Tecpro Systems Limited

Q3 & 9M FY2011 Results Conference Call Transcript
February 10, 2011

Moderator Ladies and gentlemen, good morning and welcome to the Q3 and 9 month FY2011 results conference call of 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 today's presentation. If you should need assistance during this conference, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Varun Divadkar from Citigate Dewe Rogerson. Thank you and over to you sir.

Varun Divadkar Good afternoon everyone, thank you for joining us on Tecpro Systems Limited Q3 and 9 month FY2011 earnings conference call. On behalf of the management team of Tecpro Systems Limited, I would like to extend a very warm welcome to all of you at the company's maiden conference call post its listing in October 2010. 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. Kulbushan Arora, Chief Financial Officer and Mr. Pankaj Tandon, 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 question and answer session. Before we begin, I would like to point out the certain statements made in today's discussion may be forward looking in nature and a disclaimer to this effect is included in the investor release and the conference call invite which was sent to you earlier. I will now handover the call to Mr. Bishnoi to make his opening remarks.

A. K. Bishnoi Good afternoon everybody. On behalf of Tecpro, I extend a very warm welcome to everyone present and I thank you for joining us today to discuss the operating and financial performance of our company for the third quarter and nine months ended December 31, 2010. This is our first conference call post our company's listing on the October 12, 2010 and it will be our endeavor to always have best practices in investor interaction at all times. This quarter obviously is quite special for us and also memorable since we had an extremely successful listing on the stock exchanges. I would like to take this opportunity to thank all the investors for their wholehearted response to our IPO which was over-subscribed by more than 24 times. We are excited with our listing and even more excited about the business opportunity going forward. Through this IPO, the company raised a total of Rs. 2.2 billion through fresh issue of 6.25 million shares which have been utilized for working capital and general corporate purposes. I take this opportunity to provide a brief insight on our company and business model. Tecpro Systems Limited is an established player in providing turnkey solutions in bulk material handling, in coal handling and ash handling for the power, steel, cement and other sectors.

We, at Tecpro, do detail designing, manufacturing and also provide other services for commissioning of the equipment used in our material handling systems. Our company has vast experience in material handling, coal and ash handling businesses. We consider ourselves as a leader in providing solutions for the complete coal handling systems and ash handling systems which are required by various thermal power plants and just to give you a feel, we have executed coal handling systems for about 10,800 MW since we commenced our operations in 2001. We also take pride in the fact that in the eleventh five year plan as per the CEA records, we at Tecpro Systems have secured the highest number of orders for the coal handling plants.

The acquisition of Tecpro Ashtech Limited which was previously Mahindra Ashtech Limited and is engaged in the business of ash handling, has obviously enabled us to create a single entity where we are able to provide both coal and ash handling solutions. In addition to the coal and ash handling business, we have moved up the chain and we have entered the balance of plant (BoP) segment, I would imagine with a reasonable success. We currently have three projects under execution in the balance of plant; the first of this was secured by us in August 2009 for a price of around Rs. 993 crore and this was for 1 x 500 MW power plant which is coming up at Korba for the Chhattisgarh State Power Generation Company. Subsequently, we were successful in booking two jobs for the Andhra Pradesh Power Generation Corporation (APGENCO) for their 1 x 600 MW power plant coming up at Kakatiya and Rayalaseema. Both the orders together gave us an order book of about Rs. 1978 crore.

Tecpro Systems Limited has four manufacturing units out of which three are located at Bhiwadi, Rajasthan and one at Bawal in Haryana. We have a dedicated in-house design and engineering team and we have almost 300 engineers who are catering to our design engineering which is housed in various locations in India, including Gurgaon, Chennai, Calcutta, and Mumbai. We have exactly 7 offices in India including Bangalore and Pune. The company has two subsidiaries one of which is Tecpro International FZE in Dubai and the other is Tecpro Systems Singapore in Singapore. These are marketing organizations which we are using for marketing our products and our systems in the areas in which these subsidiaries are based.

Tecpro Systems has several collaborations for its various material handling equipments and ash handling equipments. These collaborations obviously strengthen Tecpro's technical credentials and facilitate us to deliver superior solution to our customers. The foreign collaborations and alliance provides us access to advanced technology and expertise developed by our collaborators and coupled with Tecpro's project management, engineering and construction capabilities, this enables our company to provide effective solutions for our valued customers.

In the recent past we have entered into two more of such collaborations, one with a company called Pneuplan Oy of Finland which is for dense phase pneumatics conveying and one with a company called Nanjing which is based out of China which is for waste heat recovery power project.

Tecpro has a very impressive clientele where we boast of companies like NTPC, BHEL, Steel Authority, Reliance Energy, JSW Energy, Tata Power, Hindalco to name a few. The company has been regularly receiving repeat orders from most of the companies mentioned by me just now. The very fact that we get regular repeat business from such customers shows the confidence which these companies have in Tecpro Systems Limited.

India is now encountering an increasing power demand and supply imbalance in the wake of the growing economy. Given our company's expertise in the coal handling and the ash handling solutions which form a substantial part of the BoP projects in the power sector, and with our excellent track record in project management, we are today well positioned to capitalize on this growth opportunity which is available in the power sector.

In the other sectors like coal mining, sugar, cement, co-generation, paper, etc., also we are witnessing good number of inquiries since we have inquiries from existing customers where plants are being expanded and new factories are being set up. We believe that capacity creation in power, steel, cement, coal, sugar and co-generation will be the driving growth of the material handling industry in the coming year. We seek to expand and enhance our presence in our existing business segment by identifying markets where we can provide cost effective, technically advanced solutions to our clients, thereby distinguishing ourselves from our competitors.

To conclude Tecpro has achieved a remarkable place for itself in the Indian material handling space. Going forward, we will continue to further build upon our key strengths and enhance our competency to consolidate our strong position in the industry. It is our deep desire to strive to achieve greater milestones and we look forward to the sustained support from our investor community to achieve our goals and aspirations in the future. I would now like to handover the call to Mr. Gabrani, who will take you through our financial performance.

Amul Gabrani

Good afternoon everyone, thank you Mr. Bishnoi. I warmly welcome all of you to our first conference call. It is an excellent platform for the management to interact with the investor community and we intend to carry out this exercise on a regular basis keeping with our intent of establishing the best practices in investor relations. I shall provide you with an overview of our company's financial performance for the quarter and 9 months ending December 31, 2010. Tecpro has delivered a very healthy performance on all fronts during this period. The nature of our business is such that most of the order realizations are accrued in the fourth quarter and thus our financial performance is best monitored on an annual basis and we intend to maintain a sustained growth trajectory on a year-on-year basis going forward.

For the three months ended December 31, 2010, the figures in terms of revenue was Rs. 462 crore as compared to Rs. 278 crore during Q3 FY10, which is a 66% increase over last year's figure. EBITDA for the quarter stood at Rs. 51.6 crore compared to Rs. 25.8 crore during the corresponding quarter last year which is an increase of 100%. PAT for the three months ended December 2010, is Rs.19.9 crore, up 70% as compared to Rs.11.7 crore during the corresponding period last year.

Coming to 9 months figures, the 9 months ended December 2010, our revenues stood at Rs.1012.3 crores representing a 40% increase as compared to Rs.722.5 crore during the corresponding period last year. Total expenditure amounted to Rs. 918.6 crore compared to Rs.680.2 crore for 9 months in FY10, implying an increase of 35%. EBITDA was at Rs.101.5 crores higher by 115% as against Rs. 47.3 crores for the same period last year. Our profit before tax was Rs. 40.6 crore as against Rs. 29.3 crore showing an increase of 39%. Depreciation for the 9 month under review increased to Rs.7.8 crore as compared to Rs. 5 crore during the same period in FY10. Interest expense for the 9 months amounted to Rs. 60.4 crore compared to Rs. 22 crore for 9 months in FY10. Tax expenses for 9 months in FY11 stood at Rs. 14.1 crore compared to Rs. 10.5 crore in the corresponding period last year. Consequently PAT for the 9 months stood at Rs. 26.5 crore, up

41% as compared to Rs.18.7 crore recorded for the same period last year. Growth for 9 months is as per expectation and in line with our overall annual growth. Normally the last quarter accounts for a 45% to 50% of total revenue.

Our order book has witnessed significant growth over the year which can be attributed to our established track record and extensive marketing. The company entered the year with an orderbook of Rs. 2014 crore and as on January 1, 2011, the company's orderbook backlog stood at around Rs. 4250 crore which provides a revenue visibility of 2.9 times FY10 total income. Our order book is diversified across PSU and private sector clients and dominated mainly by power sector which contributes about 89.7% of the total backlog. The BoP segment accounts for 58.9% of the total order backlog whereas material handling and ash handling contribute 29.2% and 11.9% respectively.

Tecpro's track record of project execution and its ability to report rapid growth in revenues and profitability and the growing order book position has been our hallmark in recent years. The long-term strategy would be to broaden our capability and execute associated BoP orders which would enable the company to independently place bids for turnkey BoP projects.

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

Moderator Thank you very much sir. Ladies and gentleman, we will now begin with the question and answer sessions. Our first question is from the line of Nirav Vasa from SBI Cap Securities, please go ahead.

Nirav Vasa My question pertains to the fact that you have pledged close to 21.03 lakh shares, can I request you to throw some light on this aspect? Why are the shares pledged and with whom are they pledged?

Amul Gabrani The original pledging was done for two companies one was Tecpro Ashtech Limited which subsequently has been merged into Tecpro Systems, the pledged shares are still lying with the bank. We are expecting that bank will be releasing these shares soon. There has been some pledging on account of Tecpro Engineer's Private Limited which is a company promoted by the same promoters but the number of shares which have been pledged on account of Tecpro Engineer's are only 3.5 lakhs, the rest of the shares were on account of Tecpro Ashtech which will be released soon.

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

Madan Gopal What is the debt in the book and what is the effective interest cost on this? What do you think should be the debt at the end of the year?

Amul Gabrani See debt in the books as on December 31, 2010, is around Rs. 650 Crore. The effective interest cost during the first 9 month was about Rs. 60.42 crore.

Madan Gopal What is the rate of interest that I should assume for this Rs. 650 crore outstanding book?

Amul Gabrani I think you should assume on an average between 11% and 12%. And see by the year end our endeavor is to see that our debt equity exposure is not more than 1:1 from the ratio perspective and our expected debt based on whatever figures we have should be around Rs. 700 crore. But primarily this is a working capital

debt and in fact it is not a term debt and the working capital debt based on the kind of the projects we are executing and the stage of the projects debt can go up and down.

Madan Gopal Okay, my second question is what kind of guidance would you give for FY11 on top line as well as on the bottom line?

Amul Gabrani See we are expecting that on an annual basis whatever we achieve in FY11 probably which will be about 35% to 40% from FY10 and for FY12, the whole year we are again expecting a growth of about 35% to 40% over FY11.

Madan Gopal Okay, sir, will the margins be stable in the new projects that you have bagged? Are you confident that the margins would be in the existing range?

Amul Gabrani Whatever bidding we have done in orders received; primarily the company has a sustained bidding policy because of which we look at profit before tax or profit after tax as a parameter then we believe that yes margin will be close to the margins we have been achieving over the year. There will not be a major change in these figures.

Madan Gopal Okay, last question are you L1 in any of the orders as of now and possibly if you can throw some light on the order pipeline that you are looking at?

A. K. Bishnoi See we are L1 in one of the NTPC jobs and we currently have lots of jobs in the pipeline, we have jobs in the waste heat recovery area, we have jobs in material handling area, we have also offered our bid for some BoP projects but as far as your query on L1 goes, we are currently L1 in one NTPC job.

Madan Gopal Okay, size could be around Rs. 400-500 Crore?

A. K. Bishnoi No the value of that job is close to Rs. 250 crore roughly.

Moderator Thank you. Our next question is from the line of Atul Rastogi from Daiwa Capital, please go ahead.

Atul Rastogi I had question on skewness towards fourth quarter, it seems to be a bit high even compared to other equipment companies or EPC companies, good 90% of your profits come in fourth quarter, so is that likely to change or do you think that will remain like this?

Amul Gabrani See if you see on skewness, I was just going through the figures of the people who are in the similar sector in last quarter in 2010, a company like BGR had done about 54% of its revenues in the last quarter, McNally has done about 40% in last quarter, our last quarter in 2010 was about 51% and as far as profitability is concerned, what happens that most of your indirect overheads which are there in the first 9 months since your turnovers are high in the last quarter, your indirect overheads are apportioned and proportionately very low, so that is why your last quarter profitability is higher. Actually over the first 9 months we prepare ourselves for last quarter only because we realize that our major revenue turnover is going to come from last quarter and have to have a set up in terms of manpower in terms of all other expenditures ready for the last quarter that is when the least count in terms of expenses on indirect side. Because of which our profitability actually shifts into the last quarter.

Atul Rastogi Sir as your size grows you think that will remain because even in let say a company like BGR this year probably it would not be the same because now the size has gone up.

Amul Gabrani I think what happens, it depends on the position and status of the broad stage of the project you are in. Suppose you are doing a large job which is the first quarter, you are going to close the job and balance revenue is a reasonable amount, then sometime the first quarter or second quarter will become more prominent. In general, on an average project in the environment we operate I think the last quarter will always remain a very crucial quarter for all of us.

Atul Rastogi Okay and the other question was this interest cost is gross or net interest cost?

Amul Gabrani No this interest cost is gross, the fixed deposit which we had given to banks as margin money for our bank guarantees and LC, the income from that is treated as other income.

Atul Rastogi Because your third quarter other income has not gone up, I was just wondering you had raised Rs. 200 crore through the IPO and lot of it would not be spent as of now. So where is that, is there any income on that?

Amul Gabrani Yeah, if you see our results, in third quarter, the income on account of fixed deposit is about Rs. 2.85 crore from FDR only.

Atul Rastogi But see last year also it was Rs. 3.6 crore, so there is no increase in that so I mean.

Amul Gabrani That is primarily because we have negotiated a better settlement with the banks. Our margin money requirements have gone down based on our performance and size, so that is why the other income has gone down in this quarter. But as a business whenever we look at our business, we look at interest as cost because when we are estimating for our projects, based on the payment terms of the project, the size of the project, the bank guarantee requirement, the interest is factored in the cost and that is the primary reason why as a management when we are reviewing our performance, we review it on PAT or a PBT basis. EBITDA is not a parameter which we believe is suitable for a working capital intensive industry because the working capital can change, tomorrow if I get an advance of Rs. 200 crore, my working capital requirement will go down, whereas my performance might go up or go down and interest always will remain a cost for me.

Atul Rastogi I was just asking the Rs.220 crore through which you raised through IPO is it lying in fixed deposit, banks or it has been fully utilized?

Amul Gabrani No what we did is reduced our cash credit limit, so it was straight away deposited in the cash credit, so cash credit for that period went down.

Atul Rastogi So that is reflected in the lower interest cost?

Amul Gabrani Yeah, otherwise interest cost could have been even more.

Moderator Our next question is from the line of Ruchir Khare from Kotak Securities, please go ahead.

Ruchir Khare Could you throw some light on the JVs that you have been making recently, what is your overall strategy and outlook regarding that?

A. K. Bishnoi Yeah, see the two which I mentioned, these are collaborations, one the Chinese collaboration is for waste heat recovery which is something which is new to the Indian market and the other is we have entered into a technical tie-up with a Finland company which is for the pneumatic conveying for fly ash. Now as regards the Finland company, they are supposed to be one of the leaders in pneumatic conveying for fly ash, so we thought it prudent to have a technical collaboration with them because it would obviously give us access to their technology which is far superior to the technology which is currently being used, so that tie-up is in place now and the other as I mentioned is with the Chinese company which is for waste heat recovery. Waste heat recovery in power project in coming years according to us is going to be big business because almost all the cement plants to start with are now looking at putting up such power projects where the heat which is currently wasted, is getting converted into generation of power for them, so broadly these are the two recent collaborations which we have signed.

Ruchir Khare Okay and secondly, what is your outlook on the order book growth from here because recently we have been observing if not slow down then sluggishness in the prime utilities the government awarding a fresh set of orders, so what is your overall sense on outlook on that?

A. K. Bishnoi See currently as on January 1, 2011, we have unexecuted orders of approximately Rs.4250 crore. So out of which if we do something around Rs. 1000 crore or thereabouts in this quarter, with current job itself we are comfortable to open the new financial year with around Rs. 3200 or Rs. 3300 crore. In addition, I mentioned sometime back that we are L1 in an NTPC job and we have also submitted our bids where marketing exercise is on for various jobs with coal handling and ash handling and also in balance of plant, so I would imagine that give or take, we should open the books with somewhere around Rs. 4000 crore as of April 1, 2011.

Moderator Thank you. Our next question is from the line of Renjith Sivaram from B&K Securities, please go ahead.

Renjith Sivaram On the Chhattisgarh project, what is our total? Is it for Rs.550 crore, have I heard it right?

A. K. Bishnoi No, the Chhattisgarh project is for the balance of plant for 1 x 500 MW Power Project. The order value is Rs. 993 crore.

Ranjit Sivram Okay and there is some litigation going on in this project, is it completely sorted out or is it still pending with the Supreme Court?

Amul Gabrani No, as you know that the litigation was first filed against the state government by one of the bidders in that tender in Chhattisgarh High Court where, the State High Court had dismissed the petition. The petitioner had gone to Supreme Court last December, that is December 2009, but till date there has not been any hearing on the case itself. We believe we have already done around 45% of the project and believe that the way situation is, probably the case will ultimately become Infructuous.

Renjith Sivaram Okay, so you mean to say that you have started executing on that project front, not waiting for the litigation?

Amul Gabrani That is right because there is no stay on the project, the project is being executed, we are getting our payments according to the payment terms of the project, so there is no impact on the project per say.

Renjith Sivaram Okay and like most of our projects we go for fixed price contracts, even the DRHP mentioned that, so like I was just wondering that in case of this raw material prices going up, commodity prices are moving up, so in that scenario what kind of impact will it cause on our EBITDA margins?

Amul Gabrani Over last about whatever years we have been working in the field, we have realized that we have to consistently as a policy in the organization, we have to hedge our cost. Taking a project where in each project the bought out items are back to back basis, so are almost hedged from any impact due to commodity exchange. Probably the only impact which happens in any project is on part of the in house manufactured product, say in-house manufacturing is about 35% to 40% of the total project value and what happens out of which the impact probably will be on half of it, so overall impact due to commodity price increase we realize, over a year is not very high, and gets compensated when the prices go down. So generally, we have not really felt any major pressure on account of commodity price increase I would just like to add that for Chhattisgarh per say which is a very big project for us, the contract itself provides for escalation which is inbuilt in the project.

Renjith Sivaram Okay and in your orderbook, roughly around what percentage would be in that price escalation?

Amul Gabrani Not more than probably 15%, which is generally related only to Chhattisgarh. Most of the other contracts are fixed price contracts.

Renjith Sivaram Okay and in your bought out, you say that you can always negotiate with the supplier. I was just wondering that in that case would not the supplier feel pressure in his margins and want to ask a higher price.

Amul Gabrani No, why because whenever we are bidding for a project we have an offer from him, which has a facility also inbuilt in the system, so the supplier also is aware of the projects we are bidding for which his bought outs will be utilized, so the terms and conditions are generally transferred to him back to back and most of the suppliers work with us continuously and not on one single job but on many jobs together at a particular time, so they are fully aware of what are the jobs which Tecpro is bidding and where we have taken their offers and also these are people who have worked with us consistently over the last 8 to 9 years, so we obviously have a long-term relationship built up with them and they also look at Tecpro as a company which gives them continuous business.

Renjith Sivaram Okay, so next year because of this commodity prices, you mean to say that margins can be affected because of this 35% to 45% of your own manufacturing?

Amul Gabrani See what happens whenever we are manufacturing any thing, we have already tied up in terms of requirements of our bearings which is a long-term agreement on steel, which part of it can be a long term agreement so those tie-ups are there, so impact on any price on our already received projects we don't expect it to be material.

Ranjit Sivram Okay and in this debt of Rs. 650 crore, roughly what percentage would be working capital?

Amul Gabrani Almost about Rs. 600 crore will be working capital.

Renjith Sivaram Okay and how much of cash do we have?

Amul Gabrani We have cash of about Rs. 180 crore in our books.

Moderator Thank you. Our next question is from the line of Tejas Shah from Spark Capital, please go ahead.

Tejas Shah Sir just I wanted to know that your guidance of 40% CAGR growth is factoring how much order inflow for next year?

Amul Gabrani See total order book as of now is about Rs. 4250 crore and in 2010, we had done about Rs. 1450 to Rs. 1460 crores, so taking about 35% to 40% increase we should be close to Rs. 2000 crore in FY11 and if we look at another 35% to 40% growth we should do about Rs. 2900 crore in FY12. Out of my existing orderbook if I execute about Rs. 1000 crore more to carry forward, if I do not book any other order excess of Rs. 3250 Crores, and L1 in one job of Rs. 250 crore so that makes it about Rs. 3500 crore and what Mr. Bishnoi just now mentioned that we are expecting at least with the present scenario whatever we are bidding, whatever may happen, Rs. 4000 crore should be something minimum which we should carry forward, so if we enter next year in the books with Rs. 4000 crore carry forward orders and if we are looking at a target of Rs. 2800-2900 crore, this seems to be fairly comfortable. Historically if we see this year we had entered with an order backlog of about Rs. 2014 crore and we are executing close to that. Now since there has been a little change in the kind of the projects we have and the stage of the projects we are in, out of Rs.4000 crore expecting to execute about Rs. 2800-2900 crore, looks to be fairly achievable, so that is why our expectation of 35% to 40%, we are strongly confident that we can continue in this direction.

Tejas Shah But then the next question which comes in mind is that you are talking about 40% CAGR growth then how much investment are we making in terms of capacities in terms of people, in terms of facility on year-on-year basis?

Amul Gabrani See in terms of capacity, let me tell you, as far as our manufacturing capacity is concerned we have a very flexible manufacturing system, we have a strong set of subcontractors and vendors who are dedicated to us, who consistently expand their capacities along with our own capacity expansions. But the investments in any manufacturing capacity enhancement are not very high because we are into general fabrication, so that is not from internal accruals. As far as working capital is concerned, we consistently are in touch with our bankers like for this year we have recently tied up on working capital funds and coming to manpower we are continuously adding manpower, in last about 7 to 8 years, we have added over 1200 people and we are consistently increasing our manpower quantity and quality both. We are keeping an eye on both. Coming to the infrastructure of space, last year we had opened up our own new office in Chennai where in we had about a lakh of square feet available for usage and within the next 3 to 4 months we will have such a building available in Gurgaon also, so we are consistently keeping an eye on our demands for infrastructure space and continuously adding it.

Tejas Shah Okay and how much CAPEX have we planned for this year?

Amul Gabrani This year see the Capex will not be more than Rs.15-20 crore which will be done from internal accruals plus we will be meeting about another Rs.20-30 crore for the interiors which we are doing in the building we are putting up in Gurgaon, so

total let say about Rs. 40-50 crore will generally be done from our internal accruals. As far as the building is concerned it has already been purchased by the company and if you would have seen our yesterday's board meeting details, see we have acquired a company called Microbase Infosolutions which had land and building as its assets, now we are proposing to merge that company into Tecpro Systems which is a wholly owned subsidiary, once it is merged, then our investments will get converted into fixed assets.

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

Ankit Babel Sir, my question is that the order book which you have mentioned, are all the projects included into that financially closed?

A.K. Bishnoi See in our business whenever orders are awarded to us, the financial closure is always achieved by the client, the reason is that normally a coal handling order or ash handling order is awarded after the main plant equipment which is the BTG has been ordered, and whenever our balance of plant BoP order also is awarded, it is after the BTG package has been ordered. So, in almost all cases the financial closure has been achieved before the order is released to us. To add to this I think we always make it a point, we generally bid for those contracts and spent our time on those contracts where financial closures are done, as BTG has been ordered. So we keep an eye on that as a marketing strategy also.

Ankit Babel Does the same thing goes with the orders from cement and steel industry? You consider only those orders in your orderbook which are financially closed as a policy?

A.K. Bishnoi Yes, see as part of our marketing exercise, we obviously chase orders and we try to book orders where we are sure that the finances has been tied up be it the steel mills, be it the cement units.

Ankit Babel Okay then sir, the next question is that considering the current scenario of rising interest rates and pessimism kind of an environment, how confident are you that the current order book will be timely executed, I am not doubting the capability of Tecpro but do you feel that there could be some deferments from the client's side on account of a slow down like for example in case of power there would be some IPPs who are setting up the power plant on the basis of merchant rates and merchant rates are coming down so they may direct you to postpone the projects. So do you see any such kind of concerns in your current order book?

A. K. Bishnoi Yeah, see if you analyze our current order book, you will find that three major orders are of balance of plant, one for Chhattisgarh state and two for Andhra Pradesh, in all the three cases, the BTG package has been ordered well in advance by the respective state governments and the money has been tied with the relevant body in either PFC or otherwise, now in all the three cases, BHEL has been awarded the BTG and they have gone ahead with actual construction activity because as you know the BTG time period for execution is much larger than the balance of plant that is the reason why it is ordered before BoP, so in all these three projects which account for a major portion of our unexecuted order, there is no problem at all since BHEL is going full blast on the construction activity and our experience also has been that wherever we have finished the work we are receiving payments. Coming to the other job, again if you see our order profile, we have jobs from clients like NTPC, Lanco, there again the financial closure has been achieved and all these parties are making payments, be it advance payments or regular payments as per the chunk of the order. So

with regards to the current order book we do not foresee a situation where there could be a slow down in construction from the client side.

Ankit Babel As far the interest cost, does this include the bank charges also, or just the pure interest payment which is there in the first nine months?

Amul Gabrani The figure we have mentioned of Rs. 60 crore is only the interest cost.

Ankit Babel Then under which head does the financial charge come?

Amul Gabrani In other expenditures, the financial charges are there.

Ankit Babel Can I have a figure of the financial charges?

Amul Gabrani About Rs. 20 crore for nine months. See this will include the bank guarantee charges, the letter of credit charges and the processing fee for the sanctions which has been received.

Ankit Babel Okay. Sir lastly what are your expectations from the government in this budget because the scene is very bad as far as the infrastructure space is concerned? What are you expecting from the government this time?

Amul Gabrani See from our point of view, I think whatever policies which the government has been following on the infrastructure side, if they are continued and personally speaking we at Tecpro are not very pessimistic. We believe that the government will understand the importance of infrastructure and continue on the path of supporting it. Because at the end of the day, for country to grow at 8% to 9% we will need support from government in the infrastructure segment and moreover if you see the plan which the government has so far declared be it for power or be it for other infrastructure activity, if that itself continues then I am sure you will agree with us that there wont be any shortage at all for work.

Ankit Babel I agree but whatever the target they don't achieve, that remains a problem.

Amul Gabrani **There are** good signals like earlier the environment ministry was being too rigid and we suddenly now find that environment ministry has started coming around and started allowing projects to take on course. Same is true with the road sector and we believe that as of now yes, the signals are there on the liquidity issue but from government point of view, I think there is still hope. In the international scenarios also which is also contributing into what stage we are today. And government will consider that and then come out with the budget. We are hopeful.

Ankit Babel And sir lastly one very small question, this order book of Rs. 4250 crore, what would be the break up between the private and the public sector?

Amul Gabrani I think private sector will be about 25% to 30% and public sector will be about 70%.

Moderator Thank you. Our next question is from the line of Manish Goyal from Enam Holdings, please go ahead

Manish Goyal I wanted to get a sense on the working capital. You mentioned that our debt is currently Rs.650 crore and by the year end you don't expect it to go beyond Rs.700 crore. So just wanted to know that if you are going to implement nearly

Rs.900 to Rs.1000 crore of turnover in Q4 FY2011, then how would it be possible that your working capital will not increase significantly. Also can you give me the current numbers on the inventory, debtors, current assets as well as the liabilities?

Amul Gabrani As far as debt is concerned we are expecting it to limit around Rs.700 crore, primarily because we are expecting about Rs.200 crore of advance from APGENCO. The order has been received and it will help us in restricting our debt to about Rs.700 crore.

Manish Goyal Can you give me details as to what are the inventory levels?

Amul Gabrani The current inventory is about Rs.170 crore and the other current assets are about Rs.376 crore.

Manish Goyal Does that include the debtors?

Amul Gabrani No debtors are separate.

Manish Goyal How much is debtors?

Amul Gabrani Debtors is about Rs.937 crore.

Manish Goyal And how much will be more than 6 months old in these numbers?

Amul Gabrani About Rs.550 crore which includes the retention.

Manish Goyal How much is retention money?

Amul Gabrani Roughly about Rs.270 crore.

Manish Goyal What are the current liabilities?

Amul Gabrani The current liabilities are about Rs.714 crore.

Manish Goyal If you have adopted a policy in terms of probably paying cash and availing a discount from the supplier, then in such a scenario why is it that our working capital or even the current liability is so high and debtors are also high?

Amul Gabrani We should realize that out of Rs.937 crore, about Rs.450 crore has been executed in the last quarter only. And all the liabilities are not particularly related to creditors. There are also some provisions.

Manish Goyal Can you give me the advances received from customers?

Amul Gabrani Total outstanding dues to the clients, sundry creditors are about Rs.630 crore and we have advances from customers which is around Rs.43 crore. Rest is adjusted. We have got various advance billings to customers which are about Rs.8.4 crore and some other liabilities which are about Rs.25 crore and so the total comes to around Rs.709 crore.

Manish Goyal But why are our advances from customers so low at Rs.43 crore on an order book of nearly Rs. 4000 crore?

A.K.Bishnoi Because we are yet to receive the advance of Rs. 200 crore from APGENCO.

Manish Goyal But even if you remove the Rs.1900 crore orders from APGENCO. your average advance is not even 10%?

A.K.Bishnoi See in certain cases our advance is less than 10% and it also depends on what are the orders which we are executing and what we have executed where the advance would have got adjusted.

Manish Goyal I wanted to get a sense what could be our EBITDA margins for FY11 and FY12.

Amul Gabrani As a company we would like to look at Profit After Tax as a parameter instead of EBITDA. The EBITDA margin should be about 15- 16% in FY11 and FY12.

Manish Goyal And the net margin?

A.K.Bishnoi Profit before tax should be about 10% and profit after tax should be around 6.5 to 7%.

Manish Goyal But last year your PBT margin was 11.5% and your net margin was 7.5%, so you expect your PBT margin to fall to 10%?

Amul Gabrani The last quarter is crucial for us. And from a projection point of view we would like to be little conservative and so we believe that these are the levels which we should be able to achieve conveniently. But based on our performance in the last quarter it can vary between from 6.5% to 7.5% at PAT levels.

Moderator The next question is from the line of Karthik Mehta of Sushil Finance.

Karthik Mehta Can you give me the consolidated numbers for nine months?

Amul Gabrani As far as consolidated numbers for nine months are concerned there were no major activities in most of our subsidiaries. So the numbers would be practically same as what they are as of now.

Karthik Mehta You have guided that you would be growing at around 35% to 40% at the top line as well as bottom line level for the next two years that is including FY11 and 12. If you just do some back ended calculations, we should be doing Rs.1000 crore turnover in Q4 FY2011 and in nine months our margin at that level were around 2.6% and in the 4th quarter we should be doing close to not less than 10-11% margin to get the blended margin of 7.5% to match the last year PAT margin. So on the margin front, we would be doing how much margin in the 4th quarter since you said that you would be booking large chunk of revenue and most of the cost overheads have been booked over the period of last three quarters.

Amul Gabrani As you see our figures, our total indirect overheads over first nine months have been around Rs.200 crore. And if we only reduce our indirect overheads to Rs. 60 crore and from the same revenue we come to about Rs.140 crore as the profit for next quarter. So putting it simply, the indirect overhead will only help us in achieving that kind of results.

Karthik Mehta Sir just wanted to understand the rationale behind the present situation which is prevailing as of now. The health of the state electricity boards is in a very bad state. They are happier with the load shedding rather than buying expensive merchant power. We are seeing that investors are extremely wary of the

situation at this point of time. Also there has been an extremely high infrastructure bottleneck on the imported coal side with the rising input costs. A further dip in the plant load factor is also expected. So even under this scenario you are still optimistic of booking the orders with the same momentum what we have seen over the period of last one and half to two years, especially in the last quarter itself.

A.K.Bishnoi I will answer the question in two parts. Number one is that we will be completing the current jobs in hand. Now coming to the second part of the answer, the jobs which we are currently marketing where we wish to book in the coming months or in the next financial year, our focus would primarily be on NTPC. I am sure you are aware that NTPC as per press reports and as per tender, part of which we have in hand would be ordering close to about 8 units of coal handling plants and ash handling plants in the next 14 to 15 months till March 2012. In addition you have Andhra Pradesh State Government and you have Maharashtra State Government who have already announced power projects. They are expecting financial closures or they have achieved financial closures and the BTG tender is already issued for the boiler and the turbine. Now they will come out with balance of plant tenders. This is already on the anvil where funds are either tied up as I said or about to be tied up because BTG tenders are coming out. Now as far as Tecpro is concerned we are constantly looking out for jobs where we are sure that financial closures are achieved and where money is safe. In addition in the coming period we'll be looking at waste heat recovery power projects. These are for leading clients in the country like Grasim, ACC where the funds have been tied up. So in our marketing exercise, we will continue to chase jobs and book jobs where funds are already provided. As far as Tecpro is concerned, we are looking at the business which is prevalent in NTPC and in the state governments which are identified projects, waste heat recovery sector and in the cement sector for our bread and butter business of material handling, we really don't foresee any problem.

Karthik Mehta In the RHP, it is mentioned your market share in the coal handling and as well as ash handling plant. Can you just throw us the market share if you have any for the nine months like how many orders have been awarded into CHP space and how much we have bagged and what is our market share out of that?

A.K.Bishnoi See what figures we had given, were from the CEA data, it was from the Central Electricity Authority website and after that they have not really updated their records.

Karthik Mehta And you are not keeping it as well?

Amul Gabrani I think we will probably have to rely on CEA data because that will be more authentic because there is a possibility that we might not bid for a project, we might bid for a few projects, so getting that data from CEA would be a better idea.

Karthik Mehta Okay. Sir on the BTG side, we don't do complete EPC but we have got two small projects as of now where we have BoP as well as BTG like one is 30 megawatt IMFA. So these projects are getting delayed month after month and quarter after quarter and there has been a problem I think on the execution side. Are we not facing comfort in terms of executing such kind of BTG oriented projects and we don't want to go ahead in that. Do we want to concentrate only on our strength area or we would still like to go ahead?

A.K.Bishnoi On the particular project which you mentioned IMFA, let me mention that there was no problem in execution. This particular project is being executed on EPC

basis and we have sourced the BTG from China. We are all aware that in the recent past there were lots of issues especially with the Visa formalities which were involved for getting Chinese experts in, but let me share with you that the project today is in very advanced stage of completion and hopefully in the next six to eight weeks we will have the plant totally commissioned. Now coming to the 2nd part of your question, we have recently bagged an order of EPC power plant where we are doing the design, engineering and the supply for a 66 MW power project. With our past experience of using Chinese equipment's we have decided not to use Chinese equipment and are sourcing the equipment from India. The order, for a company called Kohinoor has already been received by us and we also announced it in the stock exchanges.

Karthik Mehta Sir any order book guidance you would like to give for FY12 because for FY11 you would again be close to Rs.4000 crore even after executing Rs.1000 crore revenue.

Amul Gabrani It is a bit tough to say at this stage, but I think probably after about a few months we'll have better idea about the number of jobs which will get finalized in the 1st quarter which will help us in giving the right figures which will be closer to reality probably sometime after March.

Karthik Mehta In the ash handling techniques do we follow the environmental standards because as now majority of the companies are looking at dry ash handling with the help of vacuum cylinders.

A.K.Bishnoi Yes we do follow the environmental standards and let me tell you that the ash handling specifications are provided in the NIT and on the basis of which we bid for the jobs, are absolutely as per the latest environment clause. If you take leading clients like NTPC, they have hardly 4 or 5 parties whom they consider as technically qualified and have shortlisted only 4 or 5 parties for such type of ash handling projects.

Karthik Mehta And you are one of them?

A.K.Bishnoi We are not only one of them but also one of the top companies out of those 4-5 companies.

Karthik Mehta Who are the others?

A.K.Bishnoi The other companies are Indure, Macawber Beckay both based out at Delhi and McNally Bharat.

Karthik Mehta Are they the same companies where our promoters are heading from?

A.K.Bishnoi No these are our competitors. The company which we took over was Mahindra Ashtech.

Moderator Our next question is from the line of Sarika Kukshya from Prabhudas Liladher PMS.

Sarika Kukshya Firstly I wanted to understand the EBITDA margin for first nine months have improved to 9% versus 6% last year same nine months. So what has actually contributed to this significant jump of 300 bps?

Amul Gabrani Our interest cost has gone up. That has been one of the major reasons for jumping of the EBITDA margins Like we have been explaining earlier, as a management of the company, we generally bid for a project based on their payment terms in which we treat interest as a cost. So once you treat interest as a cost, if the project is back ended in terms of payment terms, then interest cost goes up and we look at profit before tax as our parameter. So for us, EBITDA whether it is 15% or 16%, the important parameter is our profit before tax. Suppose if we are achieving a profit before tax of 10% but the payment terms are back ended, the interest cost will definitely be higher because we'll have to take more working capital debt on that and EBITDA will look to be higher in that project although performance of the project would be in line with what we are expecting.

Sarika Kukshya Okay. So in lieu of the BoP projects getting into your revenue booking, there is a probability that the margins on account of higher working capital requirement might remain suppressed?

Amul Gabrani No, when we had bid for the BoP project we had factored the debt in this. So interest with respect to that debt is already factored in when we bid for the project. So in treating it in terms of profit before tax, we have bid in consistency with what our policy has been on other projects.

A.K.Bishnoi When you bid for balance of plant projects, especially the ones which we have on hand, these are government tenders where the commercial terms are very clearly specified and they are normally not prone to change. So as Amul just mentioned we have obviously considered the terms of payment, we have assumed what would be the requirement of money to execute these and that has been factored into in our costs.

Sarika Kukshya So what would be the differential between the L1 and L2? Any rough estimate which you probably have in mind?

A.K.Bishnoi In terms of percentages I can give you off-the-cuff figures. In Andhra it was in the region of about close to 10% to 11% but here what is important is not the difference between L1 and L2 but who is L1 and who is L2. I am sure you will appreciate that in Andhra for example, Tata Projects was L2 and we were L1. As you are aware Tata Projects is a much larger company with a large overhead base. So that also has to be taken into consideration.

Sarika Kukshya What actually has allowed you to bag that project over Tata Projects and over the rest of the competitors? What are those key strengths through which the company actually has been able to get into the first 4 qualified contenders for NTPC or for the rest of Maharashtra or AP projects which you are anticipating in future?

A.K.Bishnoi For the balance of plant I think one of the key factors has been the working arrangement with our partners. I would like to again mention that for all the three balance of plant jobs, we are operating through what is called as a consortium route and we have bid for these projects with M/S Gammon India and M/S VA Tech Wabag as our consortium partner. Both these companies are obviously leaders in the fields in which they operate. So this has undoubtedly been a factor which has gone in our favor.

Sarika Kukshya Secondly we were taking into account Rs.500 crore of revenue from BoP projects for FY11 which so far has not been reflected in the nine months figure. So going

forward what are we expecting the fourth quarter to be like and when can we expect the Rs.500 crore to be on books?

A.K.Bishnoi I think we'll be close to what we had projected because of Korba and Andhra is also picking up. So I think we will be on course and we should be very near the figure of Rs.500 crore

Amul Gabrani See in 9 months we have already factored in about Rs.400 crore on account of Korba.

Sarika Kukshya Well in Rs.1000 crore?

Amul Gabrani In Rs.1000 crore about Rs.215 crore is on account of Korba. It is part of income from operations which is Rs.1007 crore. About Rs.215 crore is on account of Korba.

A.K.Bishnoi In that Rs.1007 crore is in about Rs.215 crore and in January, February, and March we still have to do about Rs.1000 crore again, so by the end of the year I think we should be close to that figure.

Sarika Kukshya And you have been guiding for a 35% to 40% growth rate on topline and bottom line both but looking at the interest outgo and depreciation, it seems that probably you might miss your guidance on the bottom line. So what's you take on it?

Amul Gabrani We have generally been projecting about 35% to 40% increase in revenue and between 30% and 35% in profitability. I think whatever figures or whatever we are expecting we still believe that we will achieve that.

Sarika Kukshya Even if we assume that in the last quarter you are able to take into account 7% of PAT margin, on the Rs.1000 crore of revenue, it's going to give you Rs.70 crores more. So that's going to kind of help you close on flat note.

Amul Gabrani No I think we will achieve more than 7% in last quarter. If you see last year our profitability was about 2.79% in first three quarters and the annual percentage we had received after the whole year was about 7.43%. So that is the base. It has happened even in 2009 when against 2.79% for first three quarters, the consolidated profit at the end of the year was 7%. Like I said, the last quarter if you see, on account of indirect overheads only we will make over Rs.100 crore because Rs.200 crore is my indirect overhead for three quarters and if I am assuming my indirect overheads around Rs.60 crore in the last quarter and on the same Gross Profit margin about Rs.140 crore in the last quarter itself on PBT basis. If I achieve that, then I will be having about Rs.180 crore on the PBT basis at least. So that will give me a profit of about Rs.130 crore and Rs.135 crore. But these figures are little general. I think as we move closer towards the end of the year, we will have more accuracy on these numbers also.

Sarika Kukshya I think in Chhattisgarh also we have not been able to book revenues on the books.

Amul Gabrani No I think Chhattisgarh now probably is towards the last year of the completion of the project. June 2012 is the time frame that we have and we are going as per schedule. We expect that major revenues will be booked by December on Chhattisgarh. So next about 10 to 11 months most of the revenues will be booked on Chhattisgarh.

Sarika Kukshya For rest of the projects what is the completion date?

A.K.Bishnoi In Andhra the completion time frame available is 30 months. The timeline for all other projects are different based on the size of the project and the time available in the project itself.

Sarika Kukshya 30 months starting now?

Amul Gabrani 30 months starting December.

Sarika Kukshya Regarding your agreements with the Finland and the Chinese company could you elaborate what are the terms and conditions and the tenure of the agreement and how is it going to help you get an edge over your competitors? In the waste heat recovery projects I believe the suppliers are already present in the market. So how is it going to help you as a company?

A.K.Bishnoi First of all, let me clarify, these are not JVs. Both of them are technical collaborations. Secondly, as far as the waste heat recovery and the Chinese company is concerned, this is a technical collaboration with them where we quote for the job together. Should we be the successful bidder and we get the job from the client, then the major equipment's which is the boiler and turbine will come from China. Now on why this particular company is because if we see their track record in executing similar projects, I would imagine that they are one of the leading companies in the world in this particular business. This fact is also now recognized by our prospective clients whom we are in technical discussion with. So we would imagine as a company that it will give us an edge because we bring to the table a technology which is proven by execution of many projects by our Chinese partner. With regard to the Finland Company there again their technology for pneumatic conveying is far superior to what is currently being executed in India and we believe that with this technology we will be able to offer a much better product to our existing and our future clients.

Sarika Kukshya What would be the cost differential between the Pneumatic ash handling plants and the existing ones?

Amul Gabrani I think the differential depends on the plant, project, and the conditions of the project and definitely the technology since it is superior. So we believe that in terms of the environmental regulations it will be much better position. We should have some pricing advantage also but very difficult to give you in terms of numbers at this stage.

Moderator Our next question is from the line of Mohit Kumar from Antique Stock Broking.

Mohit Kumar You said that you have an order book of Rs.4000 crore, and you are guiding for Rs.1000 crore in this quarter and Rs.2800 crore roughly next year. So that accounts to around roughly all of the order book, I know one of the projects like APGENCO one of it has extended its schedule. So how is it possible to book around Rs.2800 crore in the next year FY12?

Amul Gabrani I think we have to also factor in the new jobs which we are expecting which will be executed over this year itself. To give you an example, we had entered this year with an order book of Rs.2014 crore, out of which almost about Rs.600-700 crore will be carried forward in next year. Still we are doing Rs.2100 crore, that is primarily the new job booked during the year. So we will be booking some more jobs during this quarter and over next year, part of which will be executed in FY11-12. So based on our experience we have given a projection.

A.K.Bishnoi See just to add to this, if you take we have just booked the order from Kohinoor. The order value is about Rs.208 crore and most of this, I am not saying all of it, but most of it would get billed by the financial year 2012. Rs.208 crore is not factored into Rs.4250 crore. It is not factored because it is received in January. And the figure I gave you was as of December.

Mohit Kumar Will you have short term orders cycles, orders coming up for short duration in FY11?

A.K.Bishnoi See I have given you the orders. On this Rs.4250 crore if you add Kohinoor, we will land up to Rs.4500 crore approximately. Out of which if we do Rs.1000 crore, we will still have Rs.3500 crore as of now. We are not factoring the NTPC job where we are L1. Plus the other jobs in hand where on the smaller material handling job we may have delivery period ranging from 10 to 12 months.

Mohit Kumar Sir what is the cycle for this L1 NTPC job?

A.K.Bishnoi I think for the L1 NTPC job, the total cycle could be in the region of about 20 – 21 months but in that most of the supplies are starting from the 5th or 6th month and then they continue. Because 21 months would be for the completion or the commissioning of the project and there would be a fair amount of supplies which would have involved in the FY 2011-2012.

Moderator Our next question is from the line of Anand Vyas from Nirmal Bang Securities.

Anand Vyas When do you expect this NTPC bulk tendering to go majorly in the arena of your Ash handling and coal handling plant?

A.K.Bishnoi I think some of the tenders on NTPC are already out like Sholapur is out, Muzaffarnagar is out. Some of the tenders in fact are due for submission in the month of February there have also been some extensions so it's very difficult to really predict a date but I would imagine this is based on the press report which NTPC is putting in and based on whatever interactions we are having with them most of these orders will get finalized in the early part of FY2011-12.

Anand Vyas Sir this includes your NTPC bulk tendering?

A.K.Bishnoi See part of it includes your NTPC bulk tendering not the full. NTPC will not be going for bulk tendering for coal and ash. It will primarily be for boiler and turbine so there they will go one by one. And as you know they don't follow a policy of balance of plant, they have a policy of ordering out coal handling and the ash handling and the water systems separately. So it is expected to come tender by tender. We have already received 3-4 tenders in coal handling in ash handling we have received almost 2-3 tenders.

Anand Vyas Okay do you expect the order for this bulk tendering of 11x660 megawatts of ash and coal will be in the next one or two quarters, right?

A.K.Bishnoi No. In the next financial year

Moderator Our next question is from the line of M.S.Arun from Capital Market.

M.S.Arun Regarding that Korba order, how much revenue we have recognized so far? What is the visible outstanding out of that project? What is the recognition as far as Korba is concerned? You had mentioned about Rs.215 crore out of those Rs.1000

crore, and how much have we recognized so far in total of the other and how much is outstanding of it?

Amul Gabrani I think, see Korba project being a balance of plant project, is primarily a back ended project where payment is due after achievement of milestones. So whatever has been invoiced based on the terms of the project has been received. Because payment is from PFC. However yes, there has been some recognition of revenue which is not yet due for collection and that unbilled revenue of about Rs. 230 crore on Korba.

Moderator Thank you Ladies and gentlemen that was the last question. I would now like to hand over to the management for closing comments.

Amul Gabrani Thank you everybody. It gives us immense pleasure to interact with you on a regular basis and to address your questions and comments on Tecpro Systems Limited. We hope to have your valuable support on a continued basis as we move ahead. And if you have any further queries we would be available outside this forum. On behalf of the management I once again thank you for taking the time to join us on this call. Thank you.
