tdps™ is relations

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May 16, 2023

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

Sirs,

Sub: Transcript of Earning Conference Call – Quarter ended March 31, 2023

In furtherance of our letter dated April 27, 2023 regarding intimation of earnings conference call, please find enclosed transcript of Q4FY2023 earning conference call held on May 11th 2023. The said information is also available on the website of the Company at https://tdps.co.in/investor_fincl_rslt.html

Kindly take the above on record.

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

BHARAT RAJWANI Digitally signed by BHARAT RAJWANI Date: 2023.05.16 15:35:09 +05'30'

Bharat Rajwani
Company Secretary

Encl; A/a

“TD Power Systems Limited

Q4 FY '23 Earnings Conference Call”

May 11, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 11th May 2023 will prevail.

MANAGEMENT: MR. NIKHIL KUMAR – MANAGING DIRECTOR – TD POWER SYSTEMS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the TD Power Systems Limited Q4 FY '23 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks 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, please signal an operator by pressing star then zero on your touch tone telephone. Please note that this conference is being recorded.

Now I hand over the conference to Mr. Nikhil Kumar, Managing Director from TD Power. 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 move on to discuss with you TDPS's financial performance for the year ended 31st March 2023.

Standalone. Our full year total income on a standalone basis was INR8.43 billion versus INR7.36 billion in the same period the previous year, an increase of 15%. Profit after tax and comprehensive income was INR884 million versus a profit of INR532 million in the same period in the previous year, an increase of 66%. We are pleased to inform you this is the highest PAT on standalone basis for the full quarter and full year since the inception of our company.

Full year manufacturing revenues was INR8.16 billion versus INR7.04 billion. EBITDA margins for the full year were 16.58%, including other operational income. Exports and deemed exports contributed to 58% of the generator business. The manufacturing order book, including Turkey operations stands at INR13.8 billion, of which INR5.61 billion is the generator business, INR8.08 billion is the railway business, which is executable over the next 5 years and INR0.11 billion for the Turkey business. Export and deemed exports, excluding the railway business is 52%.

Order inflow. Our order inflow has been very strong and resilient, and we're very, very pleased to report an increase of 36% -- sorry, 38% in the order inflow compared to the previous year. Order inflows for TDPS for the current year, sorry, for the last year was INR8.37 billion compared to INR6.05 billion of the previous year. Full year order inflow including Turkey business as follows: TDPS India was INR8.37 billion, TDPS Turkey 0.08, total is INR8.45 billion versus the previous year INR6.4 billion. Order inflow from direct and deemed exports is INR4.43 billion, which is an increase of 20% over the previous year.

Full year project business revenue was INR335 million versus INR173 million same period last year. But we would once again like to reiterate that the company is no longer in the projects business, and hence forward, all orders put by Japan branch will be classified into the manufacturing segment, which consists mainly of generator sales, generator spares, service and other related jobs. As a matter of clarification, in the sale of INR283 million in total of INR335 million described above is mainly the generator business service and spares. Order book from the projects business stands at INR106 million, which is now classified as generator business from this point onwards.

Consol. On the consol basis, our full year total income, including exceptional income is INR8.93 billion versus INR8.22 billion in the same period in the previous year, an increase of 9%. Profit after tax, including comprehensive and exceptional income is INR945 million, including a write-back in DFPS a subsidiary of INR6.28 million and profit from the sale of land of INR7.16 million versus a profit of INR614 million in the same period in the previous year. In the previous year, we had a write-back in our subsidiary company in DFPS of INR76 million.

Our consol order book is INR13.91 billion. We continue to have a strong cash position of INR1.89 billion. The company has also generated operating cash flow of INR886 million during the year on a consol basis. The major part of it has been used to pay back the working capital loans, balance over payment of dividends and creditors compared to INR109 million in the previous year. The company is now debt-free, both long term and short term. Anyway, the company did not have any long-term debt previously. We plan to invest around

INR25 crores in this current year on automation, productivity improvements and software for our design department.

Order book market situation and guidance. Steam Turbine generators. We have seen a huge jump in the order book in this segment on a year-on-year basis up about 55%. Orders have increased both from domestic market as well as export market across the board. The domestic market is seeing a big revival in capex, and we are seeing demand broadly across all sectors. In the export market, we're seeing the same factors playing out as we have been discussing in the past few quarters. Macro factors continue to drive the business, move to renewables, ways to heat energy, garbage burning plants, etcetera. Increased demand for electricity from electric automobiles and in the future, domestic heating, which will happen to change to electricity will provide long-term sustained demand for new power plants in this segment.

Gas Engines. We continued to have robust orders from both our engine customers, and this will ensure sustained demand in this segment for this current financial year. Recently, we won a big order to supply 20 generators to Ireland from one of our Indian customers. Gas Turbine. This segment has a big potential for growth for TDPS and we are actively bidding for more projects with OEMs, wherever we are approved.

Now Hydro. Hydro also we're seeing a massive growth in the business in this year compared to the last year. We will see a growth of about 60% to 70% of our business in this year compared to the previous year. The main markets are Nepal, Vietnam and countries in Europe. Once again, the push over renewables in driving the business in hydro. Moreover, we are pleased to announce the first order from Nuclear Power Corporation.

We have also received the first order for submersible motors, which is a new product for TDPS. Submersible motors are used extensively in municipalities, in sewage and water supply systems. We are also very pleased to announce a large order from Megha Engineering, for 540-megawatt synchronous motor to be delivered in Q2 and Q3 this year. With this supply, we will establish ourselves firmly in the segment and open up the market for further business.

Railway. Next month, the 6-month trial of our motor will be completed with the Indian Railway. We hope everything will function well until the end of next month. There are still a few more tests to be completed after the 6-month period is completed and then we have to complete a significant amount of documentation. We expect to finish everything by Q3. And next year, we can see a good ramp-up in this business. As I said repeatedly, the goal is to make this business about INR100 crores business in the next 2 years. New projects from Indian Railways, we are waiting eagerly for the results. And hopefully, our partner customer will be successful to win a few of the upcoming tenders from Indian Railways.

Turkey. We are also happy to announce that Turkish government has revised the incentives for locally made generators and made it very attractive for end users to buy Made in Turkey generators. This means the market will open up once again. It may take some time after the elections. The market will open up in Turkey as it's a power shortage country. I expect this year to be _this current year to be very subdued in terms of sales, but we will see the pickup of order booking and from next year onwards we will see their execution picking up once again.

Now I'll finally come to the market conditions through the guidance. As we have been guiding in our previous earnings call, we are projecting growth of at least 20% in this current year with upside potential to reach around INR1,000 crores in the manufacturing business. As of now, we see manufacturing sales to be in the region of INR970 crores definite and INR1,000 crores target. And the reality could be somewhere in between. We will see an improvement in EBITDA margins based on operational leverage.

In H1, we plan to have around 47% of our sales around INR470 crores, of which INR210 crores will be in Q1 and INR260 crores will be in Q2. This is because we have large number of machines -- sorry, we have a number of large machines to be delivered in Q2, and these will be in production in Q1. As I mentioned earlier, we have the 5 big motors of 40 megawatts, which we delivered in Q2 and some in Q3. And those will be in production, they're already in production, and therefore, our sales will be slightly lower in Q1, but will pick up dramatically in Q2 onwards.

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

Moderator: We have a first question from the line of Niteen Dharmawat from Aurum Capital.

Niteen Dharmawat: Sir, my first question is about the raw material price trends. Some time ago, we had significant raw material pressure, and then there was some price correction that has happened. So, I wanted to take your view on the current raw material price trend. And is it going to help us or we are having some challenges over there?

Nikhil Kumar: We have already booked and bought majority of our major raw materials for this current financial year. We have seen that the prices of steel, for example, have been going up recently once again. And the company has taken a decision to buy the material for rest of the year to avoid exposure to further price increase. So as far as our purchases are concerned and our margin protection is concerned, we have taken necessary steps to ensure that we will not be affected by any swings in the material prices in this current financial year.

Niteen Dharmawat: Perfect. You mentioned about the 20% growth, I suppose, in the manufacturing business. So, what is the consolidated growth that we are planning for the year?

Nikhil Kumar: I think, it would be around 20% around the same right?

Management: Yes, yes. It's the same, sir.

Niteen Dharmawat: Okay. It is this main 20% for the overall business as well, right?

Management: Yes.

Nikhil Kumar: Yes.

Niteen Dharmawat: Would the EBITDA that you're targeting for the overall business.

Nikhil Kumar: Yes, we have -- there will be an increase in the EBITDA margin. We are -- we will give the exact guidance in the next quarter, but we are saying it is going to increase from the current quarter.

Niteen Dharmawat: The current EBITDA margin, will it be sustainable in the current financial year as well?

Nikhil Kumar: I said it is going to increase, right? So.

Niteen Dharmawat: Yes. Okay. Got it. My final question is, what is the volume growth that you are expecting in financial year '24?

Nikhil Kumar: Around 20%.

Niteen Dharmawat: Around 20%. Okay. Got it.

Moderator: We have our next question from the line of Andrey Purushottam from Cogito Advisors.

Andrey Purushottam: Congratulations for a good set of numbers, sir. Just as a bit of a follow-up question from the previous one. If you look at the results last year, your gross profit margins have increased considerably. But your other costs, employee, other expenses, etc, have increased slightly as compared -- as a percentage of sales, I think from 16.8% to 17.2%, if I'm not mistaken. Now this suggests that you have not taken advantage of operating leverage in this year. But going forward, again with your guidance of greater EBITDA margins that I suggest, I'm assuming we do not have continued gross profit margin improvement, can we also see some operating leverage has taken in? Just wanted to hear your thoughts on this.

Nikhil Kumar: Varalakshmi, can you take on the question, please?

M. N. Varalakshmi: There has been an improvement in the gross contribution because of the pass on of the cost to the customers. And operating costs are increasing because we need to give some increases in the salary and all.

Andrey Purushottam: So going forward, going forward, will these costs, the employee costs and other expenses move slower than the increase in revenue?

M. N. Varalakshmi: They may not increase in the same proportion as the sales will increase, but there will be some increase. If the sales are increasing by 20%, the operating expenses may increase by 12%, 13%.

Sangita: This is Sangita, Andrey's partner. I had a follow-on question that you guided for the 20% volume value growth for FY '24. Now given where the cycle is, do you think this kind of growth can be sustained in the medium term, say, 3 to 5 years?

Nikhil Kumar: No, that's a good question, and I don't want to be overly optimistic in saying that this kind of growth will be sustainable. So -- but as far as our company is concerned, we have a strategy to sustain the growth based on diversification of products and diversification of markets. So today, we see order increases taking place by 38% and 48%. That kind of a sustainable -- that kind of a huge growth may not be -- it may flatten to about 20%, 25%. This is my expectation.

But the large part of this increase those are also taking place because we have diversified our product range, and we're working in different markets with new customers across the world. So we can expect on a very conservative basis, I'm saying we can expect something like 17.5% compounded growth could definitely take place. Of course, the company is having a target to keep the growth rate around between 20% to 25%. But in terms of giving a commitment, we have always said that we've given a commitment around 17.5% compounding growth.

Sangita: 17.5% compounded growth over, say, 3 years.

Nikhil Kumar: Yes.

Sangita: Okay, okay. And could you give...

Nikhil Kumar: From the upside potential is there because they're giving a conservative commitment based on what we can actually do.

Sangita: Right, right. And could you give a flavor as to what is prompting different clients across different geographies to buy the products from you? Is it part of the Europe-plus-One or China-plus-One or what is the thinking? And is that likely to then convert into a structural trend?

Nikhil Kumar: No, we are not -- see, this China-plus-One is not -- it's not something that we're not affected by the China-plus-One. China-plus-One business is when you have large companies setting up shop in India, versus setting up shop in China. And then manufacturing, getting contract manufacturing done or heading up their own plants, so they can manufacture and then export to other parts of the world. That is a China-plus-One.

We are talking about -- in our company, we have built up our own brand name and we're selling our products, and we have been doing this for the past 10 years. This is not something that we started yesterday or started in the past 2 years once this Ukraine war has started and lastly China plus 1 has become a big news item. We have been in the export market for the past 10 years intensively growing our business, building up our own brand name and creating references across the world. And so our story is a totally different story.

There is a huge market for electric generators in general. And TDPS is probably one of -- probably the only companies coming from a low cost country and competing with established European majors or American majors in their home markets. We still have a long way to go. We have a very low market share, and we are constantly trying to improve our penetration in the market and grow our business internationally. So I see -- plus the macro factors that I talked about in terms of increased electricity demand, I see that there's a good potential for growth for us in the future also.

Moderator: We have a next question from the line of Himanshu Upadhyay from O3 PMS.

Himanshu Upadhyay: Congratulations on good set of numbers. Sir, my first question was, we have guided for revenue something like INR1,000 crores, okay? And if you look at the order book, it is INR590 crores besides railway. And railway, if you do, let's say, even INR150 crores, it reaches INR700 crores to INR750 crores. So do you think a significant -- means we have a significant pipeline, which is not, let's say, ordered to us, but a significant place where we are tender or means we are participating and we are very optimistic on that. Or it is your some understanding with OEMs who are where means the cycle is much shorter. Can you elaborate on that?

Nikhil Kumar: Yes. We have a delivery cycle of between 3 months to 12 months. So if you look at our past track record, we do -- it depends on depends on the year, but we do between INR200 crores to INR300 crores of book and bill within the current year, depending on the year. So we are very confident that this balance INR250 crores will be easily made up.

Himanshu Upadhyay: And one thing...

Nikhil Kumar: We have not declared the April result and also we have had a very strong order book in April. The order booking continues to be very, very strong in May. Of course, we not declared those numbers. But I can just tell the market that it's been very strong and it's in line with the kind of guidance that I'm projecting to the market at this point of time.

Himanshu Upadhyay: Okay. And one more thing. See, the motors business, currently, we are winning project-level businesses, okay? But is there any thought process that we also start getting OEM businesses, so let's say, a large pump company for which we can be a supplier or a compressor company or, let's say, whatever means the applications are very wide, for large. So, is there any opportunity that we can directly be a supplier to a large OEM for whom motor may not be the core product? And what is the opportunity size in such a business, because earlier even in generators, we were not with so many OEMs, okay? But eventually, we tagged along with some of the OEMs, and it gave us good business, okay? So what is the path for motors business or large synchronous motors to move from here on?

Nikhil Kumar: I don't think that we're going to be -- because, all these motors finally will go towards -- will be coming to a firm, or will be coming to a compressor. It is anyway linked to an OEM business. Some of these businesses are -- we sell to the OEMs, some of them will sell directly to the end user depending on whether the customer wants to split the order business or split the order.

We're focusing on the particular applications, and we're focusing on a particular size is -- not size, but motors are larger in size, and we are focusing on motors, which are above 4, 5 megawatt in in size. And so we have been quite specific as to what we're going after, and we're not going after the motor business below all these sizes because it is a very highly competitive and highly populated markets below these sizes. So we will continue to work on this strategy to work on larger size motors and in niche markets where we have a good chance to display our capabilities and get better prices.

Himanshu Upadhyay: One last question on this only. You see in generators, what would be our revenue from OEMs, let's say, an engine manufacturer or, let's say, gas engine manufacturer or a diesel engine manufacturer currently versus some 5 or 7 years back. So how big is that proportion of business? And is it much shorter cycle than the project businesses are what we may do on the generators space directly?

Nikhil Kumar: No, I don't understand your question completely, but I -- the generator business is mainly an OEM business and continues to be mainly in OEM business. In terms of percentages, there's no change in what is about 5, 7 years ago in what it is today.

Himanshu Upadhyay: So what I was asking was...

Nikhil Kumar: To the OEMs to the end user.

Himanshu Upadhyay: Okay. I'll join back in queue for further questions.

Moderator: We have a next question from the line of Rohit from ithoughtPMS.

Rohit: Congratulations on very good results. So, Nikhil, a couple of questions. Recently, I was reading that geothermal is actually a very hot space right now in the U.S. and what's happening in Europe is somewhat, similarly also happening in the U.S. I remember you had mentioned a few quarters about also trying to build up that segment, which is probably largely in Turkey. So just wanted to hear anything, if you're saying something in that market as well and if that market also can be a reasoning opportunity for us like what...

Moderator: I'm sorry to interrupt, Mr. Rohit, can you use your handset, please? It is not audible?

Rohit: Okay. So I just wanted to hear your view that if geothermal also could be a big vertical beyond Turkey. And so that was my first question, actually.

Nikhil Kumar: Yes, the geothermal market, as we see it, is about 500 to 600 megawatts per year right now, could be 800 megawatts per year. And we are actively bidding with the OEM customers and getting some orders. We're not a major player in this market as yet in terms of being -- having a significant market share, a lot of space for us to grow. But we are working with all the top OEMs in the world, and we will get more business, where we got business from Japan, we got business from Turkey, we got business from Central America, we got some business also, now recently, we got a geothermal order from Germany. So we are getting -- we're getting breakthrough orders. It's going to take a little bit more time for us to establish ourselves to get a big market share within this segment on a worldwide basis, but we constantly plugging the way at it.

Rohit: Got it. That's very good to hear, Nikhil. Also, Nikhil, you mentioned about other new product, a tumultuous motor, right? If you can just talk a bit about -- sorry, I couldn't hear you...

Nikhil Kumar: These motors are -- motors which -- I mean, obviously, they're submerged within the liquid that they're supposed to pump out and it's a very special application. We are actually working on the larger-sized motors where there is no domestic manufacturer today. And most of the motors are imported. So we are extended to be in this segment. All the municipalities require these across India will require these motors for wastewater treatment, sewage handling also for fresh water pumping. So we are -- it's a big market, we got the first order, and let's see how it goes, but we are excited to be in this space.

Rohit: Perfect. I mean, would you want to sort of talk a bit about what's the size of the market and what you want to sort of go on...

Nikhil Kumar: At this point of time, we are -- let's -- because once I say this is so many crores and next question is how much share do you plan to get from it. So I'll take these questions a little bit later once we deliver a set of motors.

Rohit: Sure. And my last question was it, I mean, I would also like remembering on your balance sheet because I think we've grown very well this year and our inventory has reduced and also like receivables very good show on the overall cash flow. So, I mean actuation a few lately. And so I mean, you're spending INR25 crores, you said, and we have a significant amount of cash. So any thoughts on how do you want to sort of use cash going forward in this year as we are also projecting good growth for this year and also for the next couple of years.

Nikhil Kumar: Rohit, we eventually will have to put a third plant. And whether we have to start to work, start the work partially like buy something land and start the work this year or next year, it depends on how the market grows. If we go to see this 35%, 40% order in flow sustainable for the next 2, 3 years, and we have to put the plant faster than what we had earlier planned. So we are getting there and then depending on how big we want the new plant to be. So we are keeping the money aside right now for the new plant.

Moderator: We have our next question from the line of Dhwanil Desai from Turtle Capital.

Dhwanil Desai: So the first question is, so this submersible motor thing. So in terms of supply, in terms of customers, do we directly supply to the municipality or is it like on a...

Nikhil Kumar: To the pump -- we supply to the pump manufacturers.

Dhwanil Desai: To the pump manufacturers. Okay. So your receivables are with the pump manufacturers. That's how it works?

Nikhil Kumar: Yes.

Dhwanil Desai: Okay. Okay. And typically, who do we compete with? I mean, who are the major players in this segment?

Nikhil Kumar: Yes, as I said, most of the larger motors are imported and, imported from Europe or from Korea.

Dhwanil Desai: Okay. So no major Indian players in this market? Okay, okay. Second thing, I think you said that we got this order from Megha. I assume it is for synchronous motors. So can you elaborate. So can you elaborate on that? I mean, is this -- I assume that this is more of a project-to-project business and it's difficult to estimate the market size, keeps on varying every year. But how do you see this? Are there many more projects in the pipeline on the bidding stage. Some color on that?

Nikhil Kumar: Yes. This is a short cycle order from Megha. We have to deliver these motors to them within next quarter. So it's good for us also because it gives us a chance to put the 40 megawatt machine, large machine into the market and establish our credentials and get us a supply record. So we are taking the challenge to do it, and we're doing it. The market is -- the pipeline is incredibly large. There are a huge number of projects coming up.

It could be hundreds of crores, of course it's -- as you said, it's -- year-by-year basis, you could see differences in the total amount of business but right now, the pipeline is extremely huge. And business is coming from -- most of the inquiries are coming from Telangana, Andhra Pradesh, Tamil Nadu and Karnataka and Madhya Pradesh. So we expect this to be a really good business for us, and we take -- we don't step back. Once we put the 40-megawatt motors into operation, I think we'll establish ourselves firmly as a very serious player in this market.

Dhwanil Desai: Yes. So this is mainly for some hydro projects such --

Nikhil Kumar: It's for pump. It's a pumping business for irrigation pumping projects.

Dhwanil Desai: Okay. And last question on this NPCIL order that we got. So any -- so are we kind of in terms of certification capability, etc? Are we only planning to address the domestic nuclear power market? Or are we also aiming to tap the international marketing?

Nikhil Kumar: No, we are not planning to go outside India for nuclear. We are -- there's a lot of business within India for nuclear power application, and we are going to stick to. And I don't know whether it's even possible for us to supply to look at power plants internationally given all the restrictions and regulations. So at the moment, we are focusing entirely on the Indian business.

Moderator: We have our next question from the line of Ankit Gupta from Bamboo Capital.

Ankit Gupta: Congratulations to you, Nikhil, and the entire team of TD for fantastic set of numbers. The transformation in terms of the way we have diversified our business over the past two years is commendable. So Nikhil, on the domestic side, if you can talk about, we are seeing a very strong inflow in terms of orders for this quarter. Like this has and last year when you used to talk about the commentary in order inflow, you used to be more bullish on the export orders. But in the last quarter, we've seen very strong commentary and even in your TV interview, you talked about very strong order pipeline from the domestic business. So, if you can talk about what is happening on the domestic side? And how do you see order inflows on the domestic side over the next year or 2?

Nikhil Kumar: Yes. Vinay, are you on the call? Can you answer this question? Vinay is the Head of our Global Sales and Marketing.

Vinay Hegde: Hello?

Nikhil Kumar: Yes. Vinay, please take this question.

Vinay Hegde: Yes. Okay. So domestic market, as I said, it is still a bullish market, and we are getting very good market and orders on the -- mainly on the renewable segment, biomass power plants, garbage burning power plant. Recently, we got a single order of several machines of 8 megawatts for a biomass power plant from an Indian customer. And also, there is a government joint venture refinery company, from which our OEM has already got 3x48 -- sorry, 2x48 megawatts and 3x37 megawatts, very big orders. So, there is a real boom in the market still going on and domestic market requirement is really as good as the export market for us. We are expecting a very good business in the domestic market, some out to major OEMs.

Ankit Gupta: So do you expect the pipeline to remain buoyant over the next year at least...?

Nikhil Kumar: Yes, I think the capex cycle has just started in India. We are just -- it's not -- we are at the early stages of this capex cycle. And the potential for some country to grow from where we had $3 trillion, $3.5 trillion economy to $5 trillion and then $10 trillion economy, what's you're planning in the next decade or so. It's entirely feasible that we will have massive expansion, massive buildup of infrastructure and earlier, some -- we talked a little bit about China plus 1, yes, of course, TDPS is not a big beneficiary of China plus 1, but China plus 1 is a real thing which is happening in the market. And a number of -- a lot of people are putting up manufacturing facilities, going outsourcing out of India.

So there's going to be a big demand for putting up the infrastructure, including a big demand for electricity. So I'm a big -- I am very, very bullish about the domestic market. Of course, the export market opportunity for TDPS is also huge. It's not that's going to go away. And we have spent the past decade in building up the market to not going to take our eyes out of it. But we are -- in the domestic market, this is our home market, and we have a leading position in this market. So we are going to be a beneficiary of this market when this market grows the way it's growing right now. I really strongly feel that we are at the beginning of a very large long cycle in India.

Ankit Gupta: Sure. That's good to hear. My second question was on the new product side. You talked about synchronous motors. But what about the new segments like railways where we have entered directly as well as our association with a large OEM partners. I think the new tender has now been pushed back to August of this year. So if you can talk about railway stand-alone, railway business with our OEM partner as well as the refurbishment business, both on wind as well as the refurbishment of our own generators?

Nikhil Kumar: So I think I already spoke in my opening commentary about the railway business, maybe you missed it. As I said, the trial period for these motors which are mounted on the locomotive will end, the 6-month period will be over at the end of June. So hopefully, if we have no incidents until the next 1.5 months, and then after that there will be a significant amount of documentation. There's still a few more tests to be done. I feel that this will go on up to Q3 or so. And then we should have the official approval and we can start bidding for the projects with on a level 1 category or level 2 category supplier.

We plan to make this business into INR100 crores business in 2 years. We are taking in capex. It will ramp up. We'll see some -- we will see the effect -- we will see some effects of it next year and definitely the year after that. So we're going to ramp up this business. The Indian Railways are producing more and more locomotives with a big demand. So I don't see a problem from a demand point of view. On the new projects in Indian Railways, I said, yes, we are waiting for the results. Some of the tenders are being postponed. So what to do. We have to wait and see who will win.

Ankit Gupta: Sure. And on the refurbishment side, how things shaping?

Nikhil Kumar: Refurbishment side things are going as per plan, we are going to hit our targets, what we have said 6%, 7% of sales. So we will do that this year. And I have nothing to report, I think things are going as per plan.

Ankit Gupta: Got you. You were also planning to disclose the market about 1 or 2 products that you were working on. So anything...

Nikhil Kumar: I just said, we have introduced the submersible motor.

Ankit Gupta: Okay. So that is part of that.

Moderator: We have our next question from the line of Deepesh Agarwal from UTI AMC.

Deepesh Agarwal: Congrats for good number. First is the book keeping question. Can you help us understand what is the size of our order book on the motor side, sir?

Nikhil Kumar: Varalakshmi, you have that number with you? It's around -- I think it's around INR100 crores. Including megha...

Deepesh Agarwal: INR100 crores. Okay. Okay. And last year , the same number would be...

Nikhil Kumar: I don't remember the number right now on top of my head.

Deepesh Agarwal: Understood. And what is the revenue level for the year?

Nikhil Kumar: Sorry, what would be the...?

Deepesh Agarwal: Our traction motor revenue for the year?

Nikhil Kumar: It would be INR130 crores.

Deepesh Agarwal: INR130 crores. Okay. The other question is actually, one of the comments you mentioned that you may look to expand the capacity. But if my understanding is correct, your revenue potential from existing capacity to the extend of INR1,500-odd crores?

Nikhil Kumar: I said it will be around INR1,300 crores, INR1,400 crores. And those who depend on the mix and where the products are -- what kind of products we're getting. So if we're going to grow at this rate, I just mentioned that we have to set aside the money for a new plant and we have to think about the new plant at a faster rate as compared to what we're thinking earlier. So that's the thing, that's the shifting – in our thinking at this point of time that if things are going at this way, then we will put the new plant earlier.

Deepesh Agarwal: Okay. And any thoughts if we go for an expansion, what would be the kind of capex would it be greenfield, brownfield and what would be our investments and your time line?

Nikhil Kumar: It will be around INR150 crores.

Deepesh Agarwal: INR150 crores. Okay. Okay. The last question is on the margin. There is a sharp improvement in the margin in line with your guidance. Do you -- what is the trajectory you foresee going ahead on the margin front?

Nikhil Kumar: So we will see the margins improving incrementally as we improve the capacity utilization. When we see -- when we put the third plant, the margins could fall back a little bit maybe to 16% levels when we -- in those first years of putting the new plant and then once it is full, the new plant margins will go back to 17%, 18% levels we will not be expecting. So I think the margins will be in the range, you can say 16.5% to 17.5% levels EBITDA margin.

Moderator: We have our next question from the line of Apurva from Phillip Capital.

Apurva Shah: Sir, first one on the clarification, sir, is it possible for you to bifurcate manufacturing into generator and the motor segment?

Nikhil Kumar: Yes, it is possible.

Apurva Shah: So can you help me with the number for the current year and for next year, when we are guiding for maybe INR970 crores to INR1,050 crores of manufacturing revenue. What are your other --

Nikhil Kumar: We don't want to -- there's a lot of variability if this takes place during the year, and we need to have the flexibility of saying some business which may have come, does not come, something else come and take this place. So we prefer to keep that flexibility within the management and report the manufacturing business as it block. Of course, we can give some general guidance numbers next quarter. But at this point of time, I'm hesitant to put the number out right now.

Apurva Shah: Sir, I do understand. But the point here is still like the motor is a relatively new business for us compared to generators. And as of now, what we can understand is currently traction motor is the major revenue contributor when it comes to the motor segment. So what is for the synchronous and induction and what could be your growth guidance? So what factors you are building in for 20%, 25% growth rate. So that would just we want to understand.

Nikhil Kumar: Yes, that's a good point. I totally understand. I will put the tentative numbers out next quarter. But I already mentioned in the -- to an earlier question, we have around INR100 crores of pending orders for the motor side. So that will give a reasonable indication of which way we're heading.

Apurva Shah: Great, sir. So we'll look out for that number in next quarter. And sir, my next question is on the hydro, it's a clarification. I think in your opening remarks, you said your hydro would grow may be 60% to 70% in the current year. So is that my understanding right?

Nikhil Kumar: Yes, it is right.

Apurva Shah: So sir, what was that number in FY '23? Because historically, it has -- the number is 20% to 25% of our total revenue comes from the hydro. So you are saying 60% to 70% growth on that biz, correct?

Nikhil Kumar: Yes. We don't give the segment-wise breakup to that extent.

Apurva Shah: Sir, we do give in the -- our annual report, so we don't have the FY '23 annual report. But if you look at historical numbers, so maybe 20, 25 percentage of our revenue comes from hydro, that's what we can understand from the annual report, that so I'm just clarifying.

Nikhil Kumar: Yes. So you want me to give an absolute number?

Apurva Shah: Yes, sir, if it is possible for FY '23?

Nikhil Kumar: I don't have the number with me right now, but it is -- okay. So it will be somewhere in the region of INR170 crores, INR180 crores hydro.

Moderator: We have our next question from the line of Alisha Mahawla from Envision Capital.

Alisha Mahawla: Sir, firstly, just a clarification. The guidance that we given on manufacturing for manufacturing revenue of INR24,000 crores, they're saying this is generators plus motors?

Nikhil Kumar: Yes, this is total Alisha.

Alisha Mahawla: Understood. And on the margin side, last 2 quarters, gross margins have been slightly higher in the 30%, 31% that you always said was sustainable, relative to 33%-plus. Do we see any moderation on the gross margin side going forward?

Nikhil Kumar: I think there won't be a moderation. I think -- so I think if you -- so quarter-to-quarter, it could be -- it could vary a little bit, but we -- you can say, it's definitely going to be 32%, and the management is trying to do better than that.

Alisha Mahawla: Okay. So the 32% we did for the full year looks sustainable and operating leverage will help us. Understood. Okay. And just one last question, while I know we're not exclusively calling out anything on the motor side, but overall, the margins would be in line with a quarter completion or slightly better?

Nikhil Kumar: Overall, yes.

Alisha Mahawla: In line with the quarter completion. Sir, and the 17% -- and the 17% EBITDA margin that we're talking about is including other vehicle?

M. N. Varalakshmi: Including other operational income.

Nikhil Kumar: Operational income, we're not talking about the treasury income.

Alisha Mahawla: Okay. Got it.

Nikhil Kumar: So the operational income, what we have included the major factor would be the foreign exchange gain, which has come as a result of our forward booking decision that we took last year. And if you remember, last year, the euro was -- had gone as low as INR77, INR78 to the rupee. And we had forward bookings done in the region of INR89, INR90. So we -- the time when the euro was very weak, we had significant foreign exchange gains. This year, it will be different because the euro is already around INR90 -- INR89, INR90, and we had forward bookings are also around the same levels. So this year, what's going to happen is it will be reflected in the sales itself because if it revolves in at the euro at INR89, INR90 and not at INR78 of what we did last year. So the income will show up on the invoice value, and we won't have a huge foreign exchange gains in this current year as we had in the previous year. That's a little bit long explanation, but I think it's necessary to put this out.

Moderator: We have our next question from the line of Shyam Maheshwari from Aditya Birla Mutual Fund.

Shyam Maheshwari: Congratulations to the team on a good set of numbers. I have one question and it's mostly on understanding the business. So when we sell our generators or the motors that we are trying to sell down, do we sell them directly to the OEMs? Or do we also have some sales coming from distributors or channel partners? Yes, sir. So I just wanted to understand about our sales strategy. So do we directly sell our products to the OEMs? Or do we also have sales coming from the channel partners or distributors?

Nikhil Kumar: So our sales are -- when we sell our generators in the market, you know that it ends up being used in a large industrial complex or an IPP, let's say, that there is an international customer who is putting up a 50-megawatt biomass plant. So the sales will take place, the customer will buy a steam turbine generator set. So he will specify which steam turbine he wants, which generator he wants. There's normally an engineering consultant involved, and there's also normally also EPC contractor who is involved. They also have to meet the needs of the generator make, what they're offering to the customer is acceptable to them.

So for us, as a generator manufacturer, we have to get the OEM of global, EPC contractor approvals, consultant approvals and also end user approval. So these are the multiple levels of approvals. And this is our sales process, where we have to go out there in the market and we get these approvals before we can win a project. We have to be on this approved vendor lists. And that is a fundamental part of our sales strategy to be on as many approvals as possible internationally. Domestically, we have a very high market share, and we have a huge installed base. So we don't have to fight to be on an approved vendor lists. We grow when the market grows.

Shyam Maheshwari: Understood, sir. Sir, just a follow-up on that. So as you mentioned, we are trying to expand into other geographies, particularly Europe in terms of hydro turbines. So are you facing any stigma being a local Indian manufacturer there? Or are there any challenges that you see forthcoming in the future when you're trying to increase our base there?

Nikhil Kumar: I think earlier in this call, I have mentioned that we have been working on the international market for the past 10 years or 12 years. And yes, we have faced the challenges of establishing an Indian made generator in the international market. So we have worked to overcome that challenge, and we have installed more than 700 machines in Europe right now, for example.

There's still many parts of the market that still -- they still don't automatically accept an Indian made generator, and we still have to work towards getting acceptance in many, many places. And on the other hand, they are also accepted in many places. So we do -- we've seen our business also improved quite a lot in areas that we are in because we have been approved in many, many areas. If we still have a low market share, we have a long way to go.

We're constantly working on improving our business internationally. So that's where we are today.

Moderator: We have our next question from the line of V.P. Rajesh from Banyan Capital Advisors.

V.P. Rajesh: Congratulations. This is a fantastic year. My first question was regarding Turkey.

Moderator: Mr. Rajesh, can you use your handset mode, please.

V.P. Rajesh: Is it better now?

Nikhil Kumar: Yes. Rajesh, I can hear you, you can go ahead.

V.P. Rajesh: Okay. Great. So my first question is regarding Turkey. Sir, your guidance of this INR1,000-plus crores in manufacturing, how much are you assuming the Turkey business will come back?

Nikhil Kumar: The Turkey will be negligible this year.

V.P. Rajesh: Okay. So that's more like a….

Nikhil Kumar: It could be around INR10 crores.

V.P. Rajesh: Okay. And then the second question is regarding the projects business. So I mean, it does add to our revenues, but on the EBITDA side, it's sort of not really performing to the expectation. So how do you think about that?

Nikhil Kumar: The project business -- if we talk about the pure project business, we do about INR5 crores, INR6 crores per year, which is consisting of spare parts, some overhauling and we're just taking care of the existing supplies that we've made in the past 20 years, we're not doing any new projects. And we have a few people who run this business and it's profitable, and we will continue to do that.

Moderator: We have our next question from the line of Riya Mehta from Aequitas.

Riya Mehta: Congratulations on a great set of numbers. My first question is in regard to the railway business. So currently, I think INR805 crores order book we have. So I just want to know the breakup of the business derived from in partnership with Alstom and independent railway business of us.

Nikhil Kumar: No. So the railway business is divided into 2 parts. One is the direct business that we have. One is, we already have an existing order INR800-plus crores of Alstom, which is suitable for the next 5 years, that's an existing contract, which will run for the next 5 years. Then we are trying to get approval of the Indian Railways to supply motors to them for the business, that for the locomotive, the Indian Railways themselves produce. That we are in the approval stage and as then that we will need to first get approval, let me take a little bit more time. And then we will sign directly to the Indian Railways.

The third part of it is new projects where the Indian Railways are putting out tenders for somebody else to make the locomotives like 9,000 horsepower, 12,000 horsepower locomotives there. The traction motors may or may not be outsourced. Like in the case of Siemens, won the 9,000, it's not sure what they want to do, but they may make it themselves. So these are the 3 major parts of the market as far as they're concerned.

And what -- so we have what we have right now, and then we are working aggressively on what we can control, which is a business that the Indian Railway. And the third part of it, the new projects, we don't know what's going to happen. It's out of our control. If our partner customer wins, then we have a good chance of winning some of that business. If they don't win, then we don't get it. So that's how it's going to play out.

Riya Mehta: Okay. So majorly, for right now till Q3 FY '24, we don't get the approvals in place. It will be morely driven by the existing order book, which we have.

Nikhil Kumar: This year, only mainly driven by the existing order book for sure.

Riya Mehta: Okay. Got it. My second question is in regards to what the -- so basically, for the -- NW said that we have around INR900 crores to INR1,000 crores of order inflow for the next coming years. So would you give me a breakup of which segments do you see that coming from? Like a more broader definition apart from the manufacturing?

Nikhil Kumar: Segment-wise breakup, we don't give.

Riya Mehta: Okay. So just give me directionally also the visibility and L1, how is it -- like how much is motors or generators and how is export?

Nikhil Kumar: I will give the breakup for motors next quarter, as I committed earlier in the call. It's important that I wanted to -- need to see where the growth is coming from. I will give the numbers next quarter. I've said that the number right now is somewhere around INR100 crores of business pending order for motors. But I can't give the expected order inflow breakup segment wise. I can't do that. It's giving away too much of competitive information also.

Riya Mehta: Okay. Got it. Got it. And in terms of cash flow utilization, our operating cash flow has increased almost INR88 crores this year and saying that INR25 crores of capex are parked for automation, etcetera. So what would be doing with the cash flow and what capital allocation strategies are we planning to go for?

Nikhil Kumar: I mentioned that we will set aside money for a new plant. And I've mentioned that if things are going at this pace, then the third plant is going to come earlier than what I expected. So we'll wait a couple of quarters, but we're setting aside the money for that. And these things are going to continue to run at this pace, like 38%, 40%. Then, of course, we need to have a new plant much earlier than what much earlier than that what earlier I've been talking about in the past 1, 1.5 years. We just want to be ready for it, and we want to be able to respond immediately and so we will not let the situation where we're running sort of capacity. So we're preparing ourselves with the eventuality that we have to work much faster on this compared to what we were thinking a little bit earlier.

Riya Mehta: And for setting of the new plant, we would take how much time and by when do we expect?

Nikhil Kumar: It would take 9 months to a year but -- 9 months to a year, and I mentioned it could be INR150 crores of investment.

Riya Mehta: Right. And earlier we were expecting this to come or start in FY '25, correct me if I'm wrong.

Nikhil Kumar: Sorry, can you repeat the question?

Riya Mehta: So just correct me if I'm wrong, early, we were planning that we would set up a new factory by FY '25, like we'll start by then. So let me know...

Nikhil Kumar: Yes, I'm not putting the date when we're going to start right now also. I'm just saying that we're going to set aside some money for an eventuality that we have to put a factory earlier than what I expected. That's all I'm saying at this point of time. And the question was about capital allocation. And the answer is that money is going to be set aside for setting up the new plant. When? I'm not putting a date for it right now.

Riya Mehta: And in terms of the national election for us coming up next year, generally, we see that there is a lag of activities happening around that period. Do you foresee something like that happening next year?

Nikhil Kumar: I don't think that the story, capex story is going to be derailed. I don't think so. But the political situation in the country is important to have a long-term story, which story as I have been talking about. If we talk about what are the factors I can derail our story, of course, political side-effect can derail the story. So it's important that we -- for the country, I'm saying that the story continues.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I now hand over the call to Mr. Nikhil Kumar for closing comments. Over to you, sir.

Nikhil Kumar: Yes. Thank you very much for a very engaging commentary and discussion today. I look forward to being in touch with all of you and seeing you all in some investor conference or the other or face to face some time in the near future. Thank you very much.

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