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

Sirs,

Sub: Transcript of conference call for Sept 30, 2019

Pursuant to Regulation 30 of SEBI (Listing Obligation and Disclosure Requirements) Regulations 2015, Enclosed is the transcript of conference call on Thursday, November 14, 2019 relating to financial results for the period ended September 30, 2019.

Please take the above on your record.

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



N. Srivatsa
Company Secretary





TD Power Systems Limited

Q2 & H1FY20 Earnings Conference Call Transcript

November 14, 2019

Moderator: Ladies and Gentlemen, good day and welcome to TD Power Systems Limited earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Devrishi Singh of CDR India. Thank you and over to you.

Devrishi Singh: Thank you. Good morning and thank you for joining us on this call to discuss financial results of TD Power Systems Limited for the quarter and six months ended 30th September 2019. We have with us Mr. Nikhil Kumar – Managing Director and Mrs. M. N. Varalakshmi – Chief Financial Officer on this call.

Before we begin, I would like to mention that some of the statements made in today's discussion maybe forward looking in nature and may involve risk and uncertainties. Documents relating to the company's financial performance have already been emailed to all of you earlier.

I now invite Mr. Nikhil Kumar to provide key highlights of the company's performance for the six months ended 30th September 2019. Thank you and over to you, sir.

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

Now I would like to discuss with you, TDPS' financial performance for the six months ended 30th September 2019.

Standalone: Our total income on the standalone basis for six months is Rs. 228 crore, an increase of 23% versus Rs. 185 crore for the same period previous year. Profit after tax for the six months is Rs. 4.94 crore versus a loss of Rs. 3.25 crore in the same period last year. Manufacturing revenues for six months is Rs. 218 crore versus Rs. 170 crore, an increase of 28%. Exports and deemed exports constitute 60% of manufacturing revenue. The manufacturing order book stands at Rs. 1,011

crore, out of which Rs. 738 crore is the railway business and Rs. 272 crore is the manufacturing business. Exports and deemed exports is 67% of our manufacturing business order book excluding the railway business.

Order inflow statistics : Six month order inflow was Rs. 214 crore versus Rs. 238 crore same period last year. The project business revenue for six months is Rs. 5 crore versus Rs. 12 crore same period last year. Order book for the project business stands at Rs. 34 crore. Total income on consolidated basis is Rs. 235 crore versus Rs. 176 crore for the same period previous year, an increase of 34%. Profit after tax and other comprehensive income is Rs. 4.18 crore versus a loss of Rs. 9.25 crore last year. We continue to maintain a strong cash position of Rs. 138 crore including investments in NCDs.

Market situation and Guidance:

Order-booking and market conditions: The order inflow for H1 is slightly below the corresponding H1 numbers of last year. It could have been the same level but for one large hydro order which was in the plan for H1, but finally got materialized only in last week. By the end of Q3, the numbers will catch up or exceed last year's numbers on a cumulative basis for the year for order inflow. The domestic market is showing a mass slowdown compared to last earnings call. We have seen the slowdown especially in the steel and cement sectors with little or no order inflow. It is no surprise given the statistics of the industrial growth that have been published in the media. However, some sectors might continue to drive steady domestic demand especially distilleries and some other industrial segments. However, export driven growth for TDPS continued to be strong and we have a good pipeline in all segments including hydro, steam engines and gas turbines. In the very worst case with a very tepid domestic demand, growth could be in low single digit for the generator business excluding railways.

Despite a negative media reports, our production for the railway business is on track for this year and we also have firm indications for Rs. 9,200 crore for next year. The biggest development for TDPS in the last quarter has been the growth of our Turkey business. Last quarter, we commissioned two large generators 26 MW and 27 MW in the Turkish market and after that we have received a flood of orders for execution for the next year. Next year, we expect TDPS Turkey to be around 10 to 11 million Euros in sales. From now onwards, TDPS Turkey will be classified as a manufacturing business since we are making full machines in Turkey.

Guidance for this year: Manufacturing business, the outlook for 19-20 is firm with our initial guidance of Rs. 480 to Rs. 490 crore. It should be noted that Q3 will be around Rs. 110 to Rs. 115 crore and then Q4 will be the rest to achieve the target of Rs. 480 crore to Rs. 490 crore. Full year expenses may go up by Rs. 5 crore to Rs. 6 crore due to higher variable costs on account of increased business volumes and on account of employee-related expenses (ERE), on account of implementation of minimum wage and salary revisions for the management staff.

TDPS Turkey will end the year with sales of 3.2 million euros which is around Rs. 25 crore. As a total manufacturing business which crossed Rs. 500 crore for the first time in the history of the Company.

Projects Business: Topline is Rs. 34 crore. Since the project business is decreasing, we are initiating necessary action to downsize and will align the operational costs accordingly.

Subsidiaries: TDPS Turkey, TDPS Europe will make healthy profit this year. TDPS Japan will make a small loss due to restructuring costs and downsizing and layoffs. TDPS USA will make a small loss or breakeven on the EBITDA level.

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

Moderator: Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Ankit Gupta from Bamboo Capital.

Ankit Gupta: Just wanted to understand, how are things on the export side? Given what is happening on the domestic side, we are continuing with our orders, with our revenue guidance for the full year which is quite an achievement. So if you can just talk about how things are shaping up for the Company in the export side?

Nikhil Kumar: It is for next year or for this year?

Ankit Gupta: For this year sir.

Nikhil Kumar: For this year, we are maintaining our projections mainly because domestic demand was pretty strong for the first half of this year and we are seeing a mass slowdown only taking place in the past 3 or 4 months. So the strong domestic performance which was there in the initial part of the year will basically drive the revenues for this year. So that is not really affecting any numbers for this year. Exports have also been very strong for us, this year. We are seeing growth coming in from the gas engine side, steam turbine side and also hydro side and this export growth will continue into next year for sure, in all the segments actually. So we are increasing our sales in exports, in all the segments at the moment. I don't see any difficulties in achieving our numbers for next year based on the export growth.

Ankit Gupta: Sure. And just on the domestic side, it has been 3-4 months, you have been saying that there has been mass slowdown. Any signs of some revival in the domestic orders or it is too early?

Nikhil Kumar: It is too early. But there are some signs as I said in distilleries and there are some signs in the specific segments with paper and things like that. So there, we are seeing some demand coming from that, those segments, but as I said it is kind of tepid, it is not that great, but even if it remains at this level, it is fine for us for next year.

Ankit Gupta: Sure. And sir on the gross margin side, we saw some pressure on our gross margins where the gross margins remained around 29.33% for the quarter. So what led to this decline in gross margins for the quarter?

Nikhil Kumar: The gross margins are 30%, because we had a dispatch of large generator, 60 MW generator last quarter at not very favorable pricing. So that drove down the

percentage gross contribution by about 1%, it went up by 1% because of this one machine. Other than that, I think we will be on track for the whole year.

Ankit Gupta: And sir, if you can briefly talk about how is the competitive intensity in our key markets like Europe and how is the pricing there for new orders that we are getting?

Nikhil Kumar: The competitive pressure continues to be there. But we are well positioned in terms of our credibility, in terms of quality, we are getting the prices as we have been historically getting and with prudent hedging of the Euro against the Rupee and looking forward, I think we have been able to keep a very healthy margin for our exports business this year and we are going to keep this strategy going forward into next year also.

Ankit Gupta: Okay. And any updates on the railways orders or any new railways orders?

Nikhil Kumar: No, new railway business at the moment.

Moderator: Our next question is from the line of Kirti Jain from Sundaram Mutual Fund.

Kirti Jain: Sir, first is just on the railways part did we do any execution in the H1, in the Indian railways order?

Nikhil Kumar: Yes, about Rs.17 crore.

Kirti Jain: And in H2, how much we are seeing sir?

Nikhil Kumar: We do between Rs. 37 to Rs. 40 crore this year with railway business. So say if you take Rs. 480 or Rs. 490 crore for the overall India generator business, it will be say, generator business will be Rs. 450 crore and this will be something like Rs. 37 to Rs. 40 crore. So that is the split up between the railway business and the generator business for this year. Next year, as I said in my earnings call speech that it will be, we have firm indications, so Rs. 90 to 100 crore coming from the railway business.

Kirti Jain: Sir, little early to say, but how we see the next year business growth sir?

Nikhil Kumar: So, as I said, for us, one is that the railway business is going to give us almost Rs. 50 to Rs. 60 crore more compared to this year. Our subsidiary in Turkey is doing exceptionally well. So as we will do 3.2 million euros this year, but next year we are looking at something like 11 million euros of business. So that almost 8 million euros extra which is something like Rs. 60 to Rs. 70 crore coming out of Turkey business subsidiary. And in addition to that, our export business is growing strong. If you take our generator business which is Rs. 450 crore this year minus railways, single digit growth will take place in this business for next year on the back of exports, but if we have some domestic revival, it should go to double digits. But at this moment, the domestic situation is not so clear. So I can say that Rs. 450 crore will grow at single digit plus we have the railway business of Rs. 90 to 100 crore, plus we have TDPS Turkey.

- Kirti Jain:** Sir, if you want you can tell, like how we see the next year margins?
- Nikhil Kumar:** Next year margins would be an improvement over this year's margins. So particularly we think that we are getting really good prices, because we are getting good numbers from our Turkish subsidiary, that will overall influence the manufacturing business margins and we also have a higher percentage of exports with good currency hedging for next year. So those numbers are also going to get better for next year. So we are targeting something like 1%-2% increase in the gross contribution levels for next year.
- Kirti Jain:** Okay. Sir, how is the split will look between the domestic and export side in the core generator business of Rs. 480 crore which are Rs. 480-490 crore next year which we will be planning. Any brief on that?
- Nikhil Kumar:** Around 65% to 70% export and 30%-35% domestic. So I am not including the railway business which will be all domestic, right.
- Nikhil Kumar:** Yes. That's it sir, thank you.
- Moderator:** Our next question is from the line of Dhwani Desai from Turtle Capital.
- Dhwani Desai:** Sir, I have two questions. First is you mentioned about increase in cost by Rs. 5 to 6 crore in the H2, but will we be still on track to do 9% to 10% EBITDA margin on the current year, that is our first question?
- Nikhil Kumar:** This is not Rs. 5 - 6 crore on H2, this is full year expenses. So we are definitely on track for 10 plus percent on EBITDA.
- Dhwani Desai:** Got it. And sir, second question is on Turkey. So I think you know it is very heartening to see this kind of a ramp up in Turkey. But what kind of rates do we see in that market because that is politically competitive market and lot of things ongoing on geopolitics side in that market. So will it impact our business in anyway? What are the things that can derail our growth in that market, if you can share a bit of light on that?
- Nikhil Kumar:** Could you please repeat what you said on what you perceive as being the issues in the Turkish market, I do not hear?
- Dhwani Desai:** I mean, there are a lot of geopolitical things going around in that region. So will it impact our business in that market in anyway?
- Nikhil Kumar:** No. Clear answer is no. For that question, clear answer is no because we have for next year at least, we have a firm and we are seeing firm clear visibility of 10 to 11 million euros of business for coming years. Absolutely, there is no geopolitical interference will come in that. Most of our bookings are in euros and dollars, we have no exposure to Turkish Lira and, we are okay.
- Moderator:** Our next question is from the line of Rohit Balakrishnan from Vrddhi Capital.

- Rohit Balakrishnan:** So, on the domestic market, just wanted your view, so another company which is in the turbine space has actually given an optimistic sort of outlook on the domestic market and typically we have some sort of a lockstep there. So just want to get your view, should we see that as a lag for us as well or are you hearing something...
- Nikhil Kumar:** No, I am not disputing what they said. Actually, I am really happy that they have this outlook because ultimately they are the guys in the frontline more than what we are. But what I actually said was I am seeing a temporary slowdown compared to last quarter. So things will become clearer next quarter. But I am fully aware of the statements and I respect the statements and they are on the frontline and probably they have a better vision than I do and we hope for the best.
- Rohit Balakrishnan:** So, is it a fair comment to make that if what is believed to be correct and what if this happens, it should ideally benefit us in terms of, I mean there maybe some lag, but it should ideally benefit us, right?
- Nikhil Kumar:** Yes. Because we have a good market share with them and there is a flow through of business. If they do well, we will definitely will be the beneficiary of some of that good fortune. So yes, to answer your question, if they do well, we will definitely see that happening to us too.
- Rohit Balakrishnan:** Got it. Just two more questions. On the cost, hopefully this year you said that on an overall base of last year, we see maybe employee and other expenses of Rs. 5 crore - Rs. 7 crore, any indication for the next year because we will have more railways as well and with Turkey etc. So any early thoughts on that for the next year?
- Nikhil Kumar:** If you see, there is no doubt that salary bills go up every year. So majority of the increase in the expenses is really coming out of the salary increases and as we increase the production, there is increase in the variable cost like power and fuel and travel and so on and so forth. So we will give you firm indication in the next quarter. But we have a very significant growth overall coming up even if you say Rs. 450 Rs. 460 crore is coming from the generator business plus Rs. 90 crore from the railway business, plus we have Turkey which is already at Rs. 80 Rs. 90 crore. So we are looking at Rs. 625 plus crore next year. There is a significant increase in the operations of our organization. So there will be additional thoughts and we will get back to you next quarter as what it is going to be like.
- Rohit Balakrishnan:** Got it . And just last question on any new addition to the customer list that we have on the manufacturing side?
- Nikhil Kumar:** We will disclose it next quarter. We have, but we have not yet got the official BO on hand. We may disclose it next quarter. But we have big new customer acquisitions.
- Moderator:** Our next question is from the line of Manoj Dua from Geometric Securities.
- Manoj Dua:** Company has implemented this equity base compensation scheme in this quarter. So any effect there was in this P&L, in this quarter because of it?

- M. N. Varalakshmi:** Yes. Rs. 55 lakhs was the impact this quarter.
- Manoj Dua:** And sir my second question is based on the EBITDA margin. If we reach a Rs. 650 crore of sales in next year, how much improvement in EBITDA margin we can see from here?
- Nikhil Kumar:** Yes sir, I haven't. But I will give good breakup of next years' performance in the next earnings call. We are trying to improve the gross contribution; we are also trying to keep our expenses under control. So once all those numbers are firmed up, we will give a better guidance next year. But it will be better than what it is this year for sure.
- Moderator:** Our next question is from the line of Lalaram Singh from Vibrant Securities.
- Lalaram Singh:** In Turkey market, which product driving this growth, the same with geothermal based turbine and generator business?
- Nikhil Kumar:** There is a mix of geothermal, biomass and hydro. I would say about equal proportion.
- Lalaram Singh:** And how large would be the addressable market within Turkey for which we are eyeing?
- Nikhil Kumar:** So, we don't have a fix on how big the market is. But we think it should be around 15 million euros. We have a pretty high market share right now already.
- Lalaram Singh:** 15 million is the total market you are saying.
- Nikhil Kumar:** Yes.
- Lalaram Singh:** Okay. That is great. And all the manufacturing is local, is it, there?
- Nikhil Kumar:** Most of the manufacturing is local. We are doing, we have about 70% local content.
- Lalaram Singh:** And the margins which we make there is similar to the overall business, blended margins?
- Nikhil Kumar:** Yes.
- Lalaram Singh:** Got it. My second question is on the hydro business. In the annual report, we have mentioned that this year will cross the all-time high sort of hydro revenues. So do you maintain that kind of visibility...
- Nikhil Kumar:** We will be close to the all-time high. But it is going to be a good year for hydro. Yes, we definitely maintain that.
- Lalaram Singh:** The third question is on the railway business. So we have not got new orders, but are we in the market for tendering for orders, or how is this situation with respect to that?

- Nikhil Kumar:** For the new orders, we are linked with our partners and of course, we are bidding and we are in the process of negotiating new jobs, but we have not been able to close anything as yet. When we do, we will announce it to the market. But it is active, I mean these things are going on.
- Moderator:** Our next question is from the line of Ankit Gupta from Bamboo Capital.
- Ankit Gupta:** Sir, can you talk about how we had got to customers in the past 12 to 15 months, basically it has also has Caterpillar, if you can just explain how is the relationship developing and where do you see the revenues scaling up from this companies over the next few years?
- Nikhil Kumar:** Yes. I don't want to mention any specific names of customers, but definitely the engine business and the gas turbine business are too high focus areas for our company right now for export growth. And hopefully, we will be able to announce something good in the next earnings call and at that time, I know people are going to ask me about what is the potential volumes and I will be able to give you a better picture next quarter. But things are going well, we are on track and we will announce something in the next quarter.
- Ankit Gupta:** Okay. Is it better than your expectations, maybe now you are expecting ramp up...
- Nikhil Kumar:** The potential is fairly large; it is large potential. But there are some steps along the way. It may not ramp up as quickly as we all wanted to. But there is a large potential and we are well positioned, is all I can say.
- Moderator:** Our next question is from the line of Anish Jobalia from Banyan Capital.
- Anish Jobalia:** Sir, I just want to understand, I will be delving a bit on the domestic part. Of course it is smaller part of the business. But sir the question is, how much are we dependent on the CAPEX in the steel and the cement industries for the domestic to revive, I mean you always say that domestic which is the game changer, but you have put up a great performance. So how much are we dependent on that? Because the CAPEX seems to be happening in the distillery, chemical, pharma, biomass, waste to energy and waste to heat recovery kind of things. But would that be beneficial for us, for the next 3 years kind of an outlook. Or we still need the steel and the cement sectors to pick up for that great performance?
- Nikhil Kumar:** Steel and cement tend to have larger machines. So, 30-40-50 MW size machines and those machines are, when we have them, it really improves the topline as well as the bottomline. But if we compensate it with a larger volume of business in the segments that you just mentioned, overall it should still not be a bad situation. I still expect fairly decent performance in the captive power plant business in India and biomass mainly because there is no alternative. And there is no capacity addition taking place in a large way, in a meaningful way in any other areas. There is no large coal fired power plants coming up, additional wind, there is not much additional solar. So the industry still needs captive power plants and there is no choice. This business will continue for many years.
- Anish Jobalia:** And sir, second question is regarding your gross margins. So like we have done half year around 28.5%. So I think we had a target of more than 30%, probably

more towards 31%-32% number. And H2 is also big, I mean it is quite a substantial percent of our revenues. So do you think that we can cater to that number in FY20 and if not then, do you think that we can actually achieve that in 2021?

M. N. Varalakshmi: Gross margins are around 29.5% for H1 and see, all these hedging benefits that we are getting comes as a part of other income. So when we were talking, we were telling that this will also be clubbed under the gross margin, but since it is not allowed under the Accounting Standards, you see there is a higher gross margin. So gross margin of 29.5% as against 30%.

Anish Jobalia: Right. Are we looking to improve this in the full year?

Nikhil Kumar: If you include whatever benefit that we have got from hedging of the euros and dollars in H1, then we will be greater than 30% on the gross margin. And this will continue into H2 also, because actually we have some better rates on the euro and dollar hedging for H2 compared to H1. So we will see the benefit of that. You see in H1, there were periods when the euro was at 77-78 and we had to bill our generators at that rate. But we have pegged the euro at 80-81-82. So when that gain cannot come in the gross contribution, it will come under other income, discounting unfortunately works out. But if we takes that as being an operational income, then the gross contribution goes above 30%.

Moderator: We will take our next question from the line of Lalaram Singh from Vibrant Securities.

Lalaram Singh: Nikhil, the land which we sold in the recent quarter was it away from the current factory?

Nikhil Kumar: Yes.

Lalaram Singh: And was it originally purchased keeping in mind some sort of expansion plan?

Nikhil Kumar: It was purchased for the sake of investment as well as potential expansion plan, but we don't think that we are going to put up any additional capacities in this area in the future. We don't want to have such a high concentration of all our facilities only in one location anymore. So when we put up new capacities, we will go somewhere else.

Lalaram Singh: And considering that will touch (+600) crore in the next year, I mean the capacity has to come quickly, right?

Nikhil Kumar: No, we will slog the assets. So I think we can push this to 800 - 850 crore over here and we will do that. And that is when we started really making better money when we start slogging the assets. So we are witnessing good amount of money this year and next year in improving productivity, debottlenecking certain lines, adding capacity in critical areas and we will slog the assets for some more time.

Lalaram Singh: And for the (Inaudible) machines, any improvement in the market?

- Nikhil Kumar:** That is unfortunately dead and continues to be dead. I don't see any chance of revival of that business. So I am actually, we are losing hope completely on that. Probably this segment may never revive.
- Moderator:** We will take the next question from the line of Jimesh Shah, an Individual Investor.
- Jimesh Shah:** There is a recent article about Alstom and Railways joint venture having a struggle to meet locomotive target. Will it any affect our railways order something related to that?
- Nikhil Kumar:** I had mentioned in my earnings initial speech that despite the media reports which I think, many people have read and I have also got a lot of questions coming from various quarters on this. But from as far as I am concerned, my customer had told me to go ahead with all the plans, no change. I don't know what is happening behind the scene, I am not privy to that. I am only a sub supplier to them and so I am confident that they will solve whatever problems they have, but they have asked me to go with the original plan.
- Moderator:** Ladies and gentlemen, that was the last question. I now hand the floor back to the management for closing comments.
- Nikhil Kumar:** Thank you all for joining our conference call. If there are any further questions, please get in touch with me or Varalakshmi. We look forward to interacting with all of you once again next quarter. Thank you.
- Moderator:** Thank you members of the management. Ladies and gentlemen, on behalf of TD Power Systems Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.
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