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Sirs,

Sub: Transcript of Earning Conference Call – Quarter ended June 30, 2023

In furtherance of our letter dated July 25, 2023 regarding intimation of earnings conference call, the transcript of Q1FY2024 earning conference call held on August 10, 2023 is enclosed and has also been uploaded on the website of the Company at <https://tdps.co.in/investor-financialresults>.

Kindly take the above on record.

Yours faithfully,
For TD Power Systems Limited

BHARAT Digitally signed
by BHARAT
RAJWANI RAJWANI
Date: 2023.08.16
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Bharat Rajwani
Company Secretary

Encl: A/a



“TD Power Systems Limited
Q1 FY24 Earnings Conference Call”
August 10, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 10th August 2023 will prevail.



**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**

SGA – TD POWER SYSTEMS LIMITED**Moderator:**

Ladies and gentlemen, good day and welcome to the TD Power Systems Limited Q1 FY '24 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the belief, opinion, and expectations of the company as on the date of this call. These statements are not guarantees of future performance and involve risk and uncertainties that are difficult to predict.

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 star then zero on your touchtone phone. Please note that this conference is being recorded.

Now I hand over the conference to Mr. Nikhil Kumar, Managing Director for TD Power Systems. Thank you and over to you, sir.

Nikhil Kumar:

Good morning, everybody and thank you once again for joining us on our earnings call. I trust all of you would have received our results and investor presentation. Moving on to the financial performance of the company for the quarter ended 30th June 2023. Standalone: our total income on a standalone basis for Q1 was INR2.36 billion versus INR2.06 billion over the same period in the previous year, an increase of 15%.

Profit after tax and comprehensive income for the quarter reached INR291 million versus profit of INR194 million same period previous year, an increase of 50%. Order book of the manufacturing segment is INR13.86 billion, which is INR6.2 billion generator business and motor business and INR7.45 billion railway business.

The projects business has been now classified as spares and aftermarket since we don't do any projects business anymore and the pending order in this segment is INR0.16 billion and we had INR0.09 billion on the Turkey business. The order inflow has increased by 16% over last year and the numbers are as follows. Current year the total order inflow in the first quarter is INR2.37 billion and the previous year was INR2.04 billion.

Order inflow from...

Moderator:

We have the line of Mr. Nikhil Kumar connected. Sir, please go ahead.

Nikhil Kumar:

Okay. I will start from profit after tax. Profit after tax and comprehensive income for the quarter was INR291 million versus a profit of INR194 million same period previous year, increase of 50%. The order book in the manufacturing segment is INR13.86 billion, INR6.2 billion in the regular manufacturing business and INR7.45 billion in the railway business. The projects group has now been classified as spares and aftermarket since we don't do any project business anymore and the pending order is now INR0.16 billion. Turkey is INR0.09 billion.

Order inflow has increased by 16% over last year and the numbers as follows: INR2.37 billion for this year in Q1 versus INR2.04 billion in previous year, Q1. Order inflow from direct and

deemed exports is INR0.87 billion compared to INR1.09 billion previous year. Order inflow in Q2 continues to be strong with INR100 crores booked in July 2023 alone.

Consol: our total income on a consol basis was INR2.24 billion versus INR2.11 billion same period previous year which is up 6%. Profit after tax and comprehensive income for the first quarter was INR261 million versus a profit of INR204 million, an increase of 28%. We continue to maintain a strong cash position of INR2.13 billion.

Order book market situation and guidance.

Market conditions and guidance overall, order book was up by 16%, as mentioned earlier. The domestic order inflow is higher by 58% due to motor orders and some large orders for generators from steel and agro in the domestic segment. Although export and deemed export was lower than Q1 last year, this was due to some big orders have gone to negotiation in Q1. We are pleased to announce that we have won those orders in export and we catch up with the expected ratio of 55% export and 45% domestic by the end of Q2 or even perhaps in Q3.

Let me now talk briefly about each segment. Steam turbine, we've seen substantial increase of orders from both domestic and export in Q2. In particular, the domestic market continues to be very strong and the order pipeline continues to be very healthy. Here we list some notable orders, which we won in Q1.

We received an order from JAP, Japan for a 22.3-megawatt machine for waste to energy project for installation in Japan. This will be the biggest generator that we're going to be supplying to Japan for installation in Japan. We received an order for 2 units of 48 megawatt and 3 units of 37 megawatts from major steam turbine customer in India for HRRL, which is a joint venture between Hindustan Petroleum and the Government of Rajasthan for a refinery project. We received an order from Siemens U.S.A. for 2 units of 46.35 megawatts for installation in Tijuana, South America. And with this, it will increase our global footprint to 105 countries.

Next important order, we've received an order for 1 unit of 10 megawatt suitable for a hazardous location Zone 2 from Elliott, U.S.A. for a refinery project in India and this will be our first installation in India for a hazardous location in refineries. Gas turbine, we would like to announce an agreement signed with a major international gas turbine manufacturer for making 45-megawatt coal generators.

We have an order to make the first prototype to be delivered end of calendar '24 or early '25. This has the business potential of about INR100 crores per year. This business will start in calendar '25. However, until then we have a strong inquiry pipeline from our existing gas turbine customers. We are also happy to report another breakthrough order for 18.7-megawatt generator using CO2 for power generation from an Italian OEM. This is a start-up funded by Eni, which is a large Italian company and a few sovereign wealth funds of the Middle East.

It acts as a battery storage during periods of excess power generation and discharges the power during peak demand. Once proven, we expect to have a number of these plants in the European Union. We are proud to inform you that the prototype plant is with a TDPS generator. Hydro:

the order pipeline is very strong in hydro. This year we're going to be almost double last year and next year we expect further growth.

The incoming inquiries are very strong in EU, Nepal, and Southeast Asia. The Indian market for hydro is also picking up and we're expecting strong quarters ahead for TDPS in the hydro segment. Gas engines, we'd like to report that this segment is going as per plan with steady growth as per the forecast.

Motors: We have dispatched the first 40-megawatt synchronous to a customer in Andhra Pradesh. Now there are about INR75 crores worth of synchronous packages, which will be finalized this quarter. Barring delays, we should get a significant portion of this business since we are well placed in price.

Railways: Our major customer has won the Train 18 aluminium frame for 100 trains. These require about INR275 crores worth of motors. Our customer will float the inquiries around October this year and it should get finalized by the end of Q3 or early Q4.

However, there is competition in this segment for 1 more player and TDPS must compete to get these orders. In addition, we expect to get around 60 motors direct from the Indian Railways for execution this year. We will keep the market updated about this pipeline. To summarize, all segments are doing well. Our order inflow is moving up strongly. There's a full pipeline. As mentioned earlier July was INR100 crores and the inflows for the current month and the future months are showing very, very healthy momentum.

This order inflow will ensure that FY '23 will go as per the guidance and FY '24 will also be solid and will lead to further expansion of margins due to operational leverage.

Guidance: For Q2, we're giving the top line guidance of INR255 crores to INR265 crores for the manufacturing business.

With this top line, we expect the PAT to increase significantly in Q2 compared to Q1 due to operational leverage. At the end of H1, we will be around 47% of the guidance for FY '23. We are on target with respect to our guidance for the current year of around INR1,000 crores as indicated in our previous earnings call on top line as well as margins.

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

Moderator: First question is from the line of Himanshu Upadhyay from O3 Capital.

Himanshu Upadhyay: I would first like to appreciate that we have started giving quarterly balance sheet in the presentation and that's a good practice. One observation is that this quarter our revenue was lower than Q4 FY '23, but our receivables are flat. It means that almost INR40 crores of previous quarter revenue is still pending to be collected. What can we do to improve our receivable cycle? So that was the first question.

Nikhil Kumar: Varalakshmi, will you take this question, please?



- Moderator:** Ms. Varalashmi's line got disconnected. We'll reconnect her.
- Himanshu Upadhyay:** Can I proceed with the second question then? See, the Top 3 customers of ours contribute nearly 40% of revenue. One of it is railways and the other 2 would be for what segment? And generally the Top 3 remain same every year or they change every year? And what type of long-term agreements we have with them? For the railway, we understand that you have an order book with your customer. For rest of the other 2, what type of agreements do you have with them?
- Nikhil Kumar:** No, we don't have a long-term agreement with the other 2, but rather extremely long-term relationship with the other 2. So the long-term relationship goes back all the way to 2001 when we started our company and also both our customers started producing steam turbines in a bigger way in India going up in sizes and increasing the market share.
- So our relationship with both these customers goes back all the way then and we have grown with them and we have built up big references in India and outside India with them. So there is a deep relationship between our company and these 2 customer companies and we continue to maintain these relationships. So I think that this is how I'd like to answer the question.
- Himanshu Upadhyay:** Okay. And the Top 3 remain the same only what they are because they were?
- Nikhil Kumar:** Yes, yes.
- Himanshu Upadhyay:** Okay. And can you give an idea of how is the pricing environment and any improvement there related to it? The gross margins have improved quite materially in the quarter and the number of units we sold were less in the quarter. Was there some one-off...
- Nikhil Kumar:** It's a mix. No, it's not a one-off. I'd say that we have been talking about the small expansion taking place in the gross margin so this is mainly due to the mix. We're doing more spare parts business; we're doing more aftermarket business. We have been talking about increasing this part of the segment of our business and this is leading to expansion of gross contribution. There is no price increases taking place in the market at the moment.
- The environment for the raw material is quite stable and there is no reason why we should go into the market and demand price increases. So what we're seeing in terms of gross contribution is coming from the mix, we think more aftermarket business and the expansion in EBITDA margin taking place due to the expansion in gross contribution as well as operational leverage, which we will now see happening in a bigger way in Q2.
- Himanshu Upadhyay:** Sir, historically, we have stated around 32% of gross margin, 31%, 32%. Can it be now 35% or 34% new normal?
- Nikhil Kumar:** No, I think 35% is a stretch. So we are around -- I think 33%, 34% should be I think the new normal.
- Himanshu Upadhyay:** And just the repetition, is Varalakshmi there, that receivable question. That's all from my side, sir.

- M. N. Varalakshmi:** I'm there. So there has been a spillover of the collections to July. That's the reason why you see that the debtor's position continues to be the same.
- Himanshu Upadhyay:** See what I see is almost INR40 crores of previous quarter's revenue, which is March ending, has not been collected till June end? So more than 90 days. Is this a regular feature or this year only?
- M. N. Varalakshmi:** No, no. The collections have happened in July. It was in early July it happened. And sometimes there are spillovers, but this is not the regular trend.
- Nikhil Kumar:** It actually relates to a large LC payment which had a credit period and therefore, it's fallen due in the month of July and we collected that money.
- Moderator:** Next question is from the line of Ashwani Sharma from ICICI Securities.
- Ashwani Sharma:** My first question is on the top line. If I look at top line growth, it was just 8% during the quarter. So you're saying that our top line growth was just a single-digit 8% growth. Is there an execution challenge that we are facing despite the fact that we have a good order backlog?
- Nikhil Kumar:** No, I think you should go back to my previous earnings call statement where I have clearly mentioned that Q1 is going to be INR215 crores and it is INR215 crores as what I have told you earlier on a stand-alone basis. For the manufacturing business, I mentioned that we have a large number of big machines which have been produced in Q1 which are going to be billed in Q2.
- And therefore, this is the reason why we're seeing unequal sales taking place in Q1 and Q2. It's quite normal when you have large projects that you could have larger billing taking place in the subsequent quarter. I highlighted this in the last earnings call because I knew this was going to happen and I expect that the investors are well informed about this.
- Ashwani Sharma:** Okay. Sir, my second question is on the motor side. I mean just want a clarification. You mentioned about INR275 crore of opportunity for 100 range. Is that the right what I heard?
- Nikhil Kumar:** I said INR75 crores.
- Ashwani Sharma:** You said INR75 crores?
- Nikhil Kumar:** I said our major railway customer has won the Train 18 aluminium frame Train 18 order for 100 trains. These require around INR275 crores worth of motors. Our customers will float the inquiry in October this year and it should get finalized by the end of Q3 or early Q4. This is what I mentioned.
- Ashwani Sharma:** So in terms of value, I mean what kind of opportunity do you see here, sir?
- Nikhil Kumar:** The value is INR275 crores, we should get a -- I mean I think either they will split 50-50 or somebody could get 60-40.



Ashwani Sharma: Okay. And my last question is on the margin. If I look at last 3, 4 years, there was consistent margin improvement which has happened. Where do you think -- I mean is there a further scope for this to improve going ahead?

Nikhil Kumar: So I had mentioned earlier to Upadhyay who had asked me this question little bit earlier that the margin expansion now will take place mainly from operational leverage and not so much from expansion of gross contribution. Gross contribution could be remaining at 33%, 34%, which is the new normal compared to 31%, 32% that we had earlier.

Now we are not in a position. The market is not conducive for price increases and we also don't intend to increase prices because we want to remain competitive and we want to keep our volumes with our existing customers. So the expansion of the margin will take this clearly from operational leverage and as we do around INR250 crores, INR260 crores per quarter compared to what we did this last quarter at INR250 crores, INR220 crores; then we will see -- correspondingly, you can see the expansion of the EBITDA margin taking place because of that and it will be quite significant.

Moderator: Next question is from the line of Rohit from ithoughtPMS.

Rohit: Congratulations on a steady quarter. So Nikhil, sorry, I think I missed some part of your opening statement so please bear with me. I just wanted 2 things from you. In terms of the new addition you mentioned about a gas engine customer that we've added, can you talk a bit about that?

Nikhil Kumar: This is a gas turbine generator, which is being used in a CO2 storage power generation plant. So basically what they do is they take CO2, they cool it and they keep under pressure using power when the power prices are cheap and low and acts like a battery storage and during peak demand, that CO2 will then release into a turbine and drive the turbine to produce electricity.

And then the cycle is repeated once again and it's a closed cycle so it's a very efficient cycle. And it's a new concept, which is being tried out by this company and it's based in Italy. They have very good funding and very good prospects for the future and we are very proud to say that our generator is -- the first prototype plant and this is a TDPS generator.

Rohit: All right. Very good to hear that. Also again I think you mentioned this in the opening remarks, I'm sorry. So this railway orders so you mentioned that this T18 train sets so we are going to participate in? Because you're mostly on the freight side so are we also going to participate on the passenger side? Is that correct?

Nikhil Kumar: Yes.

Rohit: Okay. So that's what you were mentioning INR275 crores worth of orders would be there and you would participate depending on how much we win, 50 or 60, 40, whatever.

Nikhil Kumar: We don't know, we could get 0 or we could get 50, we could get 60. But we have to compete, yes.

Rohit: And if you win, when will this start coming to you in terms of delivery?



- Nikhil Kumar:** It will start from FY '25.
- Rohit:** Got it. And the first one, the gas turbine orders. You mentioned that will be from calendar year '25 and it will be an annual INR100 crore kind of opportunity?
- Nikhil Kumar:** That's the first prototype plant that will be delivered this financial year. Then the plant has to be proven, but it could end up being 15, 20 plants per year in the future.
- Moderator:** Next question is from the line of Praveen Motwani from BOI Mutual Fund.
- Praveen Motwani:** So my first question is what explains this decline in order inflow in the exports front in Q1 FY '24?
- Nikhil Kumar:** I have actually given explanation for that. I have said that we had some big orders which were under negotiation in Q1 and we are pleased to announce that we have won these orders in export and we will catch up with the expected ratio of 55% export and 45% domestic by the end of Q2. I've already mentioned this. This is the reason.
- Praveen Motwani:** Okay. Understood. And how margins are different in domestic and exports like what is the spread?
- Nikhil Kumar:** Exports are slightly better than domestic.
- Praveen Motwani:** Is there any number that you can share?
- Nikhil Kumar:** It depends. Yes, I can say it could be 100 basis points or 200 basis points better.
- Praveen Motwani:** Okay. Understood. And how is the inquiry pipeline in the hydro front in the domestic market? Because there are a couple of players announcing projects in the hydro. So if you can just give us some sense, when can we see those orders coming in?
- Nikhil Kumar:** Vinay, can you answer this question, please?
- Vinay Hegde:** Yes. So definitely the hydro market in the domestic segment has opened up and we also received in the first quarter a couple of orders and we are also expecting some good order inflow in the second quarter as well. And definitely now I think this trend is going to continue and after long time, this hydro market -- small hydro segment has opened up.
- Moderator:** Next question is from the line of Dhwanil Desai from Turtle Capital.
- Dhwanil Desai:** Congratulations for a very good set of numbers. So my first question is recently some of the major utilities announced very large MOUs for pump storage hydro and if I understand correctly, our synchronous motors are part of that solution. So you said that we won INR175 crores orders and there is much more in the pipeline. So is this a very large opportunity unfolding if you can talk a bit about that?
- Moderator:** We have Mr. Dhwanil Desai in the question queue. Mr. Dhwanil, you can please repeat your question.

- Dhwanil Desai:** Sure. So Nikhil, my first question is around the synchronous motors. Recently some of the large utility groups have announced MOUs for the pump storage hydro and if my understanding is correct, motors are used in those applications. So can you give us some sense as to on per megawatt basis, what is the contribution that our components get? And whatever INR75 crore orders that we got, is it related to the pump hydro and can this opportunity unfold as a recurring thing over next 3, 4 years?
- Nikhil Kumar:** No. The INR75 crores worth of synchronous motor orders are not related to pump storage at all. These are orders which are coming from the irrigation projects so this is not pump storage. As far as pump storage is concerned, yes, there's a lot of noise in the market about this. We are yet to see concrete inquiries in the ranges that we operate, which is up to about 40 megawatts to 50 megawatts.
- So I'm unable to comment on the actual market size and demand at this point of time. It's quite a big potential, we are waiting for it. We are expecting something to happen and we have the products for it. And as soon as this market picks up with actual ordering in these sizes, we will definitely play a very large role in this. But at the moment, as I said, nobody has really come to the stage of floating inquiries for equipment.
- Dhwanil Desai:** Okay. Got it. And second thing is on the railway side, you mentioned that we'll be supplying 60 traction motors. So is that going to be FY '25? Is that understanding, correct?
- Nikhil Kumar:** For this year, we expect to do it this year.
- Dhwanil Desai:** But this is part of the normal railway tendering where testing was going on for a long time, right?
- Nikhil Kumar:** Yes.
- Dhwanil Desai:** Okay. And given all this development, I think even on the – because we have been supplying to gas engine side for a long time, but turbine generators is something which I have not heard from you over many calls. So is this something which is a new segment opening up or something which we are doing earlier and now kind of gone into kind of decline mode and now again reviving? Any update on that?
- Nikhil Kumar:** No. Gas turbine has not been such a large segment for TDPS although the market for gas turbines is large. We have been steadily increasing our presence in the gas turbine market supplying machines to Solar, which is a big gas turbine manufacturer in the U.S. We also announced last time in the last earnings call that we have increased that we're getting business from Mitsubishi Heavy Industries in Japan where there are also gas turbine generators. We're getting more inquiries and more requirement from them also.
- And then now it's only -- and there's 1 order from the CO2 plant that's also a gas turbine generator and now also, as we mentioned, we have signed an agreement with a major international company for supplying 45 megawatt to coal generator as a prototype, which we'll deliver by the end of next calendar year, early 2025 and then that business also has a big potential to grow.

For the gas turbine business, we have a big scope for growth. We have a low market share. But it is a large market and will continue to be a big market also in the future given that the world is moving more and more away from dirty fossil fuels towards clean fossil fuels.

Dhwanil Desai: Okay. So our product is more relevant for less than 100 megawatts, right? So we won't be going above 100-megawatt gas turbines. Is that a right understanding?

Nikhil Kumar: So we are concentrating on gas turbines tentative below 60 megawatts to start with and above that size, we are not really competitive. Above that size, we have to supply generators with the Siemen's technology and we have restrictions on territories. So we can't supply across the world. But below 60 megawatts, it's with our own machines and that's the business that we're going after.

Dhwanil Desai: Got it. And last question with all these things happening, do you have any line of sight in terms of FY '25 how it's going to pan out?

Nikhil Kumar: Yes. I think it all depends. The orders don't give a very, very good insight about what's going to happen next year. So if we are going to be running at INR250 crores, INR275 crores per quarter order inflow on the generator and motor side, then we should be looking at something like INR1,000 plus crores coming from motor generator plus we have the railway business on top of that.

So I think it gives a good indication of the direction that we should be heading. Of course I can't give a commitment right now. But the way the order inflow is building up, I'm excited and I'm very positive about delivering very solid growth next year also. And this is the right time probably also to talk about once we start hitting this INR1,200 crore level, we have also taken the decision in our Board meeting yesterday to go ahead with an expansion plan. So we have taken the decision to invest INR120 crores in a third plant and we will be starting the investments from October this year. This will be spread over 2 years.

And because we are confident about the order inflow, we need to beef up the capacity. So we should have the first phase of this plant operational around October or November next year. And the second phase will be operational in FY '26. This I think is the surest signs for the market that we are confident about the expansion of the business and we're getting ready for taking the company to the next stage.

Dhwanil Desai: Okay. But your earlier indication of current capacity serving up to INR1,400 crores kind of a number remains, right? So is this over and above that?

Nikhil Kumar: Yes, of course. We are getting ready for -- we can't wait until we hit that number and then start putting capacity. So we have to start the process right now and we have taken the decision in yesterday's Board meeting that we will invest INR120 crores spread over 2 years and build up the capacity for taking the business up to INR1,600 crores – 1,800 crores.

Moderator: Next question is from the line of Alisha Mahawla from Envision Capital.



- Alisha Mahawla:** My first question for you is to talk about refurbishment opportunity on the wind generator side. Is there an update on that? How is this segment doing?
- Nikhil Kumar:** It's a steady business. It's steady, it's not something exceptional, but it's exactly as per the plan. We're doing a fair amount of business. Machines have to fail -- so it's not we have the fail before we get some opportunity. But we're doing, every quarter we're doing some number of machines.
- Alisha Mahawla:** And you said this was the INR100 crore kind of opportunity on that.
- Nikhil Kumar:** No, it's not going to be INR100 crores a year not for wind repair. The overall repair business we have said, the overall aftermarket business of the company would be around 7% to 8% of our total sales. This will be a part of it.
- Alisha Mahawla:** Okay. Got it. And on the 9,000 HP locomotive side, you said that you're not sure what the OEM is trying to do maybe source it or maybe look for external sourcing. Is there any update on that?
- Nikhil Kumar:** No, there's no update. As I said, the inquiry will be floated in October and we need to be competitive and take a big share. So I'm confident we'll do well all I can say at this point of time.
- Alisha Mahawla:** No, I'm talking about the 9,000 HP locomotive. You're saying for that also it will be floated in October.
- Nikhil Kumar:** You're talking the one that Siemens won. No news. We have even asked them, but they don't seem to be interested to outsource it.
- Alisha Mahawla:** Okay. Got it. And just on the gross margins, we used to see 30%, 31%. It is a competitive industry that we are in and now we're seeing 33%, 34% sustainable. So what has changed? When you say the mix has changed, can you give some color to help us understand why this will be sticky number?
- Nikhil Kumar:** The mix has changed in the sense that I said we're doing more aftermarket business. Earlier used to be 2%, 3%, 4% of our sales, now moving up to 7% of our sales. That's sort of the high gross contribution that's definitely helping us to improve the overall gross contribution for the company.
- In addition to that, we have a lot of cost reduction activities within the organization. We are optimizing our designs. We're constantly working on making the machines lighter and more efficient and that also helps in cost reduction activity for the material side and making our machines more efficient. So this and that I would say are the 2 major factors leading to the expansion in the gross contribution.
- Alisha Mahawla:** Got it. And just circling back on wind side, there's no big opportunity on the domestic side that we're seeing there currently?
- Nikhil Kumar:** We are talking to a few players, but I don't have anything to report at this point of time.
- Moderator:** Next question is from the line of Renjith Sivaram from Mahindra Mutual Fund.



- Renjith Sivaram:** Congrats on a good set of numbers. Sir, just wanted to get some idea like when we look across the company, a lot of people are talking about the Europe market has kind of slowed down and even when you see your export revenue is also -- export order intake is also showing a muted. Is that something that you are also seeing or is just a quarterly thing, this export slowdown?
- Nikhil Kumar:** There's no slowdown on the exports. As I said, we were negotiating some large orders which we won. And when you see the Q2 numbers, you'll be rest assured that the export market is also booming for us.
- Renjith Sivaram:** Okay. Great. And for the -- I missed out on the initial part. Is there any guidance that you had given for the revenue for this year FY '24?
- Nikhil Kumar:** We have given. We are sticking to our revenue guidance of INR1,000 crores.
- Renjith Sivaram:** INR1,000 crores. Okay. And order intake?
- Nikhil Kumar:** Order intake I've not given a guidance. I don't have a number right now. I will give you -- I mean we can give a guidance next quarter.
- Renjith Sivaram:** Okay. And regarding this Vande Bharat plan cycle we had; we are expecting some orders from -- is that there in our overall outlook at the Vande Bharat?
- Nikhil Kumar:** Yes, I think I've mentioned this already that they have on the order, they will float the tender in October, and then we have to compete and win some part of the business.
- Moderator:** Next question is from the line of Sarika Thorat from Alchemy.
- Sarika Thorat:** Sir, I want to understand there is 1 media article in month of July saying that Karnataka High Court stays transfer of 2.51 crore shares of TD Power. Can you just throw some light on this particular matter, please?
- Nikhil Kumar:** I think the company has published on the exchange clarifications as to what is going on. The matter is sub-judice so I'm not entitled to talk about this more than what has already been published by the company on the exchange. All I can say is that there was a hearing yesterday in the High Court and the High Court has passed an order, which we are waiting for the final document to come.
- But in general the High Court has passed an order saying that the subject shares, which are 2.5 crores shares, are related to a single promoter entity which is Sapphire Finman and not related to other promoters. So this is a very welcome development as far as we are concerned. So this restricts the entire case to just 1 promoter entity and not to the other and does not relate to any other promoter share.
- The notification is out on the High Court website, today or tomorrow we will put it up on the exchange and we will keep all our investors informed about the development. The next hearing for this case in the High Court has been scheduled for 28th of August and we'll keep all of you informed about the progress.



- Moderator:** Thank you. Next question is from the line of Deepesh Agarwal from UTI AMC.
- Deepesh Agarwal:** Most of my questions have been answered. Just few questions. Firstly, we were also looking to supply the traction motors for Vande Bharat to Indian Railway through 1 of our customers. So any update on this?
- Nikhil Kumar:** Yes. That order is still in the pipeline. We are not talking about it. It could take a little bit more time so we'll not mention this. But there is opportunities to align and once it becomes hot, we will get back to you about it.
- Deepesh Agarwal:** Okay. And fair to say there would be competition even for this?
- Nikhil Kumar:** There would be competition for all the smaller-sized motors. These larger motors, which are going to the freight locomotives, that's where we have a single source -- that are customized as single source. But for the smaller-sized motors, there is competition, which play. Not lot of competition, mainly competition from 1 single entity which is a large multinational company working in India, so they're basically well enough to compete for these jobs.
- Deepesh Agarwal:** Sure. You were looking to also scale up the business on the motor end of wind repair. Can you give some color how the progress is happening on the wind repair side?
- Nikhil Kumar:** I answered this question a few minutes ago on the wind repair side. We're getting steady orders from this segment. We are satisfied with the overall growth. It's part of the 6%, 7% that we're going to do in the aftermarket business. It's going as per plan just now. There's nothing extraordinary taking place, there's nothing terrible taking place. It's going as per plan.
- Deepesh Agarwal:** Sure. And lastly, on the pump hydro, how can we scale up on the pump hydro? Any color if you can give?
- Nikhil Kumar:** I mean it's scaling up means they should first do business, right, and we should see the business before we say we're going to scale up. We have the product; we can make the synchronous motor and generators and whatever is required for this. So as I said earlier, there's no actual projects where people are in the ordering stage, lot of it is very conceptual.
- It could be also in the first few phases we could see very large projects coming up so let's say 200-megawatt, 300-megawatt single unit sizes in pump hydro not in the sizes where we operate, which is 40 megawatts, 50 megawatts. So we don't know which way this market is going to develop.
- We see some hydro in the large hydro segment in which case we will not have much business at all. If it's going to be in the small hydro business, then certainly TDPS will have a large role to play. Small hydro stops around 50 megawatts. So we have to see which way the market develops, we're not sure.
- Moderator:** Next question is from the line of Manoj from Geometric.

Manoj Dua: Sir, power has been a permanent demand of the human being from last many decades and I have seen that power demand changes from like some were hydro, sometimes gas. And what do you see the trend in the short term and medium term? How the power producers are thinking in terms of which area they are more focusing on?

And in general when we read that in California, they are thinking that so many power has to increase because of EVs and all these articles. Can you just throw some broad light what is happening on areas where we are present or even not there? How the power producers are thinking?

Nikhil Kumar: So power is going to be in big demand all over the world not just in India, but also in the developed countries where they are switching over with more and more EV production therefore demand for electricity is going to keep increasing plus bigger is going to be when they start heating. If the laws are passed not to heat homes with oil or with gas, then we'll see another big spike of demand taking place in electricity.

So the demand is going to keep growing, there's no doubt about it. How the demand is going to be met? It has to be met from a mixture of renewables and fossil. As far as fossil is concerned, it's going to be gas.

At least in the Western world, all developed countries mainly if they're to move away from coal, it's going to be large scale gas generation and small-scale generation and renewables. The renewables will come in the form of wind, biomass, garbage burn off plants, waste to heat energy which is a mix you can say.

In India, it's still going to be dependent on coal. Captive power plants is going to be coal for other things like biomass or sugarcane co-generation or things like that. The India story is going to be a little bit different although we are putting in lot of emphasis on both green for more renewables, we can't escape the fact that we do need at least 60%, 70% of our power generation coming from baseload capability and baseload can only be met by coal in India because we have no gas or oil so we have to drive the coal and nuclear. This is how we see it in the future so in the near term. So demand for our products is going to be strong for the next decade or so.

Moderator: Next question is from the line of Neha Agarwal from Sage One Investment Manager LLP.

Neha Agarwal: I just have 2 quick questions. One is pertaining to the continuous replacement demand that you speak about in your presentation. So can you just highlight how much of the revenue is coming from the replacement demand side?

Nikhil Kumar: That's a tough question. I don't have a number honestly speaking on this at the moment.

Neha Agarwal: Okay. But is it that even though it's replacement demand, there is a tendering for it and that's the process or is it more straightforward?

Nikhil Kumar: Vinay, do you want to take this question? Maybe you can throw some light on this in a better way.

Vinay Hegde:

So basically what we are saying is we have around 6,000 machines in the field and as you know, we are a 23-year-old company. And a large number of machines, which are more than 10- to 12-year-old, and we expect a good amount of business to come from this segment for replacement of complete machine or complete rotor or stator. At the same time, there is also a big business for replacing the older machine supplied by our competitors.

For example now we are also bidding a project where there are 5 machines which are 60-year-old. We are building that project with 1 of our customers. That is 1 part. And second part is replacing our own machines. So unfortunately this is an unpredictable market where we can't say that this year, we want to do so many machines replacement. It is a bit tough question to answer, but certainly the probability increases as the machines grow older. So I think only this much we can tell at the moment because we have a large slate of older machines, which are getting older and older year by year.

Neha Agarwal:

Sure. But even then, could we then -- would it be fair to say that even in that case whenever there's a replacement demand also, there is going to be a fair share of competitive intensity and it's not that we are most likely to get the order just because the machine was ours earlier?

Vinay Hegde:

No. In the case of our own machines, the probability of getting the order is you can say more than 90% because it's going to be difficult for our competitors to match all the dimensions. There are so many things technically, the centre height, the shaft diameter, the cooler location, foundation dimensions and all those things.

We are one of the masters in doing that and we have replaced almost all our competitors' machines exactly matching all the dimensions. That is called dropping kind of replacement. But there is nobody who has this kind of capability who can match all the exact dimensions of our machines and offer a replacement generator. So there we have an edge over our competition. And as I said, we have more than 90% chance of getting that business.

Neha Agarwal:

Fair enough. That was very clear. Also on the Turkey side, I had 1 question pertaining to we are having a manufacturing unit there. So if you could throw some light as to which markets, does it cater to and given the recent disruptions in Turkey in last 2 years, have we faced any difficulties?

Nikhil Kumar:

Turkish market is at the moment very I could say almost dead, but we have decided to keep the plant open over there because we are keeping this as a safety security for our increasing population of machines that we have in Europe. So we want to have a service centre in case we have a warranty issue, we think we'll have a manufacturing plant where we can offer the repairs and replacement at a very competitive price.

Otherwise we're dependent on third-party service shops and it would be very, very expensive for the company in case we have an incident. But we also have been talking to our customers in the Turkish market and there is a big revival taking place in the geothermal side. And I will ask my colleague, Ramya, who's on this call. She's still responsible for the Turkish market. Ramya, maybe you can throw some light on the Turkish market and geothermal, what people are saying? Is she on the call?



- M. N. Varalakshmi:** No, I don't think she's on the call, sir.
- Nikhil Kumar:** Okay. Vinay, can you just throw some light on the geothermal opportunity? What's happened with Turkey?
- Vinay Hegde:** So basically the Turkish market we were doing really good business, but of late the government reduced the incentives. So now customers are buying those -- that business has not gone for us. All the business what our Turkish plant used to get, those businesses we are getting in India plant directly.
- But now there is a change and we are expecting a couple of orders for geothermal business, which is now looking up again and we will get couple of orders for the Turkish plant, but not how it used to be before. So all those businesses are coming directly to the Indian plant, made in India machines.
- Nikhil Kumar:** The geothermal market is going to pick up. That's the -- we have taken to our customers. And even if you get 5, 6 machines a year on the geothermal side, large generators and the Turkish operation would be back to being very profitable once this market reaches 5, 6 machines per year. So we're already seeing inquiries floating in, coming in and we have started bidding so the market will definitely revive. It may take some time, but I'm pretty sure.
- Moderator:** Next question is from the line of Riya Mehta from Aequitas Investments.
- Riya Mehta:** My first question is in terms of the independent railway orders which we have received. Could you enlighten more on that and what is the scope going forward?
- Nikhil Kumar:** Sorry, could you just repeat the question with Indian railways?
- Riya Mehta:** Sir, we have been -- as you mentioned in your comments that you have received some orders on TD Power has without any partner and you were in the trial phase. So what is the scope there and going forward what are the opportunities that opens up for us and what will be the size do you think? How long -- how big?
- Nikhil Kumar:** The market is a INR1,200 crore market and it consists of approximately something like I would say 500 to 600 motors per year -- sorry. It's about 3,000 motors per year, sorry. So we are starting with 60, which is going to be the first order that we're getting and we're going to keep increasing the size of this business slowly. So we start with 60, then make it 100, 150, 200. Ultimately the goal is to come to about 10% of the market, which is around 300 machines which is around INR100 crores of business. This is the goal. So 60 is the first step and we will keep gradually increasing our size as we get confidence producing this product and also building confidence with the Indian Railways about our capabilities. I've always mentioned this will take a little bit of time, but 60 is the first big step.
- Riya Mehta:** And what kind of margins do we see here? And what type of competition?
- Nikhil Kumar:** It's a high margin product. So the key is to get to that Level 1 qualification stage where then you get that price. The people who are in that Level 1 stage; BHEL, Crompton Greaves, and Siemens,

ABB; they are the players who enjoy these high prices. We have finished the qualification and we also should get there very soon, but it will take some time for us to build up the volume with Indian Railways. It's going to be a step-by-step process and we would get there because we're doing it step-by-step and we'll keep the market informed about this.

Riya Mehta:

Got it. My next question is could you speak more on that?

Nikhil Kumar:

About the capex? So I said that we have taken a decision in the Board meeting to invest INR120 crores in a third plant and we will get this plant operational within -- partly in Phase 1 within next 12 months to 14 months and it will start contributing towards reducing some bottlenecks in the capacity in the second half of next year. With this full investment, we should be able to -- after we finish Phase 2 and Phase 3, we should be able to produce INR1,700 crores or INR1,800 crores worth of machines. So we are getting ready for that. We are seeing that the order inflow and the demand situation is compelling us to take this decision to go ahead with the capacity.

Riya Mehta:

Right. Current facility were able to produce around INR1,300 crores worth of revenue. So incrementally, the INR120 crores capex would get somewhere around INR500 crores of incremental revenue on a full scale.

Nikhil Kumar:

Yes, we can say around INR400 crores. We have 1:3, 1:3.5 so that's why I said around INR700 crores or so.

Riya Mehta:

And also in terms of domestic orders so which segment or which sector do you see growth majorly coming from for our products specifically?

Nikhil Kumar:

Vinay, take this question.

Vinay Hegde:

Yes. Madam, mainly the domestic sector is steel and then distilleries. Also the agro products and chemicals and fertilizers so we got some very big order from agro companies in northern part of India and real big orders for the steel segment and also the distillery segment is also moving where we are getting good business, but all that is small compared to the steel segment. But these are the segments which are really booming currently in Indian market.

Moderator:

Next question is from the line of Viraj from SiMPL.

Viraj Kacharia:

I just had 1 query. On the nuclear business, if you can just give some update.

Nikhil Kumar:

We had 1 order for a nuclear power plant motor, which we have to deliver in October or November this year, and there are a number of new tenders coming up. So we don't have anything to report other than this because all these things take a little bit of time. Everything in nuclear is completely slow, nothing moves fast over there. So there are new tenders, there are big requirements, we have nothing to report in this quarter.

Viraj Kacharia:

Okay. But in terms of qualification, the whole certification approval process. We have already qualified with all the major customers.



- Nikhil Kumar:** We qualified that's why we got the order. But we need to deliver the first motor and put into operations in October, November this year. Once we deliver that motor, then I think it will open up the business for us completely for more projects.
- Viraj Kacharia:** Okay. And is your focus only on domestic markets or even export is an area that you would be coming at?
- Nikhil Kumar:** Only domestic.
- Moderator:** Ladies and gentlemen, this was the last question for the day. I would now like to hand the conference over to the management for the...
- Nikhil Kumar:** There was a follow-up question which was required, right? It was a lady who had a follow-up question. Would that that want to be taken right now?
- Moderator:** We got that question from Ms. Neha Agarwal.
- Neha Agarwal:** Just wanted on Turkey when you said that there could be revival. But as of now on a plant basis stand-alone, are we making losses in that unit or we have breakeven sort of?
- Nikhil Kumar:** Operationally we are making profit, but there is an exchange translation loss. Varalakshmi, can you please explain what happened in the last quarter on the depreciation of the lira and why we are showing the translation loss?
- M. N. Varalakshmi:** Okay, sir. So there is an operational profit from Turkey. But because of lira depreciation from 4 to 3, that is almost 25% depreciation; all the results have got restated at the current value and this has resulted in a INR1.5 crore of exchange loss.
- Moderator:** Thank you. Ladies and gentlemen, this was the last question for the day. I would now like to hand the conference over to the management for the closing comments.
- Nikhil Kumar:** Thank you very much for participating on this earnings call and happy to answer all your questions. If you have any further questions, please get in touch with us. We look forward to interacting with you in the next quarter or even some investor conference in between. Thank you so much.
- Moderator:** On behalf of TD Power Systems Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.