



Tecpro Systems Limited

Investor/Analyst Conference Call Transcript
August 16, 2011

Moderator Ladies and gentlemen good day and welcome to the Q1 FY12 results for Tecpro Systems Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of the day's opening remarks. If you should need assistance during this conference call please signal an operator by pressing * and then 0 on your phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Varun of CDR India. Thank you and over to you.

Varun Divakar Good afternoon everyone and thank you for joining us on Tecpro Systems Limited's Q1 FY2012 Earnings Conference Call. We have with us today Mr. A K Bishnoi, Chairman and Managing Director of Tecpro Systems Limited, Mr. Amul Gabrani - Vice Chairman and Managing Director, Mr. Kulbhushan Arora - the CFO and Mr. Pankaj Tandon, the Company Secretary. We will start this conference call with opening remarks from the management, after which we will have the floor open for an interactive Q & A session. Before we begin I would like to point out that certain statements made in today's discussions may be forward looking in nature and a disclaimer to this effect as included in the investor release and conference call invoice which was sent to you earlier. I would now hand over the call to Mr. Bishnoi to make his opening remarks.

A K Bishnoi

Good afternoon gentlemen. A very warm welcome to everyone present and I thank all of you for joining us today to discuss the operating and financial performance of Tecpro Systems Limited for the first quarter ended 30th June 2011.

I would like to begin the discussion with an overview on the company's operational performance for the quarter, following which Mr. Amul Gabrani will provide the financial highlights of the company for the three months ended 30th June.

Tecpro has continued to tread along its growth path winning several new orders during the period and also acquiring expertise through various new collaborations. We have also been present in the BoP space, in addition to coal and ash handling. We expect another strong performance this year with robust earnings and good growth.

During the quarter under review the company bagged orders worth Rs. 127 crore from Tata Projects Limited; this is for the Chhattisgarh Project of NMDC. Here, Tecpro will undertake the design, engineering, manufacturing, supply and, erection and commissioning, of the complete stock house. The completion date will be 24 months from the date of issue of the order. In addition to this company also received orders from Nagarjuna Construction worth Rs. 31 crore and from Steel Authority of India (SAIL) worth Rs. 11.55 crore.

I am also pleased to mention that all projects which are under execution are running smoothly and are being executed as per the discussions with various clients. We continue to remain very optimistic about our entry into the Waste Heat Recovery space which we forayed in during the last quarter. We are confident that we will bag more orders into the Waste Heat Recovery space in the balance period which is available to us in this financial year. In addition to Waste Heat Recovery we also expect large orders to start coming in, in the other products of the company, which is coal handling, ash handling and balance

of plant. I may mention that the current order book of the company, as on June 30, 2011 is strong at Rs. 4222 crore, which will definitely provide us robust revenues in times to come.

It is our constant endeavor to align ourselves with the latest technological trend and based on this we have entered into a collaboration agreement with M/s. Advanced Conveyor Technologies, which is a company which is based in USA. With M/s AC Tek as we call them we are looking at long distance conveyor projects which we call as overland conveyors. AC Tek will provide us critical designs and technical imports for us to quote for such projects. Additionally we are also looking at acquiring a company based in Chennai which is M/s. Ambika Projects which is in the business of Water Treatment Plants. This acquisition will help us bridge the gap in our portfolio. As you are all aware one of the key items in any Balance of Plant is water systems.

With regard to the overall scenario, we are all aware that the Industry is presently facing scenarios of rising interest rates and raw material prices. But we at Tecpro Systems believe that the long-term story still holds a lot of promise, given India's infrastructure needs and the total investment that is planned to develop core industries such as coal, steel, power and cement. Tecpro Systems is well positioned to take advantage of these lucrative opportunities as they come our way.

Our ability to deliver a robust performance year on year and sustain the margins is a testament to our project management skills and a low cost structure. I am confident that we will be able to maintain the growth momentum going forward and considering the order book position already in hand and also considering the orders which we expect shortly. With these remarks I would now like to hand over to Mr. Gabrani who will take you through our financial performance. Thank you gentlemen.

Amul Gabrani Thank you Mr. Bishnoi and good afternoon to everyone. It is indeed my pleasure to have all of you on this call. We

have begun the year on a promising note by bagging several new orders. All projects under execution are running smoothly without any delays or cost overruns.

As you are already aware that the execution risks for the BoP orders that we execute is low since we only bid for the projects where the financial closure has been achieved. Further all the required clearances as well as fuel linkages are in place for all the BoP orders that we are currently executing.

I shall now provide you with an overview of our company's financial performance for the first quarter ending 30th June 2011. For Q1 FY 2012, the figures in terms of revenues were Rs. 349.76 crore as compared to Rs. 250.21 crore during the corresponding period last year, showing a growth of 39.79% from last year. Total expenditure for Q1 FY12 amounted to Rs. 311.09 crore compared to Rs. 232.92 crore for Q1 FY 2011 implying an increase of 33.56%. EBITDA was at Rs. 41.34 crore higher by 109.68% as against Rs. 19.72 crore for the same period last year. Operating margins for the quarter have been quite healthy at 11.82% and we are confident of sustaining our margin performance going ahead. Depreciation for the quarter increased to Rs. 2.68 crore as compared to Rs. 2.42 crore in Q1 FY 11. Interest expense also went up for Q1 FY 2012 it increased to Rs. 33.05 crore as compared to Rs.17.61 crore for Q1 FY 11. PAT was Q1 FY 2012 stood at Rs. 5.38 crore, up to 274.82%, as compared to Rs. 1.44 crore recorded during the same period last year.

Our current order book position is really healthy and as on June 30, 2011, stood at Rs. 4222 crore. We started the quarter with an order backlog of Rs. 4371 crore and have added orders to the tune of Rs. 201 crore this quarter. Given the large number of enquiries for orders we currently have, we are confident of winning new orders and further strengthening our diversified order portfolio.

Our long-term prospects continue to remain very promising. We have been able to establish longstanding relationships with our clients and received repeated orders from them,

which is a testimony to our strong execution capabilities. Equipped with engineering traverse, strong execution skills and diversified technological knowledge Tecpro is all set to exploit the huge opportunity in the Indian infrastructure space.

This brings me to end the management commentary and now we would be happy to address questions that you may have. Thank you very much.

Moderator Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Nirav Vasa of SBI Caps Securities. Please go ahead.

Nirav Vasa Sir I wanted to know what will be the bids, and if you can quantify the quantum of bids, which are there in the pipe line at this point of time, apart from the confirmed order backlog of Rs. 42 billion that we have?

A K Bishnoi See, as regards to the quantum of bids, we have lots of bids which are in the pipeline separately for coal handling, for ash handling, for Balance of Plant. But to give you a number at this stage will be a little difficult. I can only mention that there are bids at various stages, some are at the stage of technical evaluation, some are at stages where the price has been opened, some are at the price opening stage. But overall, and if you compare with the amount of bids which we had last year, we are pretty comfortably placed. We have enough bids for coal handling, ash handling and balance of plant which are in various stages of discussion.

Nirav Vasa And sir, my second question was pertaining towards the interest rates. Your interest cost on a YoY basis has almost doubled, so can you elaborate a bit on that please?

Amul Gabrani Primarily in every first quarter of the year the interest cost is mainly related to the invoicing which was done in the last quarter of the year before that. In the last quarter we had done about Rs.1000 crore of revenue and collections have started coming in which will flow in strongly in the second quarter, because of which the interest costs are high. There

have been some investments which have also added to the interest cost. Overall our expectation over the year is that the increase in interest cost will be in line with the increase in the business.

Nirav Vasa Sir, what is the outstanding debt at this point of time?

Amul Gabrani Outstanding debt as on June 11 will be close to about Rs. 890 crore which includes the term loan of about Rs. 65 crores and this is about 46% more than the debt as of June 10.

Nirav Vasa This Rs. 890 crores of debt will be serviced at what rate?

Amul Gabrani Different banks have different rates but average rate now available with us will be around 11% to 12%, and this reduction in rate has come in only recently. Till now our interest rates in fact were a little higher but post IPO, now with the increased ratings, the banks have reduced our rates from what they charged earlier. Subsequently because of the increase in the rates by the Reserve Bank of India, they are going back to the same old rates. Overall increase of rate is not as much as it could have been had our rating not improved.

Nirav Vasa Okay, sir my last query was related to the acquisition which is under consideration. Sir, the due diligence for the same is complete or is it still on?

A K Bishnoi No, the due diligence is still on but it will be over sometime in the next week or so.

Nirav Vasa And by what time do you think, once the due diligence is officially over, by what time the operations of Ambika will be synchronized and how does Tecpro sees a meaningful opportunity in Ambika?

A K Bishnoi See, we are looking at closing the due diligence, as I mentioned in the next seven to ten days after which we expect that sometime by the first week of September we should have completed the process of acquiring the company. After that the company would obviously be a part of Tecpro Systems and the marketing of the water systems

would be obviously in the hands of the parent company which is Tecpro Systems.

Nirav Vasa And the company would be bidding for water projects on standalone basis through Ambika or is it like only for BoP projects that the company is going to use expertise of Ambika?

A K Bishnoi See, primarily we are looking at the company adding value to our Balance of Plant business. But the company will also be bidding on a standalone basis in the market for various water system packages.

Moderator Our next question is from the line of Mr. Rajendra Mishra of IDFC Mutual Fund

Rajendra M Sir, basically when I look at the financials, the query is, a lot of lumpiness of revenue is there in the fourth quarter, but why the margin profile is so different in quarter four compared to the other three quarters? What are the kind of projects that you book in quarter four and why the margin profile is so different? So it's like 22% versus 12% EBIDTA level?

Amul Gabrani The business is such that there is a large lumpiness in Q4. In fact, it keeps on increasing from Q1 to Q2 to Q3 to Q4. The primary reason is that your expenditures and overheads are amortized over the year. The adjustment of overheads when the revenues are large, obviously the overhead and percentage goes small and that is why your profitability in the last quarter is much more than the initial quarters. But this you will realize if you see our last year's four quarters, every quarter the percentage of profitability keeps on improving drastically with maximum profit being in the last quarter.

Rajendra M So you are saying the increase is gradual from 12% to 22% from Quarter 1 to Quarter 4?

Amul Gabrani Yeah, it would proportion to the increase in revenues, and because the expenditures and overheads are amortized over a larger revenue, the percentage of expenditure goes

down with respect to the revenues, so profitability increases.

Rajendra M Will this trend of heavy polarization in revenues in Q4 continue?

Amul Gabrani I think yes, if at all there is probably reduction in the lumpiness it will not be very huge. Primarily the business will continue to be growing in the same fashion. That has been what we've seen all through our life since we've been operating in this sector. The last quarter becomes fairly lumpy. And there is no reason, that this will change because, in the first quarter normally most of the order placements occur, the decision makings and clarifications and approvals get postponed to second quarter and when things start moving by third quarter we get the clarifications and the approvals, and in the fourth quarter the major execution is done or the major revenue is also recognized. And this is the standard in this kind of sector.

Rajendra M So the same argument holds for the declining order inflows also?

Amul Gabrani Absolutely. It will keep on increasing till the last quarter. Because there have been many L1 positions we are in but in first quarter somehow the release of order has not happened, it will now start happening in Q2.

Rajendra M What is your working capital cycle currently? Does it also vary because of this lumpiness in quarter?

Amul Gabrani See, it obviously varies because what happens in the first quarter is that the current assets would definitely be much more, because whatever we've billed in the last quarter still is not collected, partially not collected, so working capital cycle you know, it goes up even higher in the last quarter because your revenues are much more. In terms of number of days, it will be around about 170 odd days.

Rajendra M Okay. Last year Q4 or last entire year?

Amul Gabrani Full year. Working capital primarily, if you see only for Q1 it will be fairly high, but this year we have realized that our

June 11 working capital is a little lower than June 10, but it is not appreciably lower. It is in the same format what it was earlier; it's in the same direction.

Moderator Thank you. Our next question is from the line of Supriya Subramanian of Kotak Securities. Please go ahead.

Supriya S We have seen a strong jump to about 11.5% and if you see the increase in stock and work in progress has jumped up quite a bit to about Rs. 39.5 crores. So what would be the reason for this?

A K Bishnoi Our execution no doubt is heaviest in the last quarter, but our execution starts peaking up from the second quarter. So we will have stock build up in the first quarter and this will primarily get converted into movement and into supplies and invoicing in the second quarter.

Supriya S If you can just give the absolute working capital in terms of, debtors and current liabilities if you could have that?

Amul Gabrani The debtors at June end stood at about Rs.1329 crore. And creditors at about Rs.751 crore.

Moderator Thank you. Our next question is from the line of Madan Gopal of Sundaram Mutual Fund. Please go ahead.

Madan Gopal Sir my question is on the debt level. Last quarter on the con call we were told that the working capital is high because of the huge billing that happens in that particular quarter and that should come down and bring down the overall debt level also. But again the debt levels have gone up from Rs.740 to Rs.890 crore. So do you expect this debt level to further go up because again in this year last quarter we will have huge billing to be done or you expect it to maintain at current levels?

Amul Gabrani Last quarter when we were discussing about Rs.742 crore debt, this also included, if you remember, free cash flow about Rs.170 crore. So actual net debt was about Rs. 572 crore and all the liened fixed deposits were treated as part of cash and bank balance. So in apple to apple comparison, it was about Rs. 572 crore in March. This year

it is about Rs.890 crore, but if you compare this with the debt levels of June 2010, it was Rs.609 crore in June 2010. The increase is 46% over those numbers against the proportional increase of 40% of revenues. So normally what happens is that debt will increase in relation to your revenues as debt is directly related to revenues because primarily it is working capital debt. And this year again in first quarter the collections are comparatively slow. Collections will improve in the second quarter. Secondly all those orders, because if there is a definite relationship between advances and retention and all the orders which we are expecting now will bring in some advance which will help us in reducing our debt levels. But going forward at the end of the year, we are expecting the increase in debt to be in line with the increase in revenues only. Primarily that means that we don't expect that debt to be going up by a higher percentage than the growth of revenues.

Madan Gopal Sir last year June end you said, the debt level was Rs.609 crore. Is this the net debt?

Amul Gabrani This Rs.609 crore was debt and free cash flows available last year, cash and cash equivalents was about Rs.179 crore. This year also, our free cash and cash equivalents is about Rs.179 crore.

Madan Gopal My second question is on the order flow front. We hardly see any new BTG orders getting placed because BHEL was reporting very low numbers in terms of order flow and L&T or any other company have hardly bagged any new BTG orders. So BoP from them is not going to come anytime soon. So are there any good number of projects where BTG has been placed with these companies for which BoP is still to be placed that you are highlighting when you say that there are large number of orders in the enquiry stage? So if you can explain which are these projects, is it private or State Electricity Boards or is it those projects for which BHEL was got in joint venture?

A K Bishnoi With regard to the Balance of Plant, as we just mentioned in our opening remarks we are only looking at projects where the financial closure has been achieved. So it's a

mix of both private and public. Some of the State Electricity Boards will now come up with their requirement for both BTG and BoP and we expect these requirements to be out in the next month or so. As of now we have already submitted some of the bids for some private clients wherein some cases the BTG is from BHEL, in some cases the private parties also look at BTG from other options including the Chinese vendors. So with regard to the state electricity boards where BHEL obviously is very strong, we will see some activity happening in this quarter and the next quarter where there will be good amount of enquiries which will get converted into orders.

- Madan Gopal** Sir are these the super critical orders that BHEL has won?
- A K Bishnoi** No it will be both super critical and also the normal ones. See the electricity boards are also looking at the conventional 600 MW and 660 MW. There is also the NTPC range which is coming in which is 800 MW in the super critical stage.
- Madan Gopal** Sir relating to BHEL, last year had won some of the projects in joint venture with Karnataka Government. Just wanted to know if the BoP for these are already over, placed or is it in the process?
- A K Bishnoi** Karnataka is not really looking at the BoP route. As per market information, they are looking at releasing order through the package route where they divide the whole BoP into various packages of coal handling, ash handling as such.
- Madan Gopal** Is it still pending?
- A K Bishnoi** Some of it is pending. Some of the enquiries have started coming in now.
- Moderator** Thank you. Our next question is from the line of Mohit Kumar of Antique Limited. Please go ahead.
- Mohit Kumar** Sir is it possible to share Ambika Projects' experience till date and financials for FY'11 and what could be the possible size of the acquisition?

- A K Bishnoi** See I think we have already announced earlier that the acquisition size is about Rs. 10.3 crore. The due diligence is now in process, we are expecting it to be over in the next 7 to 10 days.
- Mohit Kumar** And sir what are the past financials for FY'11 sir?
- A K Bishnoi** We do not have that figure off hand.
- Amul Gabrani** As the due diligence process is on and based on the restrictions and due to the non disclosure agreement, it will be difficult for us to share all these details at this stage. Once the due diligence and the acquisition process is over, then definitely we can discuss that.
- Mohit Kumar** How are we maintaining our revenue guidance of 30% to 40% growth and EBITDA margin of 14% given that the raw material prices and interest rates has gone up?
- Amul Gabrani** We are continuing with our expected growth of about 35% to 40% in both top and bottom line.
- Mohit Kumar** What is the outlook on order inflow from material handling in steel and port sectors. Are there enough enquires in these sectors?
- A K Bishnoi** In the steel sector we have just got a small order from one of the steel plant i.e. the Durgapur steel plant. We also have some enquiries which are from NMDC's new steel plant which is coming up. And as per our market information, we are expecting some enquiries from some of the other steel units like Bokaro, Bhilai etc.
- Mohit Kumar** What about the port sector are you seeing some slack compared to last year are you seeing some activity?
- A K Bishnoi** On the port sector, it continues to be as it was last year. There are some enquiries from the port sector also. We have had some enquiries from the private port players also. So I would imagine that the enquiries are more or less on similar lines in the port sector as they were in the last year.

- Mohit Kumar** And how do you see the order inflows from the coal handling because so many mines have been set up by private power plants, so do you see any traction there?
- A K Bishnoi** See the coal handling and the ash handling both, the enquiries on hand are quite good.
- Mohit Kumar** I am talking about the coal mines perspective. Are you seeing any traction from coal mines?
- A K Bishnoi** Yeah coal mines if you had noticed last year we have booked one order from Pakri which was one of the coal mines which we had booked in the last financial year. We also have some enquiries from mines this year also. And they are in various stages of discussion. Some are in technical stage. To answer your question, there are some enquires from coal mines also.
- Mohit Kumar** Are there lot of enquires or it's just that the pace is more or less like the earlier years?
- A K Bishnoi** No the enquiry inflow is quite good. I can't obviously give you number but I can say that enquiries inflows are good for both coal and ash.
- Moderator** Thank you. Our next question is from the line of Pranav Gokhale of Religare Asset Management. Please go ahead.
- Pranav G** In terms of order inflow, the order inflows or your order book do not include any orders for the coal mining, ash handling portion of the super critical units of NTPC?
- A K Bishnoi** Not so far, not in this quarter.
- Pranav G** I believe you are at least L1 in some contracts with regards coal handling or ash handling of few super critical units. Is there some delay in receiving of the orders or what is the status of these orders?
- A K Bishnoi** I would say there is no real delay, as you know there is a procedure which is being followed by all these companies from the time the prices are open and the time the orders

are released. So they are in various procedural stages, but per se I would say there is no real delay. It's been our experience, which we mentioned earlier also, that in the first quarter, the order finalization is a little on the lower side and it picks up as times goes by. So we are also expecting that in the second and third quarter the order inflows will start.

Pranav G Are you are L1 in those orders?

A K Bishnoi Yes we are L1 in some orders.

Pranav G And could we have the size of these orders at this point of time or any ranges of what this could be?

A K Bishnoi It's difficult for me to give you a number. I can just mention that we are L1 in some coal and ash handling.

Pranav G So these are just pure coal handling ash handling packages in which you are L1?

A K Bishnoi Yes you are right.

Pranav G But this is for 11x660 MW or even 9x800 MW?

A K Bishnoi See for the 800 MW ordering and the enquiries have still not started, this is mainly for the 660 MW.

Pranav G And have all the 11x660 been bid out?

A K Bishnoi Not yet. They are in various stages. Some of them are due this month; some of them are due even next month.

Pranav G The second question is basically on this Rs. 4,200 crore of order book. What will be the gestation period of this order, how much time these orders will take to complete, say BoP versus coal handling & ash handling.

Amul Gabrani It depends on individual orders. If you take a BoP order, the delivery period is 30 months from the date of release of order. In coal handling it can vary between 14 to 24 months. In ash handling it can be 20 to 24 months. So it depends on the orders. But I will only say that this year, like

last year we did about around Rs.2000 crore, we are expecting a growth of above 35% to 40%. So theoretically we should do about Rs.2800 crore. So out of this Rs. 4400 crore what we carried forward in the beginning of the year, so Rs.2800 crore we will execute this year and Rs.1,600 crore we will carry forward for next financial year. Some of that we have booked or are going to book in this financial year. On an average you can say that we will be doing about 65% to 70% of what we had in hand on first of April 2011.

Pranav G In terms from Ambika could you just help us in terms of understanding, is there when you talk about water treatment, is it more industrial, is it municipal or is it related only to a water treatment in the power plant?

A K Bishnoi Ambika does both industrial as well as municipal. It does sewage treatment and effluent treatment. It also does raw water and pre-treatment. So it's a combination of the requirement of a power plant and it also does municipal.

Pranav G So in terms of what you have highlighted on your foray into Indonesia, will it be more of a procurement or is it more of just a marketing arm to sell your current equipments in Indonesia?

Amul Gabrani There are a lot of opportunities in Indonesia because of a lot of Indian companies looking at coal mines there. So there are a lot of coal handling opportunities. This whole foray is to understand those opportunities and explore whether some value can be added into our existing business. We are going to study the opportunities available there and look forward to some good business from Indonesia.

Pranav G As of now it is probably going to be just a marketing set up? It is not going to be a manufacturing set up?

Amul Gabrani No manufacturing, it's primarily a marketing set up.

Pranav G You had debtors of Rs. 1,400 crore as of the balance sheet date with Rs. 530 crore additional being in retention money.

What could be the days currently or debtors numbers currently. Rs. 1329 crore you mentioned?

Amul Gabrani Rs.1329 crore is inclusive of retention.

Pranav G Okay and this Rs.1,400 crore is also inclusive of retention?

Amul Gabrani Yeah it is inclusive of retention.

Pranav G So if I check the revenue which you have booked in FY'11, which is about Rs. 1900 odd crore, how much time does it actually take for debtors to come to this? You booked about Rs. 900 crore of revenue in March quarter, Rs. 400 odd crore in December quarter.

Amul Gabrani The number of debtor days is ranging between 240 to 260 days depending on when you have recognized the revenue. So that is the kind of timeline which is generally the standard industry practice. If you see any company which is in this sector, the debtor days would be around 240 to 260 days.

Pranav G When you mention debtor days, you also include retention money?

Amul Gabrani It includes retention money.

Pranav G Okay but excluding of retention money should be around 130-140 range?

Amul Gabrani It will be about 150 days to 165-170 days average. For FY'11 excluding retention money debtor days stood at about 162 days.

Moderator Thank you. Our next question is from the line of Ankit Babel of Pinc Research. Please go ahead.

Ankit Babel About your new collaboration with AC-Tek for overland conveyer projects, can you throw some light on how these overland conveyers are technically better than the conventional conveyers and what is the size of opportunity which you would be targeting, both domestic and overseas?

A K Bishnoi Overland conveyers are basically long distance conveyer and they are high capacity conveyers. As we are all aware, the whole game of capacities has changed. If you just look at the power sector, earlier we used to have 250 MW power plants which got increased to 500 MW then to 600 MW then to 660 MW. Now we are talking about 800 MW. So obviously the coal which is required for these power plants also increases. As a result the capacities of coal handling plant also go up. In addition there are a lot of plants now which are being set up near ports where there is a requirement of bringing in coal from the port to the power plant. So the long distance conveyer there becomes a reality. The same thing happens in plants which are set up near mines. There again you need long distance conveying from the mine. So as a result of this obviously the requirement of coal handling plants in India has undergone a change. The capacities have gone up. The distance where the coal is being conveyed, I'm now talking about power sector per se, is also gone up. So there was a need for Tecpro to be aggressive in this particular market and that's the reason why we have tied up with AC-Tek having the requisite technology for these long distance and overland conveyers.

Ankit Babel Sir other than high capacity, are they more efficient also in terms of energy conservation etc.?

A K Bishnoi See they are efficient in terms of not only the capacities but also have one more feature that they can also take a little bit of curve, in the sense that they can follow to a certain extent the profile of the land. So which is important, and with regard to energy obviously these are conveyer systems which are more modernly designed. So the benefits of a modern design are available and they are definitely much better energy wise compared to others.

Ankit Babel Other than Tecpro, are any other companies having such kind of technology collaboration in India?

A K Bishnoi Not that I know of, but yes there are companies who have similar technologies available with them. But we are one of

the companies who has recently acquired this from one of the leading companies in US.

Ankit Babel So as of now in India, are there any such conveyers already present?

A K Bishnoi Yes there are conveyers which are present and there are conveyers which are now also being tendered. In fact with AC-Tek, we are participating in certain packages where we are taking the technical inputs from AC-Tek.

Ankit Babel So just because of technological edge, there would be lesser competition in these types of conveyers right?

A K Bishnoi You can say that.

Ankit Babel Sir in this you have also mentioned that here designing would be provided by AC-Tek and you will be doing the supply and installation part?

A K Bishnoi The detail design will be done by us. The basic engineering and the basic design concept would come from AC-TeK.

Ankit Babel But more designing will be done by AC-Tek, right?

A K Bishnoi Yes.

Ankit Babel In that case, will we be able to earn the current margins of about 9% to 10% of PBT level in line with your core business because as of now you do the designing part also in house?

A K Bishnoi Yeah I will clarify that to you once again. See what will happen is that AC-Tek will give us the basic engineering. The detailing would be done here. Now in any design function there are two aspects. One is the basic design which is technology-based, where the technology of AC-Tek comes in. The detailing is nothing which is based on the basic design. Now since we will be doing that in India, obviously we will be controlling the cost. Theoretically if we do the detailed designs again from US, yes the cost would go up. But as part of our collaboration with them we have agreed that the detail design would be done in India.

Obviously we have kept the cost factor in mind. Number two the orders of such conveyers, the values would be fairly high and as we just mentioned, the competition here would be to a certain extent limited. So we as a company don't really foresee this affecting our margin in anyway.

Ankit Babel Okay. Sir next is considering some disappointment from order inflows in the first four months, just around Rs. 200-250 crore order inflows which we have witnessed in the first four months of this financial year, are you still optimistic of achieving the kind of 30% growth in order inflows in the full year which you have been guiding since last two quarters?

A K Bishnoi Yes we have been because if you notice sometime back also we mentioned that we have good enquiries in hand. We have already quoted for various projects. We are L1 in some projects.

Ankit Babel sir what would be size of L1 position sir?

A K Bishnoi That's very difficult to quantify. I can just mention that all of that would partially get converted into orders in this quarter and partially would get converted into orders hopefully in the next quarter.

Ankit Babel So in totality around Rs. 5,500 crore of order inflows can be expected in this full financial year?

Amul Gabrani We are expecting at least 40% growth in order book. And with the L1 position and the enquiries in hand I think our confidence levels are fairly high.

Ankit Babel Sir not order book I'm asking about order inflows.

Amul Gabrani Order inflows, I meant, with the L1 position and the order enquiries in hand, and the status of those enquiries, we are fairly confident that we will be achieving a 40% target in gross of order inflow.

Ankit Babel So from around Rs. 4,400 crore levels, more than Rs. 5500 crore we are expecting this year?

- Amul Gabrani** If you compare with last year, yes. Last year we have booked about Rs. 4400 crores. So at least about 35-40% increase we are expecting this year.
- Ankit Babel** And this would be mainly from Waste Heat Recovery and coal and ash handling?
- A K Bishnoi** It will be combination of coal, ash, balance of plant and waste heat recovery.
- Ankit Babel** Coal and ash handling you are very good at execution but in Balance of Plant, what is the current level of enquiries? Are you seeing some big ticket size orders being floated in the next few months?
- A K Bishnoi** In Balance of Plant segment as of now we have participated in some of the enquiries. But what we mentioned sometime back we are quite collective in our Balance of Plant marketing. We are only looking at projects where financial closure has been achieved and yes we are looking at some good projects coming up in the next two three months, especially from the electricity boards.
- Ankit Babel** Okay. Sir last year your net working capital that is excluding cash I believe was around 170 days because the cash balance was around Rs.300 crore. Just wanted to check that, this 170 days, can it come down going forward, and if yes how much? Or it is expected to go up?
- Amul Gabrani** See it is very difficult to really quantify the expected working capital because apart from the growth of the business it also depends on the order inflow which we are expecting to be fairly good, and the collection cycle which also can improve because lots of projects are in the closure side. So as of today we don't expect any negative framework on the working capital. But yes we will have to keep a watch on this and every quarter I think we will be getting closer to the reality of what is going to happen. So at this moment it is really difficult to quantify what is going to happen at the end of the year in terms of working capital. But we are quite hopeful that it will not worsen.

Ankit Babel No sir we don't want any exact figure we would be comfortable if you could just let us know the trend, is it on a downward side or on an upward side, or if it will remain stagnant?

Amul Gabrani In the first quarter it is very difficult to give you a trend on the first quarter. Because both in terms of order inflow, in terms of execution, the quarter is fairly slow. Probably we will be able to give you some indication on the direction at the end of the second quarter.

Ankit Babel Can you just quantify the number of orders for which you have already bided for so that gives us the visibility that okay this Rs. 5000 crore worth of orders could come out of Rs.15,000 crore that you have bided? Can you just give us a ballpark figure on how many orders worth you have already bided for?

A K Bishnoi I can just tell you that on hand, if you go segment wise, we have some very good orders in coal handling. And as we just mentioned the values of the orders if you see across the country is improving. So the values are obviously different to what they were last year because capacities are going up, the distances or lengths of the coal handling plants are going up. So we have sufficiently good orders and enquiries, expected orders and enquiries in coal and also in ash handling. In Balance of Plant also wherever we have bid, though we have not bid in most cases where we have found that financial closures are not there, but wherever we have bid, those we expect them to get converted. So as we just mentioned we are looking at definitely increasing our order inflows by 35% to 40% of what they were last year.

Ankit Babel Okay sir those order where you have not bided for because the financial closures have not taken place, so that implies the bidding has already started?

A K Bishnoi The bidding has started, these are basically private parties who are looking doing both financial closure and talking to prospective suppliers parallelly.

- Ankit Babel** So basically there is an opportunity loss now. So even if there are some bidders who have already bid and if they win the orders and then subsequently the financial closure happens so that opportunity is already gone for you.
- A K Bishnoi** See you can say that, but the market is so huge. Obviously Tecpro cannot execute all the jobs which are available in the market. So as a corporate policy we have decided that we only look at jobs in the BoP segment where financial closures have been achieved. But that segment alone, with financial closure, there are enough jobs in hand for all the competitors. So, even if one or two or three or four jobs which are parallelly being run, if we don't quote, it is not really an opportunity which is lost because there is plenty of opportunities in the market.
- Ankit Babel** Okay sir lastly, what is the current cash and cash equivalent?
- Amul Gabrani** Actually cash equivalent as on end of June is about Rs. 179 crore.
- Ankit Babel** As against Rs. 300 crore which we have reported in the March quarter in the annual report?
- Amul Gabrani** March quarter what happened was that about Rs. 165 odd crore was free cash which was received at the ending of the quarter as an advance.
- Ankit Babel** I didn't get it sir. When I look at the cash balance on the balance sheet it was around Rs. 299 crore? So this is Rs. 179 crore versus the Rs. 299 crore right?
- Amul Gabrani** Yeah that's right.
- Ankit Babel** Sir there is a decline of around Rs. 120 crore?
- Amul Gabrani** Yes now see this was free cash which was there in the balance sheet which has been used in the working capital. Yeah if you are considering cash and cash equivalent of Rs. 300 crore, then debt was Rs. 750 crore.
- Ankit Babel** Rs. 746 crore is what I could read it.

Amul Gabrani Yeah Rs.746 crore yes.

Ankit Babel So net debt at that time was just Rs. 446 crore?

Amul Gabrani Net debt was Rs.446 crore.

Ankit Babel So, this has now increased to Rs. 891 crore minus Rs.179 crore. So there is a huge increase in the debt part?

Amul Gabrani About Rs.266 crore.

Ankit Babel Yeah and you believe that going forward this will only reduce because your collections will improve.

Amul Gabrani Advances will also flow in. We are quite hopeful.

A K Bishnoi See as we just mentioned in the first quarter we have not had order inflow. So obviously the advances also have not come yet which will come in now the second and third quarter.

Moderator Thank you. Our next question is from the line of Suryakant Behera of Edelweiss. Please go ahead.

Suryakant Sir just to add to the previous question, we are expecting 40% order inflow growth in this year which makes it almost Rs. 5,500 crore. So are we still on our target that we will close this year over Rs. 7000 crore of order book like we were talking couple of quarters back?

A K Bishnoi Yes, if you just go by the arithmetics, we started with about Rs. 4400 crore and we are looking at about Rs. 2800 crore of revenues this year. So we will have about Rs. 1600 crore of what was available in the books as on 1st of April and if you add the booking to it then.

Suryakant So, it should close above Rs. 7000 crore.

A K Bishnoi I guess yeah.

Suryakant But sir again this first quarter we have received only Rs. 200 crore of order. So to achieve our target our asking rate becomes very high, on a quarterly basis we have to get

something around Rs. 1700-2000 crore of order book. Is that possible looking at the scenario where several orders in the power sector have been deferred because of coal clearances and other issues? Which of the sectors you see actually these orders coming in? In cement already there is over supply and people are talking about deferring the capacity addition. Even there have been other issues in other metals also sir. I mean where exactly you see the large amount of these orders coming from that we are still hopeful of achieving the target, just want to figure, industry wise?

A K Bishnoi

Yeah we are looking at different sectors. We are obviously looking at power as we mentioned we have lot of jobs in power, which is either tendered or where we are L1 or where see technical evaluations are going on. These are all jobs which will definitely come through. In addition you would have seen we have announced some order which we have received in this quarter in the cement. We have got some order from UltraTech, which we have already announced, and we are also looking at waste heat recovery segment which is primarily the cement sector. There are enough enquiries in the waste heat recovery segment from the cement plants. So we will obviously look at major orders from power, some of the orders would come from cement, we are also looking at steel because NMDC is putting up steel plant which is very much a reality. Orders are being relieved by them. They have already relieved some orders and other orders are now in various stages of release.

Suryakant

Okay fine. Sir my second question is like you said you are still confident of achieving 35-40% of growth and in this first quarter your debt increase is of almost Rs. 300 crore is in line with 30-40% growth over Q1 last year. So if I have to assume FY11 versus FY12. So your debt should not be more than 35-40% at what it was at the end of FY11, can I assume that?

Amul Gabrani

I think you can fairly assume that.

Suryakant Then our debt was almost Rs. 600 crore at the end of FY11. So we should close FY12 at not more than Rs. 850 crore? Can I say with our current debt of Rs. 890 crore that we are not going to raise further debt and rather going to repay, is that a safe assumption?

Amul Gabrani See that is what our expectation is. But like I said in response to an earlier question that this is the first quarter and it's too early for us to give you a figure which is similar to what is going to happen end of the year. So probably by the end of second quarter the direction also would be there the indication as to which side the debt is moving and how it is moving, which will be dependent on collection cycle and on advances. We are quite hopeful that the increase in debt should not be more than the growth of the revenues.

Suryakant Yeah that is what my point is. So we should close the year by Rs. 850 crore around or Rs. 900 crore, not more than that?

Amul Gabrani Yeah it should not be more than that. See if you see last year also end of June it was Rs. 609 crore and technically we closed at about Rs. 600 crore.

Suryakant Right. So that is my point I mean you started at 40%. So it should not be more than Rs. 900 crore?

Amul Gabrani Yes.

Suryakant Lastly, we are looking at acquiring Ambika Projects but we also have a tie up with VA Tech Wabag for all water treatment projects. Once we acquire Ambika Projects, how are we going to look at that tie up with VA Tech? I mean are you going to close that completely or are you going to still work with VA Tech?

A K Bishnoi See Ambika is a much smaller company and the acquisition is just being done. We are still in the process of due diligence and we will be, as I mentioned, acquiring the company sometime in early September. Our tie up with VA Tech is for much larger projects, and as I mentioned Ambika is still comparatively much smaller company. So as time goes by we will have to see how it moves.

- Suryakant** So, there is no conflict of interest because you have two companies in the same space?
- A K Bishnoi** No, there is no conflict of interest at all because VA Tech is our consortium partner in some projects which are being executed by us jointly. So, there is no real conflict of interest.
- Amul Gabrani** In VA Tech, we have case-to-case consortium which we have made whereas Ambika would be owned by us.
- Moderator** Thank you. Our next question is from the line of Ganesh Ram of Kim Eng Securities. Please go ahead.
- Ganesh Ram** What I understand is that normally we deal the orders in the Q2 and is being executed in Q3 and Q4 that is why there is more skewness towards Q4 in terms of revenue as well in earnings. But this year we have started the year with a order book of Rs. 4400 crore. So why still it has to be more skewed towards Q4 that is what I couldn't understand. So can you just please explain me that?
- A K Bishnoi** See if you see we have started no doubt with Rs. 4400 crore but if you see our Q1 number we have also achieved a growth of almost 40% in the revenues as compared to the revenues of Q1 last year. Now normally what happens is, which is again you will see from your experience of similar other companies and is more or less an industry standard, that most of the clients they start giving us clearances of inspection and other technical clearances sometime in Q2 and partially in Q3 which is why you will find that Q3 and Q4 numbers are always much higher than Q1 and Q2 numbers. It is something which is a trend which has been there for n number of years which we can think of. So if you just look at Tecpro itself, if you see the last five years or seven years of Tecpro's operations, you will find that the trend is almost similar. The Q3 and Q4 numbers will always be much higher than the first two quarters.
- Ganesh Ram** Okay and my last question is on the status of those two APGENCO projects. How much percentage has been completed, when is their likely completion, some idea on that?

- A K Bishnoi** Yeah see APGENCO we have delivery periods of 30 months, for both Kakatiya and Rayalaseema the execution process has started. Most of the design work is being done, partially the designs have been cleared. The work at site and the other things have started. The projects are absolutely on target as of now.
- Moderator** Thank you. Our next question is from the line of Chinmay Gandre of Asit C. Mehta. Please go ahead.
- Chinmay G** One book keeping related question I have. Sir you book your revenue in two parts, one is on construction contracts, which you book on percentage commission basis and second some part you book on sales, I mean transfer of risk and reward, right? In this quarter, can you bifurcate the sales because in FY11 out of like Rs. 1960 crore, Rs. 1000 odd crore was booked on construction contracts?
- Amul Gabrani** See the contract revenue is about Rs. 240 crore and based on risk and reward it is about Rs. 110 crore.
- Chinmay G** Sir and what do you classify into the sales of goods in projects which are not construction contract?
- Amul Gabrani** These are those contracts where primarily only design and supply is involved, where construction is not part of the contract and where the bidding is done on the basis of the bidding schedule as approved by the client. So wherever the contracts provide for such conditions then it is under sales of projects or service income, and otherwise if it's a complete contract where construction is also involved including civil works then it is a contract revenue project.
- Chinmay G** Sir could you give an example, of the projects you have bagged of late, which would come under transfer of risk and reward and which would come under construction?
- Amul Gabrani** All these BoP projects from Andhra are all construction contracts. And the supply contract from Grasim, the revenues from that would be recognized on the basis of transfer of risk and rewards.

Chinmay G Yeah normally when you get a coal handling or ash handling project that would come under construction contract right?

Amul Gabrani So, that will depend on the scope of the contract.

Chinmay G Okay. So it would vary?

Amul Gabrani Yeah it will vary definitely.

Moderator Thank you. Our next question is from the line of Jignesh Kamani of Nirmal Bang. Please go ahead.

Jignesh K Sir you mentioned that you have received close to around Rs. 200 order in Q1. Can you mention what kind of order intake we have received post Q1 in one and a half months?

Amul Gabrani We have received this one job of about Rs. 79 crore till now from UltraTech in this current quarter.

Jignesh K So probably saying last now I can say four and a half to five months we have received close to around Rs. 278 crore while our entire year guidance is close to around Rs. 5400 crore?

Amul Gabrani We are expecting that.

Jignesh K So, in second half will we receive Rs. 5000 crore order book?

Amul Gabrani We are L1 in fairly reasonable amount of orders but because of our restrictions we cannot share it at this stage as we are yet to receive them. L1 position means that these orders are with either a PSU or a government body. So, we are hopeful that very soon we will start getting the orders which are already in process.

Jignesh K And sir if you compare order inflows plus L1 positions in the first five month last year to the current order intake plus L1 in the first five months this year, are higher or lower in percentage wise?

- Amul Gabrani** We have to just collate that information on what was available last year in first quarter. That we will just find out and come back to you.
- Moderator** Thank you very much our next question is from the line of Manish Goyal of Enam Holdings. Please go ahead.
- Manish Goyal** Yeah sir just wanted to clarify further on the projects under execution; you said that they are on track. So on Chhattisgarh, last time when we spoke, you had completed roughly 60-65%. Also, if you can give us details on the APGENCO orders and how much has been completed?
- Amul Gabrani** See Chhattisgarh now completion is around 69%. Rayalaseema and Kakatiya in terms of percentage completion which includes design, engineering and everything I think Rayalaseema is around 11% and Kakatiya is around 19%.
- Manish Goyal** Okay and you don't see any delays as far as executions are concerned?
- A K Bishnoi** No, we don't see any delays.
- Manish Goyal** And as far as the opportunity is concerned you have mentioned NMDC is going ahead with a steel plant but what I understand that large part of the project related to coal handling and other things has already been finalized and its been given to one of the competitors?
- A K Bishnoi** No, there are different packages there. In the whole plant if you see there are various packages.
- Manish Goyal** So what are you bidding for sir?
- A K Bishnoi** There is one package which is coming up for bidding it is due only sometime in September.
- Manish Goyal** Sorry which package you mentioned?
- A K Bishnoi** There is one package for material handling which is coming up for bidding sometime in September.

- Manish Goyal** How large is this sir?
- A K Bishnoi** See the estimates are still being done but it is a fairly large project.
- Manish Goyal** Okay and particularly on the NTPC side sir last year you did win a project from NTPC. So you did mention that 660 MW order BoP packages enquiries have started?
- A K Bishnoi** Yeah see last year if you remember we booked in fact two jobs in coal handling, which were Nabinagar and Pakri. We have, which I mentioned sometime back, received enquiries for the 660 MW packages, for some of which offers have been submitted, some price bids are opened, and some are in various stages of analysis. But it has all started the 600 MW and 660 units of NTPC the enquiries and the process of ordering has started.
- Manish Goyal** And beyond this, are there any packages which are there in pipeline from NTPC itself?
- A K Bishnoi** Yes, there are some packages which are due for submission this month also.
- Moderator** Thank you. Our next question is from the line of Ranjit Sivaram of B&K Securities.
- Ranjit Sivaram** Just extending the previous question on the NTPC order outlook. Have you included this NTPC order also while considering this guidance of 40% order inflow growth?
- A K Bishnoi** Yes.
- Ranjit Sivaram** Do you see any Chinese competition in the BoP space and some margin erosion owing to that aspect and orders going to Chinese players in the BoP space?
- A K Bishnoi** As of now if you see what has been ordered out, there are some Chinese players in the private segment of power plants which are being setup, but if you see the various BoP packages which have been ordered out by the State Electricity Boards we have not really seen any Chinese competition so far.

Ranjit Sivaram I am asking this in the context that TRF had mentioned in their conference call that in some of the NTPC orders they had seen Chinese bidding. So in that context do you see some competition for NTPC?

A K Bishnoi To the best of our knowledge in coal handling segment I don't think any order in the last year has gone to any Chinese party.

Ranjit Sivaram Do you witness this in Waste Heat Recovery also, given Thermax and Hindustan Dorr Oliver have also plans to get into the segments. So in that aspect don't you face any problems in margins or orders?

A K Bishnoi No, both the companies you mentioned are very much there in the Waste Heat Recovery segment. You are absolutely right, but as I just mentioned there is enough work for all the companies who are in this segment to book jobs at whatever margins the companies decide individually.

Ranjit Sivaram Okay and roughly what is the opportunity in the Waste Heat Recovery segment as a whole?

A K Bishnoi See in the Waste Heat Recovery segment we have good number of enquiries on hand and you know this is a segment which is just picking up. Some of the companies' cement plants have already taken the lead in ordering out Waste Heat Recovery packages and the others are now following suit. I can just say that we have more enquiries in hand now than what we had three months back.

Ranjit Sivaram If you want to put a figure to the opportunities just roughly, a ballpark figure?

A K Bishnoi See opportunity in terms of value will be very difficult but I can just mention that normally if you see a Waste Heat Recovery package it goes for anywhere between Rs. 90-100 crore for a regular 2-3 million tonnes cement plant. So one can imagine that there are enough cement plants which are now looking at adding Waste Heat Recovery to their existing plants, and new plants are also being planned with Waste Heat Recovery in line.

- Ranjit Sivaram** Looking into your growth projections, you have mentioned that you are seeing around 40% growth. So your debtors also as a percentage of sales will also probably move up to 40%. So in that case currently what is your debt-to-equity ratio?
- Amul Gabrani** See as of 31st March, if you take out the cash and cash equivalents from our debt which is about Rs. 440 crore against a liquidity of about Rs. 678 crore, net debt was about 65% or 0.65 of the shareholder's fund.
- Ranjit Sivaram** Sir you told Rs.890 crore of debt and around.
- Amul Gabrani** No again if you are talking of this quarter Rs.890 crore of debt minus cash. So net debt is about Rs.711crore and it will be about 1.05.
- Ranjit Sivaram** For a growth rate of 40%, your debt-to-equity will shoot up. So don't you see a dilution going forward?
- Amul Gabrani** Let me clarify that we are expecting an increase of debt by 40% and increase of profit also by 40%. So debt equity ratio will not be having any major change.
- Ranjit Sivaram** But your interest rate will also shoot up?
- Amul Gabrani** Over the years interest rates have shot up but what has also happened is, because of our public listing and our performance, our bank rating has gone up. So major impact, due to interest rates, is not going to be very high. Whatever impact is going to be on the interest will primarily be because of the increasing revenues.
- Ranjit Sivaram** Are you confident of achieving this 14% of EBITDA margins with the competition?
- Amul Gabrani** Yes I think we have been consistently saying that instead of EBITDA we have our eyes always on profit after tax or profit before tax since we are a full tax paying company. Our profit after tax is expected to be in the range of 6.5-6.75-7%

- Ranjit Sivaram** Okay and finally like are we compatible for all the supercritical projects in AHP and CHP?
- Amul Gabrani** Yes we are.
- Moderator** Thank you. Our next question is from the line of Lokesh Garg of Kotak Institutional Equities. Please go ahead.
- Lokesh Garg** My question pertains to the WHR space on your tie-up with the Chinese vendor. So, what is the exact breakup of scope between yourself and the vendor? Could you help us with an example?
- A K Bishnoi** We have a tie up as you rightly said with a Chinese company and for our first two projects which we are executing for UltraTech and for Grasim; we are importing the major components that are the boiler and the turbine from China. Now as we go ahead, the scope of work would obviously depend on case-to-case basis but as of now we are looking at getting the technology and getting the main equipment from the Chinese partner.
- Lokesh Garg** Okay and just as you said for a 2 to 3 million tonne plant it could be about a Rs.100 crore waste heat recovery project. How much would be outsourced to Chinese vendors in this case?
- A K Bishnoi** It could vary between 35-45% depending on the final scope.
- Lokesh Garg** Tecpro seems to have made a strong and a quick entry into the segment. Is that partly contributed by price difference that you see in some of the Indian suppliers of the same equipment like Thermax?
- A K Bishnoi** I would like to imagine that what we bring to the table is a proven technology because our Chinese partner has done many number of similar jobs. In combination to the technology which we get from China, Tecpro also brings to the table the expertise of project execution. So it's a combination of the technology and the project execution expertise which helps us in winning these jobs.

- Lokesh Garg** Yeah apart from these two is there a price difference as well which you observe in the market place in your bids?
- A K Bishnoi** See when we talk about price it's very difficult to say because am sure you will agree we have so far won both the jobs of waste heat recovery in the private sector. In the private sector it basically depends on the choice of the clients in deciding a supplier because there is no real price opening where one knows who is L1 and who is L2.
- Lokesh Garg** It's not necessarily formally established as to what is the price difference?
- A K Bishnoi** No, because there is no such system in a private sector. If you look at it from the eyes of a private client he would be looking at technology and he would obviously be looking at the project execution capabilities of whichever companies he decides to choose. Price obviously comes in nobody would be giving a much higher price than what is prevalent in the market but I would imagine that price will be what is prevalent in the market.
- Lokesh Garg** Working capital obviously remains high and it has been discussed in the call also. One figure that I wanted to take your feedback upon was FY11 annual report shows a retention money of something Rs.570 crore. Now this is a very high figure considering that FY11 revenues were about Rs.1900 crore or so. So, basically retention money becomes 25% at the end of the year. So are there contracts wherein you have retention money in excess of let us say 15-20%?
- Amul Gabrani** Generally the retention money is 10% only but what happens is that the contracts which are of long gestation, the retention money starts getting deducted from the day you start billing.
- Lokesh Garg** So as a percentage of billing it should still not exceed 10%?
- Amul Gabrani** But you don't collect your retention money in 12 months it keeps on adding. See normally what should happen once you have completed the project you get the retention money in 12 months but if it's a 30 months project for initial

bill the retention money goes on for almost about 42 months. That is why it adds more than the 10% value.

Lokesh Garg I asked that question specifically because even if you add FY10 and FY11 turnover then also it is something like 14-15%.

A K Bishnoi Adding to whatever we just said in the FY11 there are a few cases where the retention is more than 10%. It is also 20% in some cases. So it's a combination of retention being more in some cases and the effect of the jobs being spread on the larger delivery period more than 12 months.

Moderator Thank you. Our next question is from the line of Nidhi Agarwal of Sharekhan. Please go ahead.

Nidhi Agarwal My first question is, was there any one-off item in the Q1 of last year because the margins are very low and some of the expenditure heads are looking extremely high? Like contract cost was 37% of the sales in Q1 of last year and some of the expenditures are not looking comparable to Q1 of this year. Like supply to fabricator is 4%, it is almost 0% in this quarter. Then manufacturer product was 13% versus 11% of the sales in this quarter. Consumption of raw material was 16% and now it is 11.5%. So was it all mainly because of the nature of the contracts booked in that quarter?

Amul Gabrani I think all these are primarily due to the nature of the contract. Like you are talking of supplies to the fabricator what happens is, in the last quarter a lot of material is going through the fabricator so probably it can go up in first quarter since the revenues expected are low for the supply through the fabricators can be less. So it depends on a specific contract and the period in which you are executing it.

Nidhi Agarwal But it is also fair to assume that 7.9% OPM was one of the lowest in recent times?

Amul Gabrani 7.9% of operating profit margin, you are talking about which parameters?

- Nidhi Agarwal** I just deducted the operating sales minus operating cost, I have not taken your other income.
- Amul Gabrani** About the first quarter.
- Nidhi Agarwal** Yes
- Nidhi Agarwal** Of last year FY11.
- Amul Gabrani** Talking about the first quarter last year it was 7.9%.
- Nidhi Agarwal** Versus 11.9 in this quarter.
- Amul Gabrani** See primarily again it depends on when we are booking a project we generally look at the performance annually at the end of the contract. These EBITDA margins in first quarter were low because your costs are more interests are proportionately high, so EBITDA margins can be low because if you see last year EBITDA margins were low because my expenditure was a little high. In June 2010 to June 2011 my expenditure has gone up by 33% only whereas my revenue has gone up 39%. So the expenditure was a little high and we have to really look into why it was high in last quarter than this year. This could be one of those reasons which are generally primarily contract-to-contract dependent.
- Nidhi Agarwal** So 11.9% in Q1 of this year so are we expecting some margin pressure in the coming quarter to maintain a 14% EBITDA margin guidance for the full year?
- Amul Gabrani** We are expecting when the revenue goes up then obviously the EBITDA margins will also go up.
- Nidhi Agarwal** Is there a room from upgrade of that 14% margin guidance?
- Amul Gabrani** I think its little early to say anything because first quarter is a very lukewarm quarter. We will start getting closer to the reality in the second quarter.
- Nidhi Agarwal** How much of the bank charges we have booked in this quarter? Is it included in interest?

- Amul Gabrani** Rs.7.5 crore.
- Nidhi Agarwal** You said that there is a delay in finalization of the orders for depending on BoP projects, so this year I guess we are targeting 35-40% growth in revenue but next year could we see a slowdown in growth rate?
- A K Bishnoi** I would not really say that there is a delay because if you see the trend normally in the first quarter the number of jobs which are finalized in any year are less. So, what is happening now is something which happens every year. You will find now as I mentioned earlier also that you will find that balance of plant jobs for state electricity boards will now all start coming in. Even last year if you see all the jobs including Koradi including what we booked Kakatiya and Rayalaseema they were all finalized sometime post September. So, normally jobs will get finalized in October, November, December which I would believe that this will also happen this year.
- Nidhi Agarwal** Are we seeing any delay in payments from any of our clients?
- A K Bishnoi** Not specifically. There is a cycle of payments which we discussed some time back and the trend which is there I think is continuing. There is nothing which is specific which we can pinpoint and say that yes X or Y or Z client is delaying payments.
- Moderator** Thank you. Our next question is from the line of Ravindranath Naik of SBI Caps Securities. Please go ahead.
- Ravindranath** Can you please give the order book in terms of fixed and variable? Also, this current quarter, we have booked two major orders not from the directly from the customer probably from a contractors itself. So if you guided Rs.5000-6000 crore of order inflow in this current year, what is the bifurcation of booking the orders from the contractors and directly from the customers? And if you are booking more orders from the contractors and then executing those orders will that have any pressure on working capital going ahead?

A K Bishnoi Yeah there are some contracts where we have escalation clauses in built in the contract itself and there are some contracts which are on fixed price.

Ravindranath Can you please quantify in % that would be fixed and what would be variable, in case of escalation clause contract.

Amul Gabrani I think around 30-40% will be variable rest would be fixed.

Ravindranath Okay.

A K Bishnoi On your other question with regard to our booking jobs with contractors, if you see we have booked one major job of Rs. 127 crore from Tata Projects and the other is Nagarjuna Construction.

Ravindranath Both are contractors?

A K Bishnoi Yes now if you see the profile of Tecpro even earlier we have been working with Tata Projects on a continuous basis. In fact we have even had some preorder tie ups with them in the earlier years. So these are companies which are frontline companies in the country. They are known for executing jobs for all the major government and big private companies. Number three, what job we are now looking at in the Balance of Plant segment, we are obviously looking at direct jobs from the end client, it could be the State Electricity Board's or it could be the power developer, and for coal and for ash handling again it's a mix. We are looking at jobs directly from end users like state electricity Boards, NTPC, BHEL and we are also looking at some jobs from the other companies whom you classify as contractors.

Ravindranath You also have a very good tie up with the Chinese as far as the Waste Heat Recovery systems and the conveyor belt is concerned. So what is the market size you are looking at in the domestic market for the waste heat recovery system? I understand that for the conveyor belt market is not much great if you consider the people like MRF and also international Conveyor is having representatives in the country. So the market potential for these conveyor belts is not that great. Am I correct in my assessment?

A K Bishnoi See we have working arrangements with the Chinese company only for the Waste Heat Recovery not for the conveyor belt.

Ravindranath No I am talking about these two products like the Waste Heat Recovery systems and conveyor belts separately, and if I am correct conveyor belt is not that much of a great opportunity in this country? Also, what is the market size you are looking at in the Waste Heat Recovery system currently?

A K Bishnoi I will answer both of your questions. In the Waste Heat Recovery space we have a working arrangement and collaboration with a Chinese company. We are now sitting on many enquiries from the cement units. We are first targeting the cement plants for Waste Heat Recovery. We have already booked three jobs including Shree Cements and we are now obviously looking at booking jobs in this financial year. We have good amount of enquiries from cement units. Now coming to conveyor belts, conveyor belts in India have been manufactured and supplied by good companies who are in the fray. There are companies like MRF, Andrew Yule, Sempertrans Nirlon and other Indian companies. So conveyor belt has been there in the country and there is enough requirement of conveyor belt for all the various handling systems. Most of the conveyor belt which are required is being sourced from Indian manufacturers.

Ravindranath What is the Waste Heat Recovery order book except this two, one order that Grasim and UltraTech. Are we not having any orders in the Waste Heat Recovery system?

A K Bishnoi No Waste Heat Recovery we booked three jobs. We booked two jobs separately, one for Rawan one from Rajashree from UltraTech and as you said we also booked a job from Shree cements which is also in the Waste heat Recovery segment.

Ravindranath Okay sir in the Waste Heat Recovery system when you are executing the project, the maintenance contract will be taken by you or the Chinese?

- A K Bishnoi** No currently the way the tender has been published and finalized, the operation and maintenance is with the cement plants operator which is with Grasim and Shree Cements in this case.
- Ravindranath** Okay. So what is the order book in Waste Heat Recovery system in the total order book of Rs. 4200 crore? And what is expected this year?
- A K Bishnoi** Current we have booked orders worth Rs.228 crore in the Waste Heat Recovery space. And in terms of values, it is difficult for me to give you values, I can just mention that we have very good enquiries from the cement plants in India and we are obviously looking at booking good business in this particular segment.
- Moderator** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management to add closing comments.
- Amul Gabrani** Yeah I would like to thank all the participants on the con-call and would like to assure them that every quarter we will be very interested in sharing our points and sharing your views on the company. I would once again like to thank everybody for their participation.
- A K Bishnoi** Thank you very much.
- Moderator** Thank you very much members of the management team ladies and gentlemen on behalf Tecpro systems Limited that concludes this conference call thank you for joining us.