and pipeline in Q1 FY23, the current year compared to any time in the past. The factors driving the order inflow are somewhat different in India compared to outside India. In India, we are definitely seeing a big upswing in the Capex cycle. The sectors leading demand are steel, metals, distilleries, cement and other industrial sectors. In particular, there is no surplus power in India, there's a severe case of under-investment in the power sector, which has increased the reliance on captive power plants. Power prices are at an all-time high. And unless an industry has captive power plants, it is difficult to ensure reliability of operations.

Another major area of investment by the government of India is in the railway. Huge investments are taking place in this sector. We are bidding for a number of projects with our OEM partners. And with our track record, we will capture a part of this market.

Exports:

The war in Ukraine has increased the focus on renewable power, waste to energy, biomass, hydro and geothermal. We are well positioned to capture business in all these segments. At the

moment, small gas engines and turbines are also very popular to avoid the current high power prices, especially in Europe. Industries are buying gas in the open market and installing small captive power plant to mitigate the high prices of power. In the end, it is about cost of power independence on the utilities that is driving the growth. In the US, the fracking industry is staging a big revival and we hope to get more orders from the mobile power unit. We're working with both the major gas turbine manufacturers in this segment.

Hydro:

The market is picking up. We have a current order book for FY23, more than what we executed in FY22. So, we will most certainly grow the sales of hydro in FY23. All hydro sales are 100% export. We'd also like to report that we have been approved by a new OEM from Germany that has given us an order for 3 large vertical generators. The aftermarket business is also doing well for TDPS. Every year, more and more generators get older and needs spare parts and replacements. We are seeing a good number of orders already for H1.

Market situation for the current financial year:

We have, as mentioned earlier, extremely strong order inflow for the month of April and also for the month of May till date. Both exports and domestic markets are doing well with strong pipelines. We will also see the full effect of price increases that we negotiated last year in the gross contribution of the company in this financial year. In addition, we have hedged with euro for almost the whole year's business at good rates. So, we will not suffer any gross contribution loss due to the recent weakness of the euro. We have also purchased a significant amount of steel, copper and other materials to secure margins and derisk the raw material impact. Our railway customer has also increased the forecast for this current financial year. The management is focused on increasing the gross contribution by a combination of pricing, cost reduction and increased productivity by investments. This year, we will invest Rs. 22 crores only on automation and other areas in the factory as well as in the office.

Coming to guidance:

We're giving an initial guidance for TDPS India for a top line of Rs. 8.2 billion plus. We will have fairly consistent quarter-on-quarter performance. But as always, Q2 and Q4 will be stronger compared to Q1 and Q3. TDPS Turkey will have approximate top line of Rs. 0.3 billion and the total manufacturing business will be giving an initial guidance of Rs. 8.5 billion plus. The project business will have a topline of around Rs. 0.4 billion. All our subsidiaries will be profitable in this financial year.

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

Moderator:

We'll now begin the question-and-answer session. The first question is from the line of Ravi Swaminathan from Spark Capital Advisors. Please go ahead.

- Ravi Swaminathan:** Sir, you had talked about a significant increase in the overall inquiry pipeline for this year. You are seeing very good demand from the metal space and other sectors. Can you just quantify as to what would be the kind of increase in inquiry pipeline that we have seen in the domestic market and also the export market in terms of addressable market. How large has the inquiry pipeline has grown year-on-year.
- Nikhil Kumar:** It's a difficult question to answer, Ravi, because the increase in inquiry pipeline does not necessarily translate to increase in business. But at the moment, I can say it's about 30% more.
- Ravi Swaminathan:** 30% more?
- Nikhil Kumar:** Yes.
- Ravi Swaminathan:** So, this is both in the domestic and the export side, sir,
- Nikhil Kumar:** On an average, you can say. But I would also like to again caution that an increase in inquiry does not necessarily translate into increase of business.
- Ravi Swaminathan:** Sir, my second question is with respect to the margins. Manufacturing margins, we had ended at the EBIT margin of around 12% in FY22. Historically, if you are seeing we had even touched 14%, 15% kind of margins. Do you think that with good operating leverage and good growth, we might even be able to touch the historical margins of 14%, 15% going forward over the next 1, 2 years? Is that a possibility going forward?
- Nikhil Kumar:** The focus of the management is to increase the operating margins. And as I said in my speech, it's a combination going to come from combination of price, combination of cost reduction activities on the product and productivity increases when we have operating leverage. So, as you have seen, we have seen operating leverage playing a role in last financial year, despite the fact that we had big raw material price increases and didn't have a big expansion of the gross contribution. So, operating leverage, I think played a larger role last year compared to the increase in the gross contribution because we did not have a full pass-through of the raw material price increases in our margins last year and we had also given guidance to that effect during the conference call that we had last year. Now as I also mentioned that we will see pass-through starting to take place in Q4 of last year. And that we have seen, if you see the gross contribution level from Q4, you will see it is higher than the average for the whole year. So, that gives an indicator of what can be achieved, let me put it that way. And as I said, the management's focus is going to be in a combination of three factors: Price, cost reductions, productivity increases.
- Ravi Swaminathan:** And with respect to the railways business in the presentation, it was mentioned that a lot of spends are happening with respect to railways. Can you talk about that also in terms of opportunities, direct supplies to railways, etcetera, if you can give some view on that?
- Nikhil Kumar:** There are basically 3 opportunities. One is an expansion of our existing contract itself that is under negotiation with Indian Railways. Then there is another tender, which has been announced

for another project, which is exactly similar to what our customer has one with the Indian Railways. So, similar size, similar machine. Then there is all the high-speed trains we're talking about and our OEM partner has won some number of machines, some number of trains for the high-speed trains. So, there are a number of opportunities where we're seeing big, big emphasis on investment in the railways. And of course, we will definitely get a part of this business. And I think that the scope is huge because the amount of investment and amount of machines it need is just enormous.

- Moderator:** The next question is from the line of Ankit from Bamboo Capital. Please go ahead.
- Ankit Gupta:** Nikhil, if you can talk about some of our new initiatives and how are they shaping up on the motor side, the wind power refurbishment and the other initiatives that we were planning to disclose to investors in upcoming calls, if you can talk about this initiative, how are they scaling up?
- Nikhil Kumar:** There are number of negotiations going on. Let me put it that way. I would say that the scope of the business and the growth in the business presented is intact. We hope to report something to the market in the next earnings call. We are near in a number of final negotiations. So, I can't say anything more.
- Ankit Gupta:** And Nikhil, on the margin front, we have seen some improvement on the gross margin side with the gross margin touching 29%, 30% in Q3 and Q4. So, with the price revision kicking in and the raw material hedging done for the entire year, along with Euro, you think for the full year of FY23, gross margin can climb back to 31%, 32%?
- Nikhil Kumar:** That is the goal of the management to increase the gross margins to 31%, 32%, what you said, okay? That's the goal of the management. So, eventually, we will see the EBITDA margins expanding due to combination of operating leverage, 1% or 2% increase in the gross contribution and also trying to keep the fixed cost under control. These are the three factors which are going to play out way. Now what is it going to be in the end. I think we will definitely be happy to give you accurate guidance in the upcoming quarters. Our goal is to definitely improve the gross contribution & EBITDA margins compared to what we achieved last year.
- Moderator:** The next question is from the line of Himanshu Upadhyay from O3 Capital. Please go ahead.
- Himanshu Upadhyay:** There is one thing only, which is slightly troubling. Our trade receivables on the consol has increased to Rs. 241 crore, okay, which is on Rs. 800 crore, which is 30% of it, so nearly 120 days of receivables. Can you explain what are we doing? Because of that particular line, the cash flows have got impacted, okay?
- Nikhil Kumar:** I will ask Varalakshmi to answer this question.



- M. Varalakshmi:** Yes. The trade receivables are generally high at the end of the quarter or at the end of the year because of the high volume of pay, which happened at the end of the month or during the month of March.
- Himanshu Upadhyay:** So, if I look at the consolidated numbers now the cash flows I'm talking about operating, okay? So, this year, even whenever growth has been pretty strong, the operating cash flow is Rs. 10 crore, okay. And last year, it was negative, okay. So, is there something which we can do to reduce this receivable part or is 4 months is a pretty long period, okay, even if we pay. So, what are the trade terms we give to the customers. Can you just elaborate on that part, it will be helpful.
- M. Varalakshmi:** The trade term is between 45 days to 90 days or 100 days. But generally, you see that most of the billing happens in the month of March and that's why you can see that the receivables are mounting, very high. And we have done almost Rs. 200 crore of manufacturing business in Q4 and we also have the sales from our subsidiary. So, this is normal in our line of business.
- Nikhil Kumar:** I think the answer is a bunching effect. And that is the reason why you see a spike in the receivables towards the end of the year, particularly.
- Himanshu Upadhyay:** But how many of the customers would be paying within 90 days for us?
- M. Varalakshmi:** More than 75% will pay.
- Himanshu Upadhyay:** And one small thing. Out of our manufacturing revenue, what would be because of coal-powered plants are the generators for coal-based power plants.
- Nikhil Kumar:** I don't have the exact number right now with me, Himanshu.
- Himanshu Upadhyay:** And are we seeing correction on the coal-based power plant in the captive power plant and do we expect we can reach back to the previous 2011-2012 high on captive power, especially in India. Is the CapEx on captive power plants happening outside India also? And can we target that market.
- Nikhil Kumar:** Vinay, can you answer this question?
- Vinay Hegde:** Yes. Can you once again repeat your question?
- Himanshu Upadhyay:** So, my question was on captive power plant, both in India and outside India. So, in India, we have a very strong market share in captive power plant for small generators, okay. But are we seeing a similar growth of captive power plants outside India also because power shortage seems across the globe prevalent. And what would be our strategy to gain market share in captive power plants outside India?



- Vinay Hegde:** See, India, of course, there is a big investment going on, in the captive power plant. Outside India, it is mainly the small gas-based power plant and from waste energy, there are a lot of big projects coming in the countries like Germany and UK. But it is not the same as in India.
- Himanshu Upadhyay:** And who would be our competitors for those products in developed markets?
- Vinay Hegde:** Developed markets, we have competitors like ABB, Siemens.
- Moderator:** The next question is from one of Dhwanil Desai from Turtle Capital. Please go ahead.
- Dhwanil Desai:** So, Nikhil, the first question is our railway order book has increased significantly. And you said that the sale is executable over six years. So, does it mean that the Rs. 100 crore run rate even now grew to Rs. 150 crore. Is that a right way to think?
- Nikhil Kumar:** Yes, that's correct.
- Dhwanil Desai:** So, is it because the number of machines that we are going to supply has increased.
- Nikhil Kumar:** There are 2 factors. One is the number of machines has increased. And second factor is that there is a price variation clause and there is also an increase of the price of each product of each motor that we supply to them. So, it's a combination of both.
- Dhwanil Desai:** And this is for the Rs. 100 crore opportunity on a railway tender remains, right, for which we had applied some trial orders.
- Nikhil Kumar:** There are a number of business segments within the railway business. So, as I said, the Indian railways, this is being supplied to a multinational company who's a joint venture partner with the Indian Railways where they're manufacturing these 12,000 horsepower freight locomotives, right? These are the products that we are supplying right now. In addition to that, we are qualifying ourselves for the traction motors directly with the Indian Railways, which are used both in freight and passenger locomotives, electric locomotives. That is, as I said, Rs. 1,000 crore market approx. and is growing. And in that, we hope to get around a 10% market share.
- Dhwanil Desai:** But I think we had supplied some trial orders for that, right?
- Nikhil Kumar:** We have produced the motors. They're under inspection with the Indian Railways and they will be soon dispatched and the mounted on the locomotive. There'll be a six-month trial period and then we will be qualified.
- Dhwanil Desai:** And anything specific on this wind R&M, any development there?
- Nikhil Kumar:** As I said earlier to an earlier question, there are a number of contracts under negotiation. We hope to report in the next earnings call, more specific order wins, but there are a number of active jobs under final negotiations.



- Moderator:** The next question is from the line of Riya Mehta from Aequitas Investors. Please go ahead.
- Riya Mehta:** My first question was you mentioned that you're now stocking up on copper, steel, et cetera. So, just wanted to understand that how much inventory do we usually keep and how much have we increased this to at this point in time?
- Nikhil Kumar:** If you say specifically normal language, let's say, 3 crisis, okay, let's say, we would not have more than three months of inventory. But we would have copper bookings, not necessarily inventory, extending maybe up to 6 to 9 months. So, right now, we have almost 9 months of inventory.
- Riya Mehta:** And my next question was that sometimes like a couple of quarters back, we had mentioned that at full capacity or optimum capacity, our revenue potential would be at about Rs. 800 crore. And given the price rise and given we've already touched that in FY22, where does the revenue potential stand with current capacity as we speak?
- Nikhil Kumar:** I think in the last call, I had mentioned that we have moved that number now to around Rs. 1,000, - Rs. 1,100 crore. And that's where it stands as of now. And we'll keep pushing it to the extent possible year-on-year by increasing investments in automation and productivity and trying to extract more and more from the current resources. We're not planning any new greenfield projects at this point of time.
- Moderator:** The next question is from the line of Mohit Khanna from Banyan Capital Advisors. Please go ahead.
- Mohit Khanna:** I have 2 set of questions, sir. First of all, if you could just help me to understand the employee expense line that has moved considerably in the last few quarters. So, right now, this quarter of Rs. 20 crore at a higher revenue level and year-over-year, it was Rs. 22.6 crore if I get it right. So, what exactly is the nature of this movement? Why this happens is my first question? And then I'll come back for the second one, sir.
- Nikhil Kumar:** I'll ask Varalakshmi to answer this question. We're talking about the employee-related expenses, employee benefit expenses.
- Mohit Khanna:** Employee expenses on the consol P&L.
- M. Varalakshmi:** It is Rs. 20 crore for this quarter. And on an annual basis, it is Rs. 80 crore versus Rs. 79 crore last year.
- Mohit Khanna:** I was trying to understand that even with the higher revenues, this has come down, which has improved our EBITDA margin. So, what is the nature of these expenses?
- M. Varalakshmi:** No, with this basically what we have done is we have not taken replacement.

- Mohit Khanna:** The nature of the expenses is employee related salaries.
- M. Varalakshmi:** Salaries and employee benefit.
- Mohit Khanna:** Is it going to come back next quarter?
- Nikhil Kumar:** Provident fund contribution, and the normal employee-related expenses.
- Mohit Khanna:** Is it going to come back the next quarter because we have had a good traction due to lower expenses on margins this quarter?
- M. Varalakshmi:** No, it will be almost the same. Only you will see the inflationary cost, which will get added as well.
- Nikhil Kumar:** We give salary increases every year. And there will be a salary increase, which we've already given for FY23 to our management. And it is in line with the industry, to say salary increases. But we will offset these increases with increase in productivity and with the expansion of the business. So, as we did last year, we will increase our sales significantly without a corresponding can say, a proportional increase in the fixed cost. That's one of the areas how we're going to increase our EBITDA through operating leverage.
- Mohit Khanna:** Fair enough. So, that was more helpful. And when you just spoke about the automation piece of that Rs. 22 crore investment that we're going to make. So, is it the total CapEx that we are targeting for this year or do you have more?
- Nikhil Kumar:** It's a total CapEx, and it will be directed towards automation, both on the factory side and also on the management side. Automating process is within the management framework.
- Mohit Khanna:** What is the expected cost savings that you are targeting internally with this?
- Nikhil Kumar:** I can't disclose this information. I'm sorry.
- Mohit Khanna:** And just last piece, if I push in. So, for the fourth quarter, what was the growth in the domestic and the export side of the business on the revenue?
- Nikhil Kumar:** We don't have this information of hand. It's easy for us to get it, we will get back to you on that.
- Moderator:** The next question is from the line of Amber Singhania from Nippon India Mutual Fund. Please go ahead.
- Amber Singhania:** Sir, I have 2 questions. First is on the capacity side. As you mentioned that you are not planning any greenfield, we are all at Rs. 900 crore or maybe in a year with this current growth rate, we will be reaching the current capacity threshold which you mentioned. So, what is the further room by brownfield or debottlenecking we can grow this capacity? And if at all, we need to go

for greenfield, how long it takes for the capacity to come on stream. So, I just wanted to understand by when we need to plan if we are seeing this current growth rate continuing? And what is the further room we have there? That's first question.

And secondly, just wanted your view on the export market, given the current fluctuations in European geographies given the current geopolitical situation, how you see the demand getting impacted in the future? Are you seeing any color or are we anticipating any slowdown in the export market potential as such. So, 2 questions from my side.

Nikhil Kumar:

The first question I'll answer, then second question, I'll leave it to my colleague, Vinay to answer. First question about greenfield. So, we have spare land also with us. We have not enough utilize it. So, if we really have to put up a factory and get it up and running in a crunch, we can do it within 7 to 8 months. So, we don't have to really start literally from zero to start buying land, we have land. But there is a lot that we can do within the existing two factories that we have. Those who have visited us, you can see that we have a lot of space and there's still room to grow. So, I'm not set on putting up a greenfield at this point of time. We will keep pushing the limit on flogging the existing assets and getting operating leverage. I think that is the focus of the management at this point of time. And when we really run out of capacity, as I said, we have land, we can put up another plant. So, the second question about the export market and where we are and how the growth is going to take place. Vinay, can you please answer that question?

Vinay Hegde:

So, export market, see, because of this Ukraine-Russia war, we have not seen any impact on our business. And rather it is going up because now customers they want to be independent of Russian gas, mainly in Europe and there are a lot of waste energy power plants are coming up. And there is no negative impact. Definitely in India, there are a lot of projects coming. So, there is zero effect in Indian market because of the war, but we see a positive impact due to this war.

Nikhil Kumar:

So, we are seeing basically there is a move that people want to get independent from the larger utility side, gas power plants, which are dependent on Russian gas and things like that. There is a lot of discussion taking place on if we don't buy Russian gas, how are we going to generate power to survive. Of course, it's not immediately started, but there will be investment, more and more investments taking place on renewables, more and more investments taking place on biomass, on garbage burning plants, on wastage recovery, hydro. They cannot do this entire replacement of the fossil fuel or the gas-based, large gas-based utility power plant. It cannot replace entirely to solar and wind, it's not at all possible. So, there will be a large proportion of this replacement coming through the steam turbines, and we're also seeing a lot of industries in Europe, in general, trying to become independent of utility and putting up captive power plants. So, this is a general trend, because things can change tomorrow. But ask me the question today, this is what we're hearing from the market.

Amber Singhania:

Just one small clarification, if I may. You mentioned the FY23 revenue guidance of roughly around Rs. 8.5 billion versus Rs. 8.1 billion, which we have already done this year. That results in kind of single-digit kind of growth.



- Nikhil Kumar:** It's not Rs. 8.1 billion. The manufacturing revenue is Rs. 7 billion for TDPS India, and that will be Rs. 8.2 billion, Rs. 7 billion will move to Rs. 8.2 billion. And then Turkey will have Rs. 0.3 billion. So, it's Rs. 8.2 billion plus Rs. 0.3 billion, Rs. 8.5 billion.
- Moderator:** The next question is from the line of Hiten from Joindre Capital. Please go ahead.
- Hiten Boricha:** Sir, I have a clarification question for the guidance. You gave the guidance of Rs. 8.5 billion of manufacturing revenue for this year, right? Total manufacturing? And the current year on the consol level, it's around 8.8 So, are we seeing any degrowth in this or am I missing something?
- Nikhil Kumar:** You're missing something. Varalakshmi will explain.
- M. Varalakshmi:** So, what you're seeing is on the result elimination of inter-segment between the companies. So, what we are talking is 8 points. So, if you take the inter-company elimination, the manufacturing revenue will be Rs. 782 crs.
- Hiten Boricha:** Rs. 782 crs, total manufacturing. And guidance is Rs. 40 crore from project business, right?
- Nikhil Kumar:** Yes, correct.
- Hiten Boricha:** And my other question is on CapEx, sir. Just wanted to understand what is our CapEx target for FY23?
- Nikhil Kumar:** I think I have answered this question a number of times, but I'll say it again, it's around Rs. 22 crores.
- Moderator:** The next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.
- V.P. Rajesh:** On the macro side, what's your take on where we are in the CapEx cycle? I think your comments on what's happening in Europe are very helpful. But if you can just also give a sense that are we in the first sealing second meeting of long games or there how you're seeing the CapEx cycle evolve there?
- Nikhil Kumar:** I think in India, we're hardly 1 year into this expansion of 1 year, 1.5 years into this revival of the CapEx cycle, right? So, I mean, I think, I hope we will have a 10-year expansion. I mean there's lot of space to grow in our country. So, we should think of this thing lasting for a while.
- V.P. Rajesh:** So, in that context, Nikhil, do you think you will be starting to expand your capacity in fiscal year '24 because as you said, you will be hitting Rs. 1,100 crore of revenues to the current capacity? And with sort of the growth that you are talking about for fiscal year '23, it seems by fiscal year '23 you'd like to start expanding. Am I directionally correct?
- Nikhil Kumar:** I mentioned to Rajesh that look, we are going to flog the existing assets. Maybe we can answer this question in a better way next year around this time. And we have land. If we have to do it,

we can do it in a tranche. So, if there's a sudden massive increase in the market, and unexpectedly we are seeing lot of orders coming, we have to produce quickly, we can put up a factory very quickly because we have land. We have lands in neighboring. We actually have some buildings within our existing complex, which are not fully utilized too. So, we can also use some of that. There's absolutely no problem that in a state where there is a sudden expansion of demand, we have the space, we have the capacity to put it up very quickly, and we will not lose any opportunities.

V.P. Rajesh: And my second question was on Turkey. So, what's your sense about long term? Like I know you gave the guidance, but do you think if this Ukraine war has become more important to have that location? Just trying to understand how it is in over the long term.

Nikhil Kumar: Turkey temporarily, it's a market which is under some level of stress because of their financial situation thereabout. The country as a whole when there's a sharp devaluation of the local Turkish lira versus the euro and dollar and also very, very high inflation. But they need to invest in energy, if they have energy shortage in the country, power shortage in the country, they will keep investing. And the market will revive. So, there will be a combination of locally produced generators, which we will produce from our factory over there. And because of our last two, three years, where we have been the dominant player in the market below 50 megawatt, we have an extremely good acceptance of our brand and a very good penetration in the market with all the major power producers. Any business that does not require a made in Turkey generator, they're offered the made in India generator. And so, when the market revives, we are well positioned to get both parts of it, either made in Turkey or made in India.

Moderator: The next question is from the line of Rohit Balakrishnan from iThought PMS. Please go ahead.

Rohit Balakrishnan: Nikhil, just a couple of questions. You mentioned in your opening commentary that you've acquired a new OEM from Germany. Can you just talk a bit about that?

Nikhil Kumar: It's a hydro turbine manufacturer based in Germany and they do a number of projects internationally. We have got the first big order from them for three vertical machines. So, it's a good start with them, I can say.

Rohit Balakrishnan: Any sense in terms of what can it be in terms of size or a bit too early to say?

Nikhil Kumar: They do a number of projects. I'm not going to give a number right now, Rohit. I think that we would like to execute the projects and then we can talk about it. But it would grow the hydro business in general for us.

Rohit Balakrishnan: The other question is there are so many disruption and so many other headwinds that you keep reading these days. And we have sort of our outlook seems very strong. So, just from your perspective, from your vantage point, what are the risks that you are seeing right now? So, that we can also sort of have a look on those. What are the risks that you see at this point of time from your business perspective?

Nikhil Kumar: So, I would say there is a short-term risk and that would, let's say, we will just talk about medium-term risk, okay? So, short term, I mean the current financial year, maybe a couple of quarters into next year. So, as far as this current financial year is concerned, as I have mentioned, Vinay has also mentioned strong inflows and strong pipeline. We are very confident that we don't see any short-term risk in terms of the numbers and projections what we are giving to the market at this point of time. So, the momentum will definitely carry-out as far as the short-term risk is concerned. Medium-term, it's really difficult to say because are these interest rate increases going to cause big slowdown in investment? Is war going to spill-over, is it going to draw in other Europe and America in a bigger way? Is it going to lead to a larger conflict? I can't answer all these questions. So, how is it going to impact business. Very, very difficult to talk about the medium-term risk. We will have to adapt ourselves to whatever situation comes, but we are well positioned in number of markets. And what we have right now and what we didn't have in the past is we have a very strong domestic market. And that, I think, will have a big cushioning effect in case something happens internationally.

Moderator: The next question is from the line of Jatin Kumar from Alpha Capital. Please go ahead.

Jatin Kumar: Sir, my question is on margins. So, as you were saying that Q4 will have better margins because we have taken price rise, but have prices risen more in January, February and March. And so are we confident that margins have kind of bottomed?

Nikhil Kumar: Price increases what we have got, we have taken care of the price increases that we have seen on the raw material side up to date. So, the pass-through, we do not feel the pass-through completely in Q4, we felt it partially. So, we will see better situation emerging in the next few quarters and we will be happy to report in the next earnings call, we'll give you a definite or more accurate guidance of what the EBITDA margin for the year is going to be.

Moderator: The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: My first question is with respect to synchronized motors order inquiry of Rs. 200 crore, Rs. 250 crore of the pipeline. Has there been any conversion there or what is the update?

Nikhil Kumar: The update, as I said earlier, is that we are in a number of final negotiations and should close some orders soon. So, we will keep the market informed as and when we are able to do that.

Alisha Mahawla: What is the kind of competition we're facing in this segment?

Nikhil Kumar: Primarily, we compete against BHEL.

Alisha Mahawla: And with respect to the replacement demand, you were quite bullish about it in early part of this year, especially in the wind turbine segment. Are we seeing traction there?

Nikhil Kumar: We are seeing traction there. We will increase our overall spares and replacement business this financial year. And I also mentioned in my earnings calls speech that we're already seeing a good



order book for H1. So, it's going as per our plan. We're not revising it downwards or upwards, it is going as per plan right now.

Alisha Mahawla: So, is it possible to quantify what is the current contribution from the replacement market?

Nikhil Kumar: I don't want to give breakups of the individual components of our business like that. But it's increasing.

Alisha Mahawla: Just one last question. Any plans to exit the Turkey business?

Nikhil Kumar: No. At this point of time, no.

Alisha Mahawla: We are expecting some revival maybe end of this year, next year.

Nikhil Kumar: We are definitely expecting a revival. And there is going to be a revival. As I said, it's a market they have a power shortage and they need to put-up power plants and they will.

Moderator: Next question is from the line of Anurag Patil from Roha Asset Managers. Please go ahead.

Anurag Patil: So, are we able to include escalation clauses for all the new orders we are booking now?

Nikhil Kumar: In general, we have an escalation clause with many of our customers, but we also have, in the sense that if there is a variation of raw material prices beyond a certain point, we will get back to the negotiating table and talk. We have that with all our major customers.

Anurag Patil: So, I mean still what portion of this current order book can be exposed to commodity risk.

Nikhil Kumar: Very little. I don't know how to make that exact calculation, but we have covered the risk largely by hedging, by stocking material. So, we don't see a risk in terms of price increases impacting us at this point of time in a major way.

Anurag Patil: And second question is on the guidance. So, does this revenue guidance excludes the revenue possibility from these new initiatives you're currently discussing orders, et cetera, with the customers.

Nikhil Kumar: Our revenue guidance is a combination of everything. And if we are successful in picking up some big orders, we'll be happy to report any changes in the revenue guidance in the upcoming quarters when we talk to all of you. As of now, this is what we see. We always want to give a number which we can achieve. And when we can achieve something better, we'll be happy to report that to you.

Moderator: The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.



- Aditya Mongia:** Sir, the question that I had was, firstly, given the backlog where it is, what kind of manufacturing top line can you, any which we can do out of that in FY23 from a manufacturing perspective?
- Nikhil Kumar:** Aditya, we have said that we'll do Rs. 820 crore from Rs. 8.2 billion from India and Rs. 0.3 billion from Turkey. So, totally Rs. 8.5 billion in the manufacturing business.
- Aditya Mongia:** The second question that I wanted to ask you was from a motors perspective, do you see the motors portfolio becoming a reasonably large share of your overall revenues over the next, let's say 3 years or so.
- Nikhil Kumar:** Yes. This large synchronous motor business can end-up being a big segment. So, as I mentioned in a number of calls in the past, the market size is around Rs. 200 crore, Rs. 250 crore. And we hope to get at least, I don't know, 30%, 40% of that market, that's the size that we can hope to get. The business is there for sure and we're seeing the inquiry pipeline between the projects, business is definitely there.
- Aditya Mongia:** And just to get it slightly clearer, let's say three years from now, if generators, motors and services would be three separate segments, would motor be number two or number three as things stand right now.
- Nikhil Kumar:** Two, three years from now.
- Aditya Mongia:** You were suggesting that you were reasonable.
- Nikhil Kumar:** Motors is definitely number two and service is number three for sure.
- Moderator:** As there are no further questions, I will now hand the conference over to Mr. Nikhil Kumar for closing comments.
- Nikhil Kumar:** Thank you all for joining our conference call. If you have any further questions, please feel free to get in touch with Varalakshmi or Vinay. We look forward to interacting with all of you into the next quarter. Thank you.
- Moderator:** Thank you very much. On behalf of TD Power Systems Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.