



“Techno Electric & Engineering Company Limited Q1 FY 2016 Earnings Conference Call”

August 11, 2015



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Moderator: Ladies and gentlemen good day and welcome to the Techno Electric and Engineering Company Limited Q1 FY 2016 Earnings Conference Call hosted by Asian Market 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amber Singhania from Asian Market Securities. Thank you and over to you Mr. Singhania!

Amber Singhania: Thank you Margaret. Good afternoon everyone. On behalf of Asian Markets, I welcome you to the Q1 FY2016 Earning Conference Call for Techno Electric and Engineering Company Limited. We have with us today Mr. P.P. Gupta, Chairman and Managing Director, Mr. Ankit Saraiya, Director and his team representing the company. I now request Mr. P.P. Gupta to take us through the quarterly results and the overall macro scenario about the company and industry and then we shall begin with Q&A session. Over to you Sir!

P.P. Gupta: Very good afternoon and welcome everyone. Thank you for joining us today to discuss Techno Electric’s Financial Results for the quarter ended June 30, 2015. 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 sector faces. We have started the financial year on a strong footing in our EPC segment. We have received a new order worth Rs.268 Crores during the quarter ending June 30, 2015. With this our unexecuted order book as on June 30, 2015 stands at Rs.2115 Crores. The order secured during this quarter is a great breakthrough, it is the first order in the country, in the very transmission segment and that relates to dynamic load management we call fact. It is STATCOM installation at 400 KB in three pockets called Solapur, Aurangabad and Satna. The order is for Rs.268 Crores and it is from Power Grid Corporation of India Limited. We have bagged this order in associated with a Dubai based company called Rongxin Power with their manufacturing facility in China and design office in UK. Going through these very results you can see our EPC revenue are up by 25% nearly at Rs.178 Crores against Rs.142 Crores achieved during the previous year and our consolidated revenue grew by 10%. EPC profit from operations excluding other income for the quarter increased by 52% at Rs.23.6 Crores against Rs.15.56 Crores achieved last year for the same period. The EPC net profit for the quarter has increased by 74% to Rs.20.81 Crores against Rs.11.97 Crores in the previous year. Similarly our consolidated profit has also grown by 60%. The wind cycle this year has started a bit late, so there is a little drop in revenue in the first quarter, but July the wind has been very good, August is better than last



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year, so we are hopeful that in the quarter of July to September we will make up for the loss on the wind power during the first quarter. So, on the wind side I will say this year is likely to be like-to-like of the previous year. Coming to the prospects of the very business, I will say the EPC business in transmission segment is very robust. There are investments happening both at the national grid level as well as in sub-transmission systems at the state levels. We see stronger movement on the high end solution now with the density of growing networks in the country and also the focus on the renewable. As you must have observed in the very balance sheet, your company is the first mover in the Green Energy Corridors and now as a part of the dynamic load management we call FACT and we are also eyeing an opportunity an HVDC networks going forward. I am sure more investments are planned in the STATCOM solution. There is already a tender worth Rs.100 million plus in the bidding stage now in the eastern region. There are also strong movement in the sub-transmission infrastructure in states like Telengana, Andhra Pradesh, Bihar and Rajasthan. We have strong presence in all these pockets I would say. As far as wind industry as I already highlighted we see no improvement over the previous year, so challenges continues. We have started exiting this business successfully. We could exit 45 megawatts, balance we are hopeful of achieving during the year. The momentum however is good in the whole power sector regime as you can see on the macro level and on the regulatory side, there is already a Draft Renewable Energy Act which has been released and a holistic framework has been proposed for promoting renewable energy, so we will have a separate Renewable Energy Act out of the very Electricity Act 2003 and I am confident that all challenges or issues in the ongoing operations of this sector will be dedicated moving forward. Similarly, Supreme Court on May 15 gave a very strong judgment on the application of the RPO countrywide resulting in better demanding in REC from the captive or open access consumers. We were also successful in achieving an order from Tamil Nadu High Court on July 8, 2015, where the high court gave injunctions staying the state power utility from unplugging wind turbines till the very case is disposed off in the High Court, so with this the evacuation of power has improved a lot. In July alone we could have generation and evacuation from the remaining capacity with us was almost about 55 million units and we anticipate another 40 million units during August but still the challenge remains for 100% evacuation, but it is much better post high court order. Similarly, the prospects of PPP business are improving everyday in the country, almost tenders worth a lakh Crores are in different stages of bidding. We are operating successfully a project in Haryana in partnership in Kalpataru with no major challenges. Our second project in Patran is on track and on schedule. We are hopeful of commissioning it by May 16 as per the very orders. We are also keen to have more investment in transmission infrastructure under BOOT, BOOM category in PPP model. With this background in place, I invite questions from the participants.



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Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.

Sandeep Tulsian: Good afternoon sir. My first question is regarding the recent projects that were awarded on the transmission BOOT side and we have been reading that Adani has won this project where there was a significant gap as compared to the L2 price submitted for these projects. I just wanted to get your views and your thoughts on this regarding the pricing specifically for these projects very aggressive, so if this kind of trend continues, how do we plan to tackle intake of BOOT projects in future, the upcoming projects which you mentioned of one lakh, Crore?

P.P. Gupta: Your question is very valid that I would like to say this project belonging to Rajnandgaon was very strategically bid by Adani, not competitively bid. Our bid was very close to Power Grid bid and so was bid of Sterlite but the bid of Adani is way out. Probably our assumption behind this is that Adani wants to transfer some power from his Gujarat projects which they are not easily able to do today to Andhra Pradesh which is power starved and this win enable them to do that. Probably it is a business consideration by taking a hit of Rs.50 Crores a year if it boosts his margin in the power business by Rs.500 Crores probably it is worth taking and we can bet on it, that is our calculation in the industry, but on a standalone basis it is definitely a very aggressive bidding.

Sandeep Tulsian: So your bids were closer to L2, L3?

P.P. Gupta: Absolutely, L2, L1 and other than L1 all L3, L2 and H1 are all very close by to each other. They are within 2%.

Sandeep Tulsian: Secondly, I wanted to know what is the current cash and debt position and what are the management's thoughts on utilizing the cash proceeds that we have received from CL of this 45 megawatt plant from Simran?

P.P. Gupta: The total cash in the books of the company as of now is about Rs.300 Crores on a consolidated basis and our debt is no more than Rs.400 Crores on like-to-like repayable over next seven years. We intend using this cash earlier as stated earlier in building up a strong on transmission assets in BOOT, BOOM segment as well as we are awaiting an amendment to the electricity lying in the Parliament now which disconnects the carrier and content thereby giving a strong momentum to the distribution segment. Now, future I can only say a revolutionary change will happen in the distribution segment with this amendment to the Electricity Act and this will throw an exciting opportunity in the PPP segment and we are all preparing to encash on this opportunity very strongly may be it



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happens down six months or one year, but we are very, very confident it is going to change the face of the power sector.

Sandeep Tulsian: Sir I also wanted to understand in our annual report, we formed two new subsidiaries Techno Power Grid and Techno Infra Developers. If you could elaborate a little bit more as to what would be the role of the subsidiaries and what is the rationale behind forming them?

P.P. Gupta: Techno Power Grid is formulated basically to consolidate our transmission assets, invested in transmission assets in the BOOT or BOOM model in a subsidiary which can be hived off going forward to the benefit of the shareholders and stakeholders I will say and similarly the infrastructure will house our distribution assets which we are talking strongly, so both these entities are very strategically planned out way ahead of the opportunities arising in the market.

Sandeep Tulsian: One last question, on the wind side we have seen the fall in revenues was significantly higher, because 42% decline versus capacity hive off of 22% that you have done in this quarter. So what challenges were there exactly in evacuating this power?

P.P. Gupta: More than evacuating the wind, I will say the challenges on evacuation side was very like-to-like of the previous year, but the very wind was slow, the rain in the month of May and June was very high in Tamilnadu and it picked up only towards the last week of June I would say, so July has been very good surprisingly it is 20% higher than last year, August is going strong accordingly. So sometime we find these wind cycles are late by a month earlier or delayed, so I think this year the wind cycle is happening a month later than the previous year that is the effect we are seeing on this.

Sandeep Tulsian: Absolutely, it is static; it is status quo, so we do not see improvement over previous year which we are desperately wanting between you and me, that is not happening. Given the better evacuation probably we could have seen more evacuation and more generation and winning by another about no less than 15-20% which does not seem to happen, so it will be like-to-like to previous year.

Moderator: We will move to next question which is from the line of Mayur Patel from DSP BlackRock, please go ahead.

Mayur Patel: Hi Sir, congratulations for good set of results, sir just had one question regarding this STATCOM order which you got, what is your scope and what is the scope of your partner?



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P.P. Gupta: The partner gives the technological component of the project, we call STATCOMS and housing those STATCOMS in the existing facilities of Power Grid, the scope belongs to us thereafter, so the scope is quite huge, rather I can say, value wise Techno is executing 51% of the scope and partner scope is 49% in this package on like to like basis if you compare but it is beyond what we are usually doing also in AIR solutions, so it calls for lot of reactive power management, it calls for coupling transformers integrating in the package, so it is quite exciting and different than what we are habituated to do I will say, distribution only business.

Mayur Patel: So the products would be imported from China?

P.P. Gupta: The technology component product will be imported from China; Made in China you can say absolutely.

Mayur Patel: The EPC and commissioning kind of would be done by Techno Electric?

P.P. Gupta: Yes, like creation of the base, installing reactors, supplying coupling transformers, the capacitor bends intimating them in to the existing transmission network they will all be with us.

Mayur Patel: Sir, would margins be different from conventional AIS substations?

P.P. Gupta: You are asking for secrets. Any high-end solution obviously it is supposed to be little more rewarding than the traditional business but you do go through a learning curve too.

Mayur Patel: Sir any progress on the GIS front? Are you targeting that pocket also?

P.P. Gupta: Yes, we are now L1 in GIS, in NTPC at Tanda, presently it is 180 Crores package, it is GIS package and we are L1 as lead bidder now in 400 KV segment, so with this Techno acquired status of its own in this field of business also and we are already executing as you know, projecting GIS as an associate of Chinese entity at Tirunelveli in Green corridors additionally, so that package has got about 200 Crores in totality or 225 Crores and Magarwara we have already commissioned successfully with the same partner close to Bombay.

Mayur Patel: Same Chinese partner?

P.P. Gupta: Absolutely.



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- Mayur Patel:** This company from Dubai, is that a different company?
- P.P. Gupta:** It is a different company obviously.
- Mayur Patel:** So for GIS the same Chinese partner you would continue to have in future and for STATCOM and these kinds of projects you will continue to do it with this Dubai based company?
- P.P. Gupta:** Absolutely.
- Moderator:** The next question is from the line of Rahul Gajare from Edelweiss, please go ahead.
- Rahul Gajare:** Sir, given that evacuation situation has improved in Tamil Nadu have you seen any material change in the receivable position?
- P.P. Gupta:** Generally as you know it is a cyclical business. The major receivables belong to no more than five months. They all happen by September or October and generally get paid out by March, this year they paid out in April, so receivables presently outstanding is very little but technically if you ask me it is no less than 6 to 7 months but value wise it is very little, no more than 15% of our total annual generation.
- Rahul Gajare:** Of wind or are you talking about total consolidated?
- P.P. Gupta:** Wind.
- Rahul Gajare:** 15% of wind revenue?
- P.P. Gupta:** In Tamil Nadu we do no EPC, we are only in wind business.
- Rahul Gajare:** Sir we sold our wind assets, what is the tax treatment to that, could you tell how much was the tax we paid on that?
- P.P. Gupta:** The total tax liability over the year on this will be about 22 Crores but there is no cash outgo on tax because we are carrying the MAT credit with us, so it will all be offset from the credit carry forward as cash outgo.
- Rahul Gajare:** So the 16 Crores that we are seeing over here that ideally should have been higher, is that what you are saying?



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- P.P. Gupta:** Yes obviously, if I provide for full, it should have been Rs.22 Crores but we are providing at full tax rate over the year as per the accounting standards.
- Rahul Gajare:** Second thing I just missed this number, the intake that you mentioned was it Rs.280 Crores during this quarter?
- P.P. Gupta:** Rs.268 Crores order intake which belongs to STATCOM orders which I said.
- Rahul Gajare:** Sir with respect to your partner in STATCOM this is the same company called Rongxin.
- P.P. Gupta:** Absolutely.
- Rahul Gajare:** Because that time I think you were indicating that most of the equipment essentially will be coming from China?
- P.P. Gupta:** Yes, ultimately we could enhance Indian scope, which is more than our Chinese equipment with the consent of the ultimate customers and more equipment going forward we want to source in India only because Made in India is becoming a way of life. Additionally in this order Chinese company also has the obligation to set up a manufacturing facility in India additionally, so down year or two the STATCOM will be manufactured within India itself.
- Rahul Gajare:** Who will be the competition in this space?
- P.P. Gupta:** Generally as we saw last time the competition was between Siemens and these Chinese counterpart but going forward smaller ratings STATCOM, probably Alstom and ABB may also be contending for this space but presently the STATCOM use there of much higher rating, which local companies do not have the capability to deal with.
- Rahul Gajare:** When you are saying higher rating you are essentially meaning 400 KV right?
- P.P. Gupta:** No, it goes by Mvr. The solutions are basically 300 Mvr, so if we use 100 or 150 Mvr solutions we can have them in India.
- Rahul Gajare:** Sir finally on your project business, while you said that Patran seems to be on track in terms of execution, etc., but in March the backlog continued to remain at Rs.175 odd Crores in your order backlog, so how much has it moved in from March till June?
- P.P. Gupta:** What happens is when we show the total outstanding, which means even if I have done the work, I have not billed it between you and me. The work is happening on the ground



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because it is our own entity between parent and subsidiary, so we will always bill it when it is significantly billable, so billing does not generally indicate a progress in these cases.

Rahul Gajare: Because that is something which I just was slightly concerned, because it did not show any movement on the backlog, so in terms of percentage approximately how much of work we would have done on Patran?

P.P. Gupta: You can take by now we have covered about 30% work.

Rahul Gajare: That is significant.

P.P. Gupta: Yes.

Moderator: The next question is from the line of Deepak Narnolia from Antique Stock Broking. Please go ahead.

Deepak Narnolia: Hello Sir, congratulations for good set of numbers during this quarter. I have a question sir particularly related to this quarter, but generally I see that in Patran project the tariff quoted by you, annualized tariff is somewhere around 275.

P.P. Gupta: Absolutely.

Deepak Narnolia: But I checked in the document the price quoted by PGCIL was almost three times your price.

P.P. Gupta: Absolutely you are right.

Deepak Narnolia: Can you throw a little light on that sir, if the bid by you is aggressive or something like that?

P.P. Gupta: Not at all, we are able to manage this project within Rs.200 Crores as capex and you can yourself calculate a tariff of Rs.200 Crore worth project what should be the levelized tariff over the lifetime of the asset so you will find our bid is almost about 14%, generally industries presently working are no more than 12% in the recent bids so I see it is decently bid but had I know others are going to make so huge mistake probably there was place for us to make 40-50 million more.

Deepak Narnolia: That is what I was asking may be some risk you have not envisaged or something like that Power Grid has envisaged or why so much of difference?



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P.P. Gupta: You see this is where is the subject knowledge matters at times, the question is you are to tap a line and bring it to your substitution, now this line happen with a distance of 10 kilometers because it was a acquired moves double circuit lines making it 10 kilometers means almost 40 to 50 Crores, making it 6 kilometers means Rs.25 Crores and I made it 0 meter. We took the land right below the line itself where it became almost no cost to us, have you understood me technically.

Deepak Narnolia: No sir.

P.P. Gupta: I request you to please visit.

Deepak Narnolia: I will discuss it off line actually and next about your order bidding strategy I checked your last seven year pattern of ordering and I generally see that your ordering strategy was very conservative in last seven years and typically when competition was very high in some years you have not received a single order from PGCIL, so all of sudden I see that these kind of, you have good amount of orders recently, so I was wondering is there any significant change in your bidding strategy because ordering was there by PGCIL in FY12 also, in fact FY12 was the highest order by PGCIL, but now you have been receiving significant orders, so just to know is there is any significant change in your strategy with respect to orders?

P.P. Gupta: There is no change in strategy of Techno, but it is all probably the competitors are falling behind, they are understanding the costs at which they can deliver a project is rising in the last two to three years for them, so the prices at which they bid or bagged the very contracts they were not very rewarding to them or were difficult in executing over even working capital cycles, interestingly more European entities suffered in India under Chinese or Korean competition and the European operations also weakened, so their monitoring of Indian operations have also become strong, so I am seeing this market getting more and more healthy in the competition and definitely it gives us a level playing field to a non manufacturer like us.

Deepak Narnolia: In general, pricing trend has become more disciplined you mean to say?

P.P. Gupta: Absolutely.

Deepak Narnolia: One more last question sir about your REC inventory in your balance sheet?

P.P. Gupta: The total REC in hand with us now is 2,86,657 as of June end.



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- Deepak Narnolia:** This is number of units.
- P.P. Gupta:** Yes number of units, it is valued for Rs.43 Crores.
- Deepak Narnolia:** So that is sitting in your receivables.
- P.P. Gupta:** Yes absolutely.
- Deepak Narnolia:** Do you see any significant because I noticed jump in the REC sales bid in the exchange, so do you see any positive vibes in that regards?
- P.P. Gupta:** A more significant vibe I can tell you recently CERC conducted a public meeting and they intend changing the norms of issuance of REC in the country, surprisingly more RECs are with the sugar cogens in the country today than with the wind power supplies country wise, so now CERC is taking a U-turn, they have realized their folly and they want to do away with issuance of REC to sugar cogens now. The order may be out any day, if that happens the issuance of the REC, this year will be no more than 6 million units and same in the demand country wise, but generally since there is still one reform, which we are looking for of a quarterly REC obligations to be met by the obligatory entity that is not there in the country, so almost 80% of this demand happens in the last three months of the year that is January to March as it happened last year, I am sure this will happen this year also.
- Deepak Narnolia:** Generally it is tail ended.
- P.P. Gupta:** Because they had no obligation.
- Deepak Narnolia:** One more last question if you permit, you have clarified your intention about selling your wind assets, so is there any progress in that or you have received any interest from any party or what is the development in that or traction in that going on?
- P.P. Gupta:** We have interest from quite significant buyers and our interaction part is going on and we are hopeful to achieve success by this financial year.
- Deepak Narnolia:** In this financial year itself?
- P.P. Gupta:** Yes absolutely.
- Deepak Narnolia:** You are expecting somewhere around Rs.900 Crores from the asset sale?



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- P.P. Gupta:** Yes more or less you can say.
- Deepak Narnolia:** That is the enterprise value correct.
- P.P. Gupta:** Yes.
- Moderator:** Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.
- Ravi Swaminathan:** Thanks for the opportunity. Congrats for the good set of numbers. Just for the benefit of all the participants, can you explain the technology behind STATCOM and why government is pushing this at this point of time, what benefits this can throw if you can spend two, three minutes it will be good Sir?
- P.P. Gupta:** Basically we do it for two reasons, largely our present evacuation networks we call it static power evacuation networks, it means we have only created them for conventional power where we have full control over the power flow in a given time slot, so the Power Grid is not regulating the power flow. The power alone in the grid is being regulated at the generating station. This is what we mean by it, but as the country focuses more and more on renewable power, your control on the power flow diminishes as the power generators, so my grid has to be capable to adapt to the changing load flow patterns within the grid parameters, which we call it a dynamic load management additionally that in a given pocket if some variation happens, it should be quickly able to spread out over a larger area of the grid so it has a integrally inbuilt capability of reactive load management, capacity load management and also our power cuff, it smoothes out that part of it, so these are advanced solutions which are a way of life in Europe and China and now they are becoming integrally part of moving forward with us also because of the quantum of power we are handling the grid safety we are looking for, safety and stability we are looking for in the operations the growing fault levels in the networks, so they are all posing challenges now, so handling 250 gigawatt of conventional power and targeting another 100 gigawatt of solar power with matching other reasonable power, in going to pose huge challenges in grid management.
- Ravi Swaminathan:** As far as other opportunities concerned, you said –
- P.P. Gupta:** Going forward from STATCOM we will be looking for a lot more HVDC solutions additionally as a matter of solution as a matter of grid stability.
- Ravi Swaminathan:** In our annual report you mentioned that 50 more STATCOMs additional opportunity in the next two to three years?



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- P.P. Gupta:** There is already a tender now for four more locations.
- Ravi Swaminathan:** Have you participated in those orders sir?
- P.P. Gupta:** They are due in the first week of September. Definitely we will participate.
- Ravi Swaminathan:** The ticket size for those orders will be your similar size or?
- P.P. Gupta:** Yes more than this, it is bigger than previous one, the previous one was about \$80 million and this one is about \$110 million.
- Ravi Swaminathan:** In the conventional other ordering what is happening sir basically, in your regular substation jobs, how do you see the competition going and what is our strategy?
- P.P. Gupta:** I must tell you competition will always be there, it is always healthy to have competition, but it must be among very strong and it should be among like-to-like entities and it must be a level playing field to keep the project happen post award that is very important and execution cycle should be strong, otherwise everybody suffers deciding the project, the execution agency, if projects do not roll out in time, so that cycle we are seeing improving now, so many state utilities are also becoming conscious of execution cycles of the project and they are equally strong in punishing those who are not able to do the job entirely, so that has improved the discipline quite a lot in this sector.
- Ravi Swaminathan:** Just looking at annual report of last year, our cash generation has slipped basically even if you eliminate the wind power receivables still the receivables have shot up including retention money quite substantially, so any status after March, what has exactly happened in the last four months, has the collections picked up, so how do we interpret this sir?
- P.P. Gupta:** With the growth in the very execution cycle the receivables and related retention money will always be higher than in a medium paced or slow execution cycle. As we mentioned in our last review the execution cycle has picked up from January onwards, so this is all a reflection of this and this momentum will continue over the whole year this year also although we will continuously be collecting money and disbursing money, this quarter alone we have collected no less than Rs.200 Crores and similarly the same money has been paid out to the very suppliers and field obligation so you can say we are able to handle even the increased momentum without any growth in our borrowings so that is a better part of it, we are able to manage the same execution, increase in execution pace, growth in execution pace, with only improving the efficiency of the working capital cycle.



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Ravi Swaminathan: Sir are we have bothered about any provisions, which would hit us, I agree that it is important to grow working capital along with top line growth again I know our collection efficiency is one of the best in industry, so are we likely see any problematic SEBs, which could hit us in late half of this year on the receivables front.

P.P. Gupta: Absolutely not. Let me tell you the electricity board we are working where we have a major exposure in Bihar and we find more efficient than the very power grid on like to like basis. They are all bilaterally funded projects like PFC REC and they are so keen now to procure all these installations ready when they have the elections there, if you go to Patna you will find very surprises with people in the electricity board working till 11 p.m. It is a very different situation; Modi factor has changed this country a lot for positives.

Ravi Swaminathan: Sir my last question is given that, there is a lot of action happening in solar also, do we have any plans to cater to that kind of segment within the renewable space?

P.P. Gupta: To begin with would like to start as EPC, we have been now qualified by NTPC to be a EPC in solar business, we are preparing for the tenders of NTPC, but as far as own investment is concerned as a developer we will look into it only after all regimes and hold value chain of this sector post Renewable Energy Act.

Moderator: Thank you. The next question is from the line of Bharath Subramanian from Sundaram Mutual Fund. Please go ahead.

Madan: Good evening sir, Madan from Sundaram Sir. Since you mentioned that you would look at solar as an opportunity, correct me if I am wrong solar EPC projects will have more bought outs what sort of value addition can Techno do there, would not it be more of commoditized kind of an solution?

P.P. Gupta: I do not like to call it commoditized solution #1, it is quite a state-of-the-art solution as a lay out as use of the very components which forms part of the project, although the technology components again will be made by somebody which we are only integrating in the solution to that an extent you are right, but developing efficient layout and grid integration and conversion of DC to AC power will always remain a technical input in the valley project where Techno is quite efficient and doing it in conventional thermal power station we were part of NTPC, I can tell you in Rajgarh project in solar 50 megawatt is what we did, we were all EBOT as well as grid integration and the panels and mechanical stuff were done by Tata BP here, so we found it quite exciting because it gives you a stronger order value, your overheads becomes more optimal and shared and it is a short cycle execution projects that is very interesting.



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Madan: There are many players in the market right now even an unorganized trying to get these EPC projects?

P.P. Gupta: I am not sure so far in the segment more of the players as I have known, but all standard manufacturers and because of the lack of project competence, they have suffered with different beginnings now you can see L&T has been successful, they are delivering untold almost 300 to 400 megawatt in EPC space. So I am sure nonproduct companies will be more successful in doing these projects than the very standard manufacturers.

Madan: Second on you are explaining the STATCOM, there was a period two years back we expected lot more activity to happen on the grid stability side and PGCIL was supposed to come out with a lot of orders, one is related to STATCOM, another was related to phased measurement unit, but recently we stopped hearing anything from PGCIL on this. If you can broadly take us through what is your opinion kind of investments we can see over the next say four, five years at this front say grid stability related projects, which can come up in addition to STATCOMs, which has already started ruling it?

P.P. Gupta: In my perspective certain our imperatives and certain our contingencies when we plan our networks. The strangest part in this country today is that a person generating power cannot sell at 3 rupees and consumer at eight rupees is not able to get power efficiently service and supply, so what is this nonsense in the whole process. It is only the both lack of transmission networks as well as lack of quality and capable networks let me put it same efficiency and technology that we need to bring in our distribution networks. We have spent a lot of money in last year in irrigation of feeders in extending network, BPL connectivity, rural area network, but nothing has been done as a technological revolution to do the same thing lot more efficiently and in a simple way, so all these are lacking in our country today. We are still to buy best of the knowledge I know that has been third generation solution provider in the segment of the business, so much more needs to be done technically. So I am sure all these is going to be the way of life for next three to four years with the present government because they are looking for betterment of the performance of one year's integration of the whole value chain. So it will all be done by the private affairs, private public partnerships as well as by the utility of the country, I have no doubt on it.

Madan: What sort of projects you think or what sort of products needs to be introduced in the existing grid to achieve these?

P.P. Gupta: As I told you more of the projects will happen in handling renewable power. The country now is focused on renewable power going forward. So green corridors always have the challenge we need more of HVDC like. We need stronger sub-distribution networks in the



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country integrally. We also need power alloying we call technically like gas power, gas based power, wind power or hydropower. We need to classify our peak load stations versus base load stations. So much new things need to be thought of as a very power region in the country I would say, power alloying we call it similarly we mix blend different type of powers to create a power alloy to power as availability to the consumer, which is a blending of solar power, gas based power and hydropower, all three put together so that you are able to need the requirement of 24 x 7 more economically more efficiently. So you will find all these happening in the country going forward with the present government, we are very hopeful whatever could not be done in 11th plan or half of the 12 plan, this is going to be a way of life in the 13th plan. We are very optimistic Sir.

Madan: With the emphasis on making in India has been there and we have bagged the STATCOM order by tying up with Rongxin. How do you plan to handle if we knew projects come with more emphasis on domestic manufacturing or if the clause for that is kind of stress more. How are you planning to handle that Sir?

P.P. Gupta: In this order also it has an integral condition of made in India, the Rongxin Power is setting up a factory in India to make that cogs going forward in India. So initially it may be a little cost, but today agri investors, agri equipment suppliers of a global scale knows he need to invest for the five years before he can look for rewards in the very business segment. So I am sure all made in India necessarily does not mean more cost, but ultimately it will mean more capability and more efficiently more efficient cost on products down three to five years.

Madan: Sir for the project that you won on STATCOM all the components should be made in India or is it like some specific portion?

P.P. Gupta: No like out of three locations one location need to be made in India to start with.

Madan: Do you expect in the future tenders this number of locations might be increased?

P.P. Gupta: I cannot say that, that should be the way of life in the country but still to keep a level playing field, power grid may still keep the requirement of one station only to begin with for some year or two more till more NTT government functioning in India, but definitely what you say is right that gradually our intent of domestic scope should grow because it is the important scope.

Madan: When cost competitiveness have been made some numbers because when people bid from China their pricing is different and the same companies when they put up in India, their cost



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goes up. So the company turn over has not been as high as what it used to be, so how do you read it?

P.P. Gupta:

Firstly it is not fair to say that made in China is cheap versus made in India because to start with any technologic absorption is gradual and phased out, it will all start with components we will assemble in India, we will test in India and gradually we will start building components backward integration as we do. So I do not think it was good anymore. Basically cost is linked to the quantity produced you can say always, but if you are able to consume say 20, 30 STATCOMs a year in the country, we have five HVDC solutions implemented in the country. We are not very high cost or cost sensitive country anymore. China's costs are low today because of the annual output absorbed in the very market, it will be cost low. So chains going to be way of life in India if our Capex in T&B segment, we all say is going to less than 25 billion dollar a year going forward. So all these use huge volumes to each one of us. I have to backup my capacity so new capacities have to be established in India like you take in case of transformers. We only used to be no more than 200,000 MVA. Today capability in India is to be 500,000 a piece and cost of production has all come down only, not gone up.

Madan:

My last question is in case of what kind of activity you are seeing in state sector GIS project Sir?

P.P. Gupta:

GIS in state should also grow to my mind because land is a challenge by and large, so GIS content in the state should also grow at not less than 30%, 40% a year over their present requirement.

Madan:

Typically how many projects you are seeing coming in from state sector in GIS?

P.P. Gupta:

They depend on the voltage range rather we are talking 400 kV or 220 or 132 kV because all these are the segments belongs to the state in which category like Bengal itself I can say today almost seven, eight GIS stations are going to happen in next one year in one state only, two of 400 kV, four of 220 kV and two of 132 kV, they are all in the pipeline within a year may be six months.

Madan:

Any other state that you are able to recall?

P.P. Gupta:

I see a lot more happening in Telengana, Tamil Nadu. Tamil Nadu is out with no less than 8 to 10 GIS stations in 400 kV category Sir.

Madan:

So this year will be a good year for GIS it looks like?



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- P.P. Gupta:** GIS and AIS will both be 50:50 going forward down in two years to my mind.
- Madan:** Thanks Sir and wish you best of luck.
- Moderator:** Thank you. The next question is from the line of Amber Singhanian from Asian Market Securities. Please go ahead.
- Amber Singhanian:** Hi Sir, just couple of questions from my side. This STATCOM tender, which you mentioned which is going to be bid in September first week for four locations, this is a single tender or multiple tenders for these locations?
- P.P. Gupta:** It is a single tender only.
- Amber Singhanian:** 110 million dollar is only the EPC book?
- P.P. Gupta:** Total EPC book order value with Chinese company of course.
- Amber Singhanian:** How much would be our scope of work in that sir?
- P.P. Gupta:** 50:50 you can say more than that.
- Amber Singhanian:** I missed the part when you mentioned about the current order of Rs.268 Crores, here also our scope of work is 50:50 or it is entirely our scope of work?
- P.P. Gupta:** It is my scope of work including the order of Techno Electric; it is almost 50% of the total order value.
- Amber Singhanian:** Secondly on the BOOT-BOOM project where we have seen that Sterlite and Adani have won one tender each in the recent past. So are we also interested in doing the EPC work for those projects because there will be also coming in the market to bid it out. Would we be interested in executing that or we are not interested in those projects and we will be directly bidding from the BOOT-BOOM tendering site?
- P.P. Gupta:** Amber, a difficult question, but I will only say that if they come out with requirement with nonmanufacturer as a level playing field with the very manufacturer will definitely be a part of it.
- Amber Singhanian:** Secondly on the L1 you mentioned one project is there of Rs.180 Cores, is there any more L1 projects we have in the book as of now?



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- P.P. Gupta:** No, not at the moment. We see very prestigious project of NTPC as at Tanda 400 KV.
- Amber Singhania:** Any color on the pipeline you can mention in next three to four years in terms of tendering where exactly we see that, you have mentioned about the GIS and all coming in one year and all, but on a form basis what is the tendering pipeline we are having as a rough cut numbers and direction on that part?
- P.P. Gupta:** The business was about Rs.20,000 Crores in substations, it is in bidding in next one year almost, which has given me northeast alone we are so strategically located, power grid is now I think during subtransmission network on behalf of seven states there like Tripura, Assam, Meghalaya, Arunachal, Sikkim, all put together and these tenders itself are worth not less than Rs.5000 Crores in one segment only similarly Telengana, now UP going forward Rajasthan. We see lot of momentum in transmission now at least. So tender rather we are short of capacity to tender also.
- Amber Singhania:** Sir, Patran you mentioned that 30% roughly work is completed and we have not billed it yet, so what is the strategy there, at what threshold limit we will be starting billing in as a revenue or will it come entirely at one go, what is the thought process in that when will we see that coming in the revenue side?
- P.P. Gupta:** Generally in these projects we bill not more than three or four wins in a year, so you can anticipate first bill may happen in the quarter of October to December and another bill may happen in January to March and the last bill in the quarter of April to June. So we will bill not more than three bills in this segment by and large.
- Amber Singhania:** We have already factored in the cost, which we are incurring in the numbers yet that is also....
- P.P. Gupta:** That cost is already factored as you know Techno does not generate any working progress, but our money spent is already factored leverage.
- Amber Singhania:** So that would be a huge amount coming in the revenue, which will go directly to the bottom line. Secondly on the wind asset sale which we sold 44 megawatt, just want to understand as you explained the tax treatment, total Rs.22 Crores is the tax liability, it would not be a cash liability but it is a tax liability and we have booked a profit of Rs.25 Crores, so is it like net to net, we will be having a profit of Rs.3 Crores only on that.



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- P.P. Gupta:** Absolutely. Post tax if you consider it is Rs.3 Crores only Sir as a profit in the treatment of the books, but there is no cash outflow because we are carrying that much MAT credit and value will be offset from that.
- Amber Singhania:** Just on a book keeping side, I wanted to understand because as a company law book as well as the income tax law book there is a different treatment. How much gross block and/or net block will be knocked off by the sale of this asset?
- P.P. Gupta:** Precisely the numbers are not readily available with me, but balance sheet may give you some direction in that. So if you look in it I think the gross block knocked off is about to my mind it is about Rs.175 or Rs.180 Crores in the books. You can take less Rs.25 Crores the capital gain, which we have shown you and that treatment is happening on income tax side and the gain on the income tax side is Rs.100 Crores resulting in capital gain tax of Rs.22 Crores, you can take that way, long term capital gain rate is 21% plus or 22%. So it is calculated like that. In the income tax term, it is Rs.100 Crores, in book terms it is Rs.25 Crores.
- Amber Singhania:** Secondly sir out of this Rs.300 Crores of cash which we have, how much is in the subsidiary and how much would be in the parent book?
- P.P. Gupta:** The parent is about Rs.50 Crores and Rs.250 Crores in the subsidiary.
- Amber Singhania:** This Patran project when we will be doing the investments, so that will be going through the parent book right? It would not route via Simran Wind?
- P.P. Gupta:** Absolutely because we intend disposing off Simran going forward, so we have to use that as a vehicle to fund Patran.
- Amber Singhania:** In that case what would be your strategy for this Rs.250 Crores of cash because repatriating to the parent will attract income tax or have we thought of any strategy on that front Sir?
- P.P. Gupta:** There should not be because Techno has investment in Simran, we are still not sure firstly where it happens as a slump sale or it happens as a share transfer agreement, so tax treatment will happen accordingly and there we will definitely see any convection behind tax efficient.
- Amber Singhania:** Just my last question is we maintained our guidance of Rs.1000 Crores top line in EPC this year and 30% going forward with our 16% margin or any change on that Sir?



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P.P. Gupta: You are putting good thoughts to us, the Rs.1000 Crores this year company will achieve whether it happens on consolidated level with wind income of another Rs.70, Rs.80 Crores or without, but definitely we would like to achieve Rs.1000 Crores of EPC business. We stay with that thought process as of now and bottom line I never said 16%, I have always maintained 14% as the guidance and we stayed with it but it may improve, I do not want to take away that thought, if anybody can do it, Techno can do it Sir.

Amber Singhania: That is all from my side. On behalf of Asian Market, I thank everyone for joining for this call and a special thanks to Mr. Gupta and Mr. Ankit for providing us the side about the company business financial performance and outlook. With that, we conclude the call.

P.P. Gupta: I am extremely, extremely grateful to all the investor community who is standing with us and for joining today's conference call. Please feel free to write any of your queries relating to our compartment or of the very sector we work in. Please just drop a mail and I can assure you, you will have a very prompt response to that. With that, I would like to once again thank everybody for joining this call.

Amber Singhania: Thank you everyone. We conclude the call now.

Moderator: Thank you. On behalf of Asian Market Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.