Tecpro Systems Limited

Q2 & H1FY2012 Results Conference Call Transcript
November 11, 2011

Moderator Ladies and gentlemen, good afternoon and welcome to the Tecpro Systems Limited Q2 H1 FY2012 earnings Conference Call. As a reminder, for the duration of the conference, all participants' lines are in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. Joining us on the call today are members of the senior management team at Tecpro Systems. At this time, I would like to hand the conference over to Mr. Varun Divadkar. Thank you and over to you sir.

Varun Divadkar Good afternoon everyone, thank you for joining us on Tecpro Systems Limited Q2 & H1FY2012 earnings conference call. We have with us today, Mr. A. K. Bishnoi – Chairman and Managing Director of Tecpro Systems; 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 discussions 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. Apologies for the delay before we started the conference call. I will now hand over the call to Mr. Bishnoi to make the opening remarks.

A. K. Bishnoi Good afternoon, everybody. A very warm welcome to everyone present and thank you for joining us today to discuss the operating and financial performance of Tecpro Systems Limited for the second quarter and half year ended September 30, 2011. I would like to begin the discussion with an overview on the company's operational performance for the quarter, following which Mr. Gabrani will provide the financial highlights of the company for the quarter and also for the half year-ended September 30th.

During the course of our interactions with analysts and investors we have come across their concerns about the slowdown in the sector and its potential going forward. Let me share that we strongly continue to believe that the growth prospects of the sector are still very promising. In order to achieve the targeted 8-9% GDP growth we will see substantial resources which will be deployed to improve and expand the domestic Infrastructure. As you are all aware, Tecpro Systems is uniquely positioned to take advantage of this opportunity given our presence across the entire value chain, our strong execution capabilities and our longstanding relationships with some of the key customers in the Infrastructure segment. Further, our order book, order inflow and order pipeline demonstrate that we are continuing to deliver healthy traction and in reality the activity level for us remains buoyant. We expect the order inflows to increase significantly during the second half of the fiscal year on the back of finalization of the NTPC projects for coal and ash where we have already participated.

During the quarter under review, the company bagged a prestigious order from BHEL for NMDC's upcoming steel plant. The order value for this for Tecpro Systems is about Rs. 521 crore. I would like to share with you that this is one of the largest Raw Material Handling orders bagged by Tecpro Systems and it is a matter of great pride for all of us. It also reinforces our leadership position in the Material Handling space.

The company also secured an order worth around Rs. 80 crore from UltraTech Cement. I would like to remind all of you that UltraTech and Grasim, in the Cement sector, have been giving us regular business for the last couple of years and this order further strengthens our execution capabilities with a senior company in the Cement segment.

In the month of October, we received a very major order from NTPC, which is worth around Rs. 405 crore, for their Pakri project. We are already executing, for NTPC Pakri, an order of Rs. 256 crore, and with this new order we will have almost Rs. 660 crore under execution for NTPC in the Pakri Project.

New orders have been coming in at regular intervals. We have added orders to the tune of about Rs. 867 crore up to the period 30th of September and this figure goes up to Rs. 1,376 crore if we extend the period up to 30th of October, mainly because of the Pakri order.

In addition to this I would like to mention that Tecpro Systems is one of the prequalified bidders, and also the lowest, in some of the Coal and Ash Handling projects for NTPC where prices have been opened but the orders are yet to be awarded. Against this backdrop we anticipate our order inflows in the FY2012 to be strong and also to be in line with what we have mentioned earlier to all of you.

We have always strived to continuously expand across the value chain through technical tie-ups and several acquisitions. All of you will recollect that we recently completed the acquisition of Ambika Projects in the water & waste water treatment space and this now allows Tecpro Systems to enhance its in-house manufacturing scope in BoP related areas.

I would like to conclude by mentioning that we remain confident of sustaining 35%-40% growth in top-line for the next few years based on the back of our robust order book position and also on the L1s which are in the pipeline.

With these remarks, I would now like to hand over to Mr. Gabrani who will take you through our financial performance. Thank you very much.

Amul Gabrani: Thank you, Mr. Bishnoi and good afternoon, everyone. It is indeed pleasure to have all of you on this call. Tecpro Systems has delivered a good half-yearly performance which is a result of our strong order book, diversified service offerings, project management skills and comparative low cost structure.

The order inflow has been robust having added orders worth Rs. 867 crore till 30th September 2011 as Mr. Bishnoi has mentioned. We also have some L1 positions which will also be added to this order book position within a short period of time. We expect to maintain the current momentum with 35-40% growth both in top-line and order book position and we are aggressively taking up our marketing efforts to book new jobs.

I shall now provide you with an overview of our company's financial performance for the second quarter and also the half-year ended 30th September 2011. I would like you to note that it is best to monitor the business on an annual basis as a significant portion of our revenues are recognized in the last quarter of the financial year, in line with the accounting practices that are set. For H1 FY12, our revenues stand at Rs. 802.9 crore representing a growth of 45.9% as compared to Rs. 550.3 crore during the corresponding period last year. Total expenditure for H1 FY12 amounts to Rs. 715.3 crore compared to Rs. 505.3 crore in H1 FY11, implying an increase of 41.5%. EBITDA was at Rs. 99.45 crore, higher by 83.1% as against Rs. 54.34 crore for the same period last year. Our operating margins are healthy at 12.39%. We have been constantly integrating backwards to enable margins to remain fairly consistent. Depreciation for the first half has increased to Rs. 5.69 crore as compared to Rs. 4.95 crore in the first half of FY11. Interest expense for half year amounted to Rs. 73.1 crore compared to Rs. 39.3 crore for the same period last year. It is pertinent to note that we consider interest as a cost while estimating projects based on the payment terms, size and bank guarantee requirement. That is the primary reason why we review our performance on PAT or PBT basis. We continue to enjoy range bound margins despite the challenges in the present economic environment. We believe that these challenges are generic to our entire peer group, all players within the sector, and given our quality of operations and operating style I think we are clearly well-placed to post a better performance even under difficult circumstances.

Tax expenses for the half-year ending September 30, 2011 stand at Rs. 6.71 crore compared to Rs. 3.5 crore in the corresponding period last year. Consequently, PAT for first half is at Rs. 13.96 crore comparing to Rs. 6.59 crores recorded during first half of 2011 which is almost an increase of 111.8%.

For Q2 FY12, the figures in terms of revenues are at Rs. 453.15 crore as compared to Rs. 300.1 crore during Q2 FY11, which is 51% increase over last year's figure. EBITDA for the quarter stands at Rs. 55.73 crore compared to Rs. 32.12 crore during the corresponding period last year which is an increase of 73.5%. PAT for the three months ended September 30, 2011 is Rs. 8.58 crore, up 66.6% as compared to Rs. 5.15 crore during the corresponding period last year. Our total debt as on September 30, 2011 stands at Rs. 1,021.8 crore. This also includes the term debt. The company is in growth phase recording 35-40% each year which requires continuous investments in fixed assets as well as capital to maintain the growth momentum. The company has been moving from short duration projects to long duration projects especially in the BoP segment and the larger NTPC projects. The payment terms are generally back-ended. Most of the costs are being incurred in the second and third quarters where the company has to execute a large portion of the projects before collecting the debtors. We get paid at the completion of certain milestones where the revenue recognition occurs in the fourth quarter. This is the reason our debt levels do not seem in proportion to the revenues and earnings in first half of the financial year. We expect our well-entrenched order book position and better cash management to reduce working capital cycle going forward.

The prospects going forward continue to remain fairly encouraging for us. As the economic scenario becomes more conducive and investments in Infrastructure projects will accelerate in due course, Tecpro Systems will see its order book grow many-fold on the back of this increased demand from Power, Cement, Steel and other related sectors. Our business model is robust and we expect to report continued financial and operating growth while maintaining the strength of our balance sheet as we bid for larger orders in the future.

This brings to the end of my management commentary. Now, we would be extremely happy to address any questions that you may have. Thank you very much.

Moderator: Thank you very much sir. We will now begin the question and-answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2." Participants are requested to use handsets while asking a question. Our first question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: The first question is on the order flow front. Sir, what is the total order flow for the first half you said? I missed the number.

Amul Gabrani: For H1FY2012 the order flow was about Rs. 867 crore, and thereafter we have booked another job in October worth Rs. 509.3 crore taking the order inflows to Rs. 1376.82 crore between April to October.

Madan Gopal: Given this and the huge order flow last year of Rs. 4,000 crore roughly, do we think that it will be possible for us to cross even Rs. 3,000 crore this year? And if it is so, where is the confidence coming from? In our general discussion with other players in the market we find that the total BoP opportunity itself is only Rs. 4,000-5,000 crore and given that there are 6-7

active players, even if we assume a reasonable market share I think there is a huge risk for our Rs. 4,000 crore kind of order flow this year. Do you think it is still possible?

Amul Gabrani: The position is that we have already received Rs. 1376.82 crore and we are already L1 in a fairly large amount of about Rs. 1,000 crore so that makes it about Rs. 2,400 crore, in any case which is already there, because this L1 is mainly public sector organization. We also have a fairly large amount of live enquires.

A.K. Bishnoi: I just add to what Amul was saying. We have already got about Rs. 1376 crore and the L1 in Coal and Ash Handling orders. What you just mentioned was about Balance of Plant. Now, you are aware that Tecpro is not only doing Balance of Plant but our main strength has been in the Coal and Ash segments. That is what differentiate us from the other players, that in addition to coal and ash, we also do BoP. Now, if you just see till date, this Rs. 1376 crore does not include any Balance of Plant job and also does not include any L1 job. We are talking about Rs. 2,500 crore, or in excess of that, only in Coal and Ash handling where we either have the jobs and where we are L1. Plus we also have lots of enquiries which we have quoted for, in the pipeline, in the Material Handling segment and in the Ash Handling segment, and in addition we have the Balance of Plant jobs.

Madan Gopal: Are these enquiries mostly from Power projects or in mining or where are they coming from?

A.K. Bishnoi: These enquiries are in the Power sector and also in the Steel and cement sectors. As you are aware, NMDC is putting up a steel plant, we have already got our first major order in this year with BHEL, which I just mentioned and we are also quoting to the NMDC Steel Plant directly. We also have enquiries from the Cement sector, where we have already booked one job from UltraTech. So we have enquiries from Cement, Steel and Power altogether.

Madan Gopal: Can you quantify of what could be the size of projects that you would have bid for and waiting for the bid to open?

Amul Gabrani: Where we are lowest would be in the region of about Rs. 1100-1200 crore and where we have already submitted our bids would be roughly around Rs. 3500-4000 crore in the various sectors. There is also Waste Heat Recovery, as you know which also Tecpro is doing and we are expecting another major order from a cement manufacturer in the Waste Heat Recovery segment which we should receive very shortly. So for Tecpro when we talk about orders, we just do not talk about Balance of Plant, in addition we also talk about the range of Material Handling, Ash Handling, Heat Recovery, the Cement sector, the Steel sector, everything together.

Madan Gopal: The second question is on the debt. Do you think the debt level would come down or it has chance of going up further say at the end of FY12 which is right now at around Rs. 1,000 crore?

Amul Gabrani: The total debt as of now is about Rs. 1,021 crore, which includes about Rs. 100 crore of term debt. Working capital debt is a little over Rs. 900 crore and if you see growth has been about 39% from the debt level last year at the same time and whereas the revenue growth has been about 46%. Over and above we are expecting a reasonable amount of order inflow in coming second half which will also help us getting some advances which will have definite impact and help us in controlling our debt level. Our target is that by the year-end (March 2012), we can maintain our working capital debt of around Rs. 950-1000 crore. This is what we are expecting but the last quarter is the most important and we are hoping that we will be able to maintain it within this range.

Moderator: Thank you. The next question is from the line of Supriya Subramaniam from Kotak Securities. Please go ahead.

Supriya S: Just had a couple of questions just in continuation with the previous question in terms of the order inflows. If you see you had guided for about 30-35% growth on last year's inflow numbers. That means over Rs. 4300 crore of inflows which implies about Rs. 5500-5800 crore inflows this year as a whole. So if you adjust out about Rs.1300 crore of orders that you have won so far, it would still imply around Rs. 4500 crore worth order inflows in the rest of the year. Just wanted to check on what is the confidence behind receiving these numbers even if we take L1 orders of about Rs. 1200 crore and the orders you have submitted for about Rs. 3500-4000 crore. Even in that there would be a certain hit rate and we wouldn't presume that we won all the orders, which would mean that we would be missing the guidance mark. So do you still believe that you can still get the 35% growth and what would drive that belief?

A.K. Bishnoi: You very rightly mentioned that if you take what has already come in and what is in the L1 pipeline we will be close to about Rs. 2600-2700 crore. Now this Rs. 3500-4000 crore worth orders which I mentioned is without the BoP segment. It is just the Material Handling and the Ash Handling bids which we have submitted. Now we have already submitted a couple of Balance of Plant bids and a couple of Balance of Plant bids are under submission. So the confidence level is like this that, just for discussion, if you take Rs. 5000-5500 crore of order booking and if you consider that we have booked about Rs. 1300-1400 crore and we are L1 in the next Rs. 1100-1200 crore, so what we need is another Rs. 3000 crore. For this Rs. 3000 crore, even if we are able to get one major Balance of Plant job, and this along with our bids which we have submitted for our Material Handling segment, Ash Handling segment and for the Waste Heat Recovery segment, I think you will agree with me that it will be possible for us to achieve the targeted figure.

Supriya S: So you do expect maybe at least one large turnkey BoP order within this?

Amul Gabrani: Yes. So far we have not booked a single BoP job and as you know in our sector most of the order booking for all the companies is normally happens in the second half of the year. So the period October-March is where all the activity takes place and we have some bids which have been submitted, we have some bids which are being submitted which will be finalized before March. Even last year if you see we had booked the APGENCO order

which was booked in the second half of the financial year worth around Rs. 2000 crore order and that helped us in achieving our overall order booking target. As of today, as we have mentioned, we are quite confident that we will be able to achieve this.

Supriya S: Another question again on the balance sheet. Where do you expect to stabilize working capital level in terms of days of sales? Last year we ended at about 170 days of sales. So do you expect to maintain these levels or is it expected to go higher than that? I think current run rate is a bit higher at about 200 days of sales. So where would you expect to end the year in terms of working capital?

Amul Gabrani: Our endeavour this year would be that whatever is our current working capital gap we do not cross beyond this, because you will see that our debtor level also has gone up a little bit and taking that into consideration we are hoping that collection will be better in the second half because most of our business and the activity happens in the second half. So we are targeting that whatever is our current level of working capital it should not go beyond this.

Supriya S: Sir, what is the average cost of debt for the loans?

Amul Gabrani: About 12%.

Supriya S: Just one last question in terms of margins. Given that your material cost is also increasing, do we have a certain proportion of variable cost orders or is it all fixed cost and how would we aim to maintain margins in terms of fixed cost project orders?

Amul Gabrani: In Balance of Plant jobs critical items like steel etc. in some of the projects we have variable costs, but most of our projects in Material Handling and our other segments are all fixed cost projects. But generally, whenever we are estimating projects we always have certain cushion levels, in terms of cost escalation, which are taken care of while estimating itself. It will not be a very major hit on any of those areas.

Supriya S: So this is all at least broadly within the estimates?

Amul Gabrani: Nothing has happened which is giving us some kind of negative indication.

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

Ankit Babel: You have already answered the queries related to your debt and working capital. My other question is related to the retention money which is there in the current debtors. Could you just throw some light on it? How much is the retention money out of the current debtors?

K.B. Arora: Close to Rs. 570 crore.

Ankit Babel: So out of Rs. 1440 crore, Rs. 570 crore is retention money.

Amul Gabrani: That's right.

Ankit Babel: In the first half how much of retention money has been released?

K.B. Arora: About Rs. 35 crore.

Amul Gabrani: This analysis is yet to be done; we have to segregate between the retention and others. But tentative expectation is around Rs. 35 crores.

Ankit Babel: And sir related to your debt part in the past conference calls you have highlighted that your debt level will grow in line with the growth in the top-line. But if we see the sequential performance at the end of FY11 your net debt was around Rs. 446 crore after adjusting to the cash levels which you have. And currently if we see the net debt level is Rs. 1021 minus Rs. 114 crore of cash is at around Rs. 900 crore. So it is almost double. In the last six months your debt has almost doubled, where as your top-line has not grown in to that same growth rate. Just wanted to understand what is the reason for such a high debt and you have been saying that you will be maintaining it around Rs. 1100 crores. Why has the debt doubled in the six months period? We were expecting some realizations to happen in the following quarters after the fourth quarter because fourth quarter billing is very high. So in the first half some money would have be released but still even after the realization your debt has doubled.

Amul Gabrani: Ankit, let me just clarify. This increase of 46% in revenue is Year-on-Year based on the September figures. So last year if you see our debt level on September 30 was about Rs. 733 crore. There has been an increase of about 39% in debt and if we adjust for cash and cash equivalent it will mean additional about another 3-4%. Our cash and cash equivalent has gone down from Rs. 145 crore to Rs. 114. So about 43% is the debt increase and revenue increase vis-à-vis Year-on-Year is 46%.

Ankit Babel: I take your point. But still since you have been guiding for around Rs. 1100 crore of debt at the end of FY12 and now considering about Rs. 150 crore of cash even at that point of time your net debt would be in the range of Rs. 950 crore as compared to Rs. 446 crore net debt at the end of FY11. So it is still 100% growth in your net debt position when you are expecting a 40% growth in top-line.

Amul Gabrani: No, Rs. 950 crores what we are talking of is not reducing the cash and cash equivalent. This is our estimation, what we are expecting.

Ankit Babel: So Rs. 1100 crores is what your expectation? You will be ending with around Rs. 300 crores of cash at that point of time approximately?

Amul Gabrani: Remember one thing that in our business like Mr. Bhisnoi had said that in an answer to an earlier question that once we get the order book what we are expecting now -- advances also will be coming – so we are expecting on the basis of our past experience and whatever is our estimation that our debt without excluding cash and cash equivalent should be about Rs. 950

crore. But you also will observe that our major business comes in the second half. So we are keeping an eye on all the parameters of the business and are hoping that we will be able to monitor and control our collections, our advances, our order booking in a better manner so that we maintain it in line with what we have been expecting earlier.

A.K. Bishnoi: Just to add to that, if you see last year's figures and compare with March'11, the debt levels in September 2010 were slightly higher and they were reduced in March 2011 which means that in the six months even though we had a business of close to Rs. 1400 crore last year we were able to actually slightly reduce the debt level. This was mainly because of better collections in the second half and also because of additional advances which we got in that period last year. This year also the same thing will happen. Amul mentioned in his opening remarks also, that our main project which we are now executing, which is the Balance of Plant and the large NTPC jobs, the payment terms are back-ended. And even though the costs have been incurred we will be in a position to meet some of those milestones by which we will be able to realize money in this period of time which is the next six months. Normally, if you see the trend, the collection pattern for the company is much better in the second half than in the first half.

Ankit Babel: Just to summarize that at the end of FY11 since the net debt was around Rs. 450 crore, so can we expect a 50% jump into this debt? So Rs. 675 crore would be your net debt after considering the cash and everything. It should not go beyond that, right?

Amul Gabrani: It will be a little difficult for us to really comment a figure at this stage, but I will only say that we are keeping an eye on that and based on the business model we are hoping that possibly the collections are better in the second half, I think we will be able to control the debt within the reasonable limits.

Ankit Babel: Lastly, when is the Chhattisgarh BoP project getting fully executed? What is the deadline?

A.K. Bishnoi: The deadline is June 2012.

Ankit Babel: So we are on track?

A.K. Bishnoi: Yeah, we are absolutely on track.

Ankit Babel: And APGENCO, when is that getting executed?

A.K. Bishnoi: For both the APGENCO jobs, we received the advances only in the month of March last year and we have got 30 months to do the jobs.

Ankit Babel: So that is also on track?

A.K. Bishnoi: Yeah, yeah, that is under execution. Both the jobs are under execution.

Ankit Babel: Can you name a couple of BoP projects where you have bid for and you are expecting outcome?

A.K. Bishnoi: I am sure you will agree with me that we would not like to mention the name of the client

Ankit Babel: Roughly what is the size of the projects? Any range?

A.K. Bishnoi: Sizes range, there are a couple of them which are between Rs. 1,000-1,400 crore. There is one large one which is in excess of Rs. 2,000 crore.

Moderator: Thank you. The next question is from the line of Nirav Vasa from SBI Cap. Please go ahead.

Nirav Vasa: My query was pertaining to the APGENCO project. Would it be possible for you to quantify the revenues that we have booked in the Rayalseema and Kakatiya projects? And I would also like to know what per cent of the project is completed, for both, Rayalseema and Kakatiya?

Amul Gabrani: I think both the questions give us about a few minutes. We will get the data and come back.

Nirav Vasa: And my last question is pertaining to the advance that you received in first half. Can you quantify that?

A.K. Bishnoi: About Rs. 140 crore.

Nirav Vasa: Have you got any advance from BHEL while taking that order?

A.K. Bishnoi: For the NMDC job?

Nirav Vasa: Yes.

A.K. Bishnoi: Actually, there is no advance in that. There is some progressive payment against the work done.

Nirav Vasa: My last question if you permit me, I was just interested in knowing what is the position of the Ambika restructuring? Can you help me with its order backlog, revenue, EBITDA and PAT?

Amul Gabrani: Ambika, we have just taken it over. So you wanted last year's Ambika's results?

Nirav Vasa: First half if possible?

Amul Gabrani: These results we have announced are of the standalone company. Ambika is a subsidiary company, so we will have to come back to you separately on this, Nirav.

Moderator: Thank you. The next question is from the line of Pranav Gokhale from Religare. Please go ahead.

Pranav Gokhale: Just a question on the average cost of loan. If I actually see the Rs. 73 crore of financing and the total interest cost, what is the actual interest and

what are the financing charges over here? I am talking about the H1 numbers.

Amul Gabrani: These are the interest charges which includes the term debt. Term debt is about Rs. 5 crore, rest would be the working capital loan interest.

Pranav Gokhale: So if I take the average debt of about Rs. 800-850-odd crore this annualized cost comes much higher, it comes to about 16% annualized cost?

Kulbhushan Arora: Apart from that there are certain advances from that customer which are interest bearing.

Amul Gabrani: This Rs. 73 crore includes four components: One, the working capital interest based on the working capital loan; second is the term debt; third there are certain advances which are interest-bearing; and fourth, there are certain procurements which are done on LC where interest is to our accounts, that interest also includes this.

Pranav Gokhale: And does this amount continue to remain higher in H1 like your normal debt and once gets released by the end of the year?

Amul Gabrani: These all figures actually are not really something which can be demonstrated on.

K.B. Arora: It's a business proposition, it varies from time to time. Revenue in first half as a practice is on the lower side since 6 years that means the cost are reflected as a higher percentage compared to the revenue booked during this period.

Amul Gabrani: On Rs. 800 crore if we have an interest cost of about Rs. 73 crore and the next half if we do about Rs. 2000 crore, interest cost will still be close to that figure only.

K.B. Arora: Because ultimately even in the six months we are building up certain capability as well as certain inventory for which we are incurring certain cost which will practically be realised during next quarter**.**

Pranav Gokhale: So you do not expect interest cost to go up further? Because just to highlight H1 FY11 at Rs. 40 crore which has gone to Rs. 92-93-odd crore in the full year in FY11. So you do not expect this to happen in the current year as such? It should be more or less stable depending on the current interest rate. It will not increase substantially from here on?

Amul Gabrani: There are a couple of other reasons also. It will also depend on the kind of the jobs that we get. See, there are certain policies; there is government policy change and they say that the advances are interest-bearing so all these matters will impact the interest cost. But I think we will be able to answer this question significantly probably in the con call which is after the next quarter. So then we will be clear what kind of jobs further we are getting.

Pranav Gokhale: Just to ask you differently, you expect interest cost to inch higher than Rs.150-160 crore for the current year?

Amul Gabrani: No, not really. As of now I do not think there is any reason for us to believe that will be anything much higher than this of what we have reported.

Pranav Gokhale: And the debtors number of Rs. 1400-odd crore, is there a particular delay which we have seen from specific clients which has actually lead to the inching up of the debtor number or this is a normal practice?

A.K. Bishnoi: No, there is no specific client where we are having a delay per se. This is basically in our industry, as I explained earlier also, we have some jobs where we have to link it to certain milestone payments, there are some which are related to the material getting inspected and the usual procedural issues. So to answer your question specifically there is nothing where we can say as a Company that yes, we have a problem of collection from client A, B or C. It is just the way the contracts are framed and it is just that the business environment which currently prevails in the country, it is a result of that. The collection process is part of it.

Pranav Gokhale: And if I may ask, have you done any ageing analysis of these debtors? If you could just give out of this Rs. 1400-odd crore of debtors how much could be more than six months as such or what could be sticky debtors according to you? There are no sticky debtors?

Amul Gabrani: There are no sticky debtors per se. If there are any sticky debtors based on the figures we would also provide for them in our P&L statement.

Pranav Gokhale: And out of this Rs. 1400 crores any idea how much ballpark number could be more than six months sir?

K.B. Arora: About Rs. 950 crore.

Pranav Gokhale: Is more than six months?

Amul Gabrani: Yeah.

Moderator: Thank you. The next question is from the line of Chinmay from Asit C. Mehta. Please go ahead.

Chinmay: Regarding the recent order which you bagged, what kind of margins are these projects having? Are they like 13-14% at EBITDA level or since you talk about PBT level around 7% maybe?

A.K. Bishnoi: No, they are at margins at which we have been consistently booking jobs, and the margins are comfortable enough for us to mention that we will be able to maintain what we have been doing so far.

Chinmay: And you said you are roughly L1 in Rs. 1000-odd crore projects, do these include L1's in the NTPC projects?

A.K. Bishnoi: Yeah, we are including some NTPC projects in this which are for Coal Handling and also for Ash Handling.

Chinmay: You are L1 in any of the NTPC bulk tenders?

A.K. Bishnoi: We are L1 there in the Ash Handling and also in the Coal Handling.

Chinmay: So only these projects constitute this Rs.1000-odd crore?

A.K. Bishnoi: Yes, we are also lowest in some other jobs which are non-NTPC jobs but majority of this is NTPC.

Chinmay: So apart from this, whatever you are targeting for the current year order inflow, no other NTPC jobs would be coming in?

A.K. Bishnoi: As of now, with the scenario in NTPC, we do not foresee any new jobs being finalized before March because we are already in November and there are no new tenders. But yes, tenders will be out for the 800 MW series but we do not expect them to be finalized before March.

Chinmay: So all the tenders of 660 MW series have been opened?

A.K. Bishnoi: Yes, the 660 MW series, most of the tenders have been opened and that is what will get finalized before March.

Chinmay: How many are yet to be opened broadly?

A.K. Bishnoi: Offhand I cannot give you a number but I would imagine that majority of the 660 MW series have been opened. Maybe a couple of them are yet to be opened and 800 MW series, tenders will follow in January-February which will be finalized only in the next financial year.

Chinmay: You are talking of the Coal Handling plant. What about Ash Handling?

A.K. Bishnoi: I am talking Coal and Ash both, but majority of the 660 MW has been opened.

Chinmay: And 800 MW?

A.K. Bishnoi: As per our information, now that the boiler and turbine decisions they are taking, so they will start releasing the tenders after the boiler and turbines are decided which is a normal practice of NTPC.

Chinmay: And in the NTPC projects are the margins comfortable? The projects I have been coming across, their business is not so great, and so many players are bidding at a very low margin.

A.K. Bishnoi: As you are aware in NTPC, obviously, there is an entry barrier, not many parties are qualified, both in the Coal segment and in the Ash segment. There are only identified parties who are qualified and who have been working in these segments. So considering the background of these parties

if you see the margins are definitely in line with the business which we are doing.

Chinmay: Why I ask this is because like last to last year few projects got released but players who backed up rates and are finding it difficult to make good profits, and that time also the entry barrier was there.

A.K. Bishnoi: No, to the best of my knowledge, if you see in coal and ash handling there are hardly 5 or 6 parties who operate in the Coal segment and an equal number of parties in Ash Handling. Most of these companies are good companies, who have been continuously working with NTPC and they continue to bag jobs and continue to execute them.

Chinmay: And what is your average cost of debt right now?

K.B. Arora: Average cost is of about 12%.

Chinmay: And to a previous question you just gave a breakup of the interest cost, Rs. 5 crore was long-term interest cost, so what would be interest on the advances?

K.B. Arora: Close to Rs. 13 crore.

Chinmay: And so your normal working capital interest cost is how much for H1?

K.B. Arora: From debt side it is around Rs. 53 crore.

Chinmay: And rest is on the LC?

K.B. Arora: Yes.

Chinmay: And what kind of interest are you paying on advances?

K.B. Arora: That is about 11%.

Chinmay: And in H1 last time what would be the breakup of the same if you have the numbers?

K.B. Arora: We have numbers but advances to the customer will be much less but all the four components were there.

Chinmay: Advances on interest-bearing would be much less?

K.B. Arora: Yes.

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

Suryakant B: Just to stretch on this debt part. You said that you are targeting FY12 debt levels to be Rs. 950-1000 crore and this Rs. 100 crore term loan will be

there. So overall Rs. 1100 crore debt will be there on the book at the end of FY12, is that right?

Amul Gabrani: Yes, that is right. That is what is our target is.

Suryakant B: But actually in a further question you actually mentioned that you are also targeting to bring down this net debt, that is excluding cash to somewhere around Rs. 850-900 crore levels. So that says that you have a cash level of almost 300-400 crores. Where would this cash come from?

Amul Gabrani: Rs. 950 crore that I am talking of is working capital debt. As of now we have a cash balance of about Rs. 114 crore. So based on the additional bank guarantees we will generate, we will have to deposit certain cash with the bank, so that estimation has been done based on the expected order inflow. We have also done the calculation on the basis of expected order flow, what the advances are going to be for us. So based on all this, these are all projected figures, and we are expecting that this would be in line. Our working capital debt would be around Rs. 950 crore excluding cash and cash equivalent.

Suryakant B: Sir, one more thing, regarding this retention money right now you said it is around Rs. 570 crore. How much is more than 3 months, and how much is more than 6 months?

K.B. Arora: That analysis is still to be done and we will get back to you on that. But we can say that roughly Rs. 70-80 crore will be less than six months and the rest is more than six months.

Suryakant B: Do we expect a good chunk of retention money to come back in say next 6 months? That could help us repaying this debt. But retention money has been actually at a higher level from quite some time.

Amul Gabrani: No, retention money is high because we are continuously growing. The retention money which is available to us which was deducted almost about 4 years back will be very nominal in comparison to what is being actually deducted at this stage. So our collection would always be much lower than deduction on account of retention money in the present time.

Suryakant B: It is the same logic, FY11 debts or maybe debt as on date could have been come back by now, but it has not happened. So my concern is that even if that retention money comes probably that might again go into working capital and somewhere we might fall short of repaying the debt. Is that fair to assume?

A.K. Bishnoi: Please understand that our business model is such that most of the business happens in the last two quarters and moreover that is the period when most of the collections take place. You also have advances which come in the second half because most of the orders are finalized and a combination of advances and collection help you in not only maintaining your top-line but also increasing your top-line without really increasing the debt levels.

Suryakant B: And sir on the order book side, do you see this traction? You are expecting actually BoP order that is mainly on the private player side or SEB side. Where exactly do you see these orders actually been coming?

A.K. Bishnoi: For BoP we are in talks with the private players and are also looking at some government jobs. It's a combination of both. If you see our orderbook which we are saying Rs. 5000 to Rs. 5500 crore we are only looking at one major BoP job. We are not talking of more than one. Because balance of our orders is going to come from our regular bread and butter business which is our Material Handling, Ash Handling, Waste Heat Recovery, captive power plant plus we also do captive power. So it is a combination of everything together. We are only looking at one major BoP order which will help us in achieving the Rs. 5500 crore target which we have been mentioning.

Suryakant B: One of the previous questions also there is current working capital levels are very high. Any thought process or how to reduce this going ahead if not in six months maybe in 1 year, 1.5 years, and 2 years? As we are getting into larger size BoP projects which will be working capital intensive are we taking any steps to reduce working capital days.

Amul Gabrani: We are working in a particular sector and environment. So, obviously our basic limitation is that we have to work within those circumstances only. And working capital is a primarily a function of the sector we are in. And so we have to look at with respect to our peer group. And also an important parameter is that we should have growth followed by improved working capital scenario and reasonable profit margin. So we are taking all the necessary actions and pre-emptive actions that are important to ensure that we perform better on all the three parameters vis-à-vis our competitors or peer group. That is the endeavor.

Suryakant B: This NTPC order has any kind of advances, how much advances you received from this NTPC?

A.K. Bishnoi: In NTPC normally, there are advances. For a part of the order you have 15%, part of it you have 10%.

Suryakant B: 10-15% basically.

A.K. Bishnoi: Yes.

Suryakant B: You have this OPM this quarter is like 11.5% which is good, but looking at the breakup of cost, all the costs have actually gone down on a YoY basis but your contract cost has gone up significantly. It is like Rs. 275 crore which is like 61% of the top-line. It is probably highest in last many quarters. Why the contract cost is very high, are we giving a lot of subcontracting or something like that?

Amul Gabrani: No, let me clarify this. In our business model there are two kinds of contracts, one is where the supply, design, engineering supply, construction, erection, commissioning is included. Second is that mainly it is design engineering and supply. So wherever the erection, commissioning,

civil construction is included are treated as 'Contracts' in the balance sheet and all the costs attributed to these projects are treated as 'Contract Cost'. All the costs which are there are normal costs which are treated vis-à-vis those contracts where it is only design and supply. Now our model has changed from the smaller jobs of design and supply to larger full contract including civil construction, erection and commissioning, so that is why it is showing more. It is not subcontracting; it is that there are two kinds of jobs which we are executing. The largest jobs are more now, so our contract revenue based on 'Accounting Standard 7' is also increasing and contract cost is also increasing.

Suryakant B: For the full year the tax rate will be the same range, around 27% or so?

Amul Gabrani: 33%, full tax rate.

Moderator: Thank you. The next question is from the line of Amber Singhania from Quant Capital. Please go ahead.

Amber Singhania: I have a couple of questions; just to carry forward from the balance sheet concern, like we have debtors of around Rs. 1430 crore. If you can just give us top three debtors, clients as such and what is the quantity they have?

Amul Gabrani: I think we will have to actually go back to those detailed numbers but we can separately give it to you if you require. Just give the details to Mr. Varun and we will organize to send these numbers to you separately.

Amber Singhania: Secondly, as you were mentioning that in the second half, you generally see more traction coming from the debtors' collection. But if I see the March quarter number, at that time also we had a sufficiently higher number of debtors at around Rs. 1400 crore. Now also we are having Rs. 1440 crore. So what will enable us to reduce it substantially going forward and where exactly is the mismatch happening as such?

Amul Gabrani: No, why it happens in the second half is because of our collection improved but simultaneously our billing also increases. Like if you see in last year first half our billing was only Rs. 550 crore and in second half we had done almost about Rs. 1400 crore. And here also, first half we have done about Rs.800 crore and we are hoping that we will do around Rs. 1900-2000 crore in the second half. So although we are hoping that our collections will improve but our revenues will also improve simultaneously, so that is why the debtor position at the end of the year is also high.

Amber Singhania: But in that case how comfortable the management is to compromise on the balance sheet health to achieve the higher top line in EBITDA growth?

Amul Gabrani: No, till the time I think if all the parameters are going in the right proportion, we believe that yes, we should look at growth as one of the parameters. The moment let us say our debtors grow, end of the year at a higher pace than the revenues then definitely we have to look into it. We are hoping that by the year-end the growth levels and the revenues and in the debtors will be in the right proportion.

A.K. Bishnoi: The other thing is that the debtor level itself does not really signify the financial health of the company. When we are talking of financial health I am sure you will agree that there are also other parameters including the debt-equity ratio and others which really signify the health. Debtors will obviously grow in proportion to the sales which are achieved. Till the time the debtors are getting collected and they are getting changed in a sense the old debtors are getting collected and new debtors are being added which is part of the business cycle I think there is no real need of any concern.

Amber Singhania: Why I am asking this question is because if I see March ending debtor of around Rs. 1400-odd crore, even if I remove Rs. 500 crore of retention money that was around Rs. 900 crore and still we are having Rs. 533 crore of debtors which are more than six months. So, in that way, we have not even collected around 50% of the debtors which were lying there in the March ending in the books. So I was just trying to get your sense on the same.

A.K. Bishnoi: There we have already explained to you that there are some jobs which are back-ended which are related to certain milestones being achieved which will happen in the second half of the year. So, there I think what you have to see is you have to see the trend in the industry, you have to see how the industry moves. You have to also see the various other players in the industry which will give you a fair idea as to how the debts move and how the second half always is a period where collection takes place. I think when we discuss in March'12 we will have much clearer view on this because now, we are in the mid of the financial year.

Amul Gabrani: I will give you an example. Last year same time the debtors were around Rs. 900 crore and although we had billed about Rs. 1400 crore in the last half, our debtors increase was only Rs. 500 crore. This is one business where I think end of the year will be more related to the right results. There are certain parameters which in the middle of the year might be a little skewed in terms of perception.

Amber Singhania: So in that way at what level of working capital in days you are comfortable with and by when you are targeting to achieve that?

Amul Gabrani: We are hoping that whatever the working capital right now which is I think about 200 days or so. If we can maintain around those numbers by the year-end we will be fairly comfortable. Whatever is available right now we will have to just check out the number of days. So if we can maintain around that I think that should be fairly comfortable for us as of now.

Amber Singhania: Secondly, I wanted to get some sense about Ambika which we have acquired. Could you just give us some sense about the size of the company and what kind of order book it had when we acquired, what is the outlook for the same?

A.K. Bishnoi: When we acquired Ambika, it had an order book of about Rs. 20-odd crore and it was about the Rs. 10-odd crore company. But after we have acquired it we have already submitted our bids to various of our existing clients

where Tecpro is already established as a Coal Handling or as Ash Handling player and we are expecting a few orders from such clients in the coming few months.

Amul Gabrani: Like we had explained earlier also, the Ambika acquisition is primarily creating a platform of our entering into that particular sector. And there are very few companies with similar kind of experience and prequalification so the reason was that we expect that in due course we will be able to scale it up to a fairly large level. This was the basis for acquiring Ambika, because they had some good quality manpower and some good quality people.

Amber Singhania: In terms of EBITDA margin, like last year fourth quarter we had substantially high EBITDA margin of around 21%. So where do you see on a full year basis EBITDA margin in this year and next year?

Amul Gabrani: We are expecting that all our margins will be fairly consistent because like I had mentioned in my initiating notes also that we monitor the company on PBT and PAT margins because interest for us is a cost and as of now we are hoping that we will be able to maintain whatever we have been achieving earlier which is closer to 6.75 to 7% PAT level and that we are hoping that we will be able to maintain in this financial year.

Amber Singhania: My last question is pertaining to the macro environment. As you mentioned in the opening remarks most of the order book is coming from the Power sector and because of the issues of coal as well as the increase in cost of projects how do you see the projects moving in? How much is the slowdown in the pace of the orders?

A.K. Bishnoi: If you notice the orders which we have booked this year the largest order from BHEL is not from the Power sector but is actually from the steel plant which NMDC is going to put up. Also in the first quarter the order which we have booked was again from the same steel plant which we have booked through Tata projects. So currently if you see out of Rs. 1300 crore we have also booked the UltraTech job of around Rs. 80 crore and we have booked one Ash Handling job from Lanco. So our mix so far in the six months would be about 50% from the Steel sector out of Rs. 1300 crore and 50% from the Cement and from the Power sector. We are L1 in NTPC which we have explained in the earlier answers. The balance of plant will obviously be from Power but we also have other jobs in the pipeline which are from the Cement sector especially the Waste Heat Recovery segment. We also have some jobs in the Steel sector, part of it is also for NMDC steel plant which is being set up. So we have a mix between Power, Steel and Cement. It will be difficult to really put in percentages, but it will be a mix of all the three factors.

Amber Singhania: I understand sir. On the order book front we are fairly diversified now. What I am asking more about is on an execution side, where do you see the slowdown and at what rate it is happening? And more from an industry perspective, not on the company per se. How you are seeing the industry in terms of the worst phase. Has it already passed or how the things are happening there?

A.K. Bishnoi: On the execution side I will start with the company. For all the jobs which we have on hand including the Korba BoP and the APGENCO BoP, these are jobs where all clearances including coal linkage, financial closure including release of BTG package to BHEL have all been done much before the Balance of Plant orders were awarded. So per se there is no slowdown. Work is progressing. The clients want us to finish the work. The clients are paying as per the agreement so there is no real slowdown. The same thing applies to the NTPC earlier jobs which were ordered at Nabinagar or Pakri. We have also completed Korba recently for NTPC. There is no real slowdown, all the jobs are going ahead. Now regarding the scenario in the country, all of us share the concern which is there for all of us to see but we as a company believe that this is a passing phase and obviously power is important, infrastructure growth is important, and if the country has to achieve the GDP growth which we are targeting there has to be investment in these sectors and we feel that once these investments happen things will definitely improve than what scale they are today.

Amber Singhania: Fine sir. That's all from my side. Thank you.

Moderator: Our next question is from the line of Ranjith Sivaraman from B&K Securities. Please go ahead.

Ranjith Sivaraman As a continuation of the previous question you had mentioned that your debtor days will come down because of some milestone payment achievement and completion. So in that context as per our understanding once you achieve certain milestones only we generally book the revenues, so is it because we have already booked the revenue before the milestone achievement that the debtors are hike, if I understand it correct or can you correct me sir if I am wrong?

Amul Gabrani: See the revenue what is achieved is based on the percentage completion. As far as milestone is concerned it is primarily for the payment term. As per Accounting Standards 7 of the ICAI we have to book revenues based on the percentage cost completion whereas the payment is related to the contractual payment terms which are of different milestones.

Ranjith Sivaraman Okay, you mean to say that there is a difference in the percentage completion and the percentage as per the payment contract?

Amul Gabrani: I am giving you a theoretical example. Let me say that we have done about 30% of completion based on the cost completion; milestone says that the payment will be released only after a certain portion of the specific job is done. So the completion can be of a different area and payment terms may be different. So that is the difference between the two things.

Ranjith Sivaraman So that means that we would be necessarily booking some revenues for which we have achieved completion. For example, take a Rs. 100 crore project so if the revenue booking as per the payment is 30%, you book Rs. 30 crore of revenue and as per your payment terms this Rs. 30 crore won't be accruing in and this 30 crore will be in the debtors. So is it correct that this 30 crore which has been booked in the revenue comes into the debtors

directly because your payment completion is different from percentage completion?

A. K. Bishnoi: If you talk of a balance of plant project, these are complex projects where you have a combination of civil, structural, mechanical, electrical and electronics jobs. Now what Mr. Gabrani was saying was that the Accounting Standard 7 it provides that you must book your cost and your revenues based on the completion of project method. So which means if your total project revenue Let say is Rs. 100 crore and if your cost is Rs. 80 crore for the whole project which you have declared and if you have done Rs. 16 crore worth of work so you must book 20% of your cost and 20% of your revenue which is what the Accounting Standard 7 provides. Now in a complex projects where you have civil, you have structural, you have mechanical your payment terms with the clients could mean that you will get paid for completion, let's say of a building you complete the MCC room you get paid Rs. 5 crore. Now this is a theoretical situation so MCC room would obviously mean completion of the civil work, partially and also partially putting in inside equipment and then only you get paid so that will then depend on a milestone payment. So this is the difference, accounting in the books of revenue is as per AS-7 Whereas your payments are based on what are the payment billing schedules which you sign with the end client which will never be in relation to your cost. Because your costs have to be incurred and you have to complete the jobs in a certain given period of time otherwise you have contract related issue. You have to maintain the project execution and complete the job and your realizations could be on a separate plane altogether.

Ranjith Sivaraman So that means we are at a disadvantage in terms of working capital interest whatever for the amount which we have already booked?

A. K. Bishnoi: Yes it's not only Tecpro but it is all companies who operate in this sector.

Moderator: Our next question is from the line of Kamlesh Kotak from Asian Markets. Please go ahead.

Kamlesh Kotak: Hello, sir just wanted to understand the sharp diversions in the competitive scenario. How you see the margins panning out on the long term basis and why there is such a peak kind of difference between us and the peer group in terms of margins and also order intake. And the second thing do you see going from here to FY13 the projects are seriously being held back because of the kind of fuel and other related issues?

A. K. Bishnoi: Yes. We will start with the margins first. When we talk of margins you are aware that this year what we are executing is primarily what we had booked last year. But we started the financial year '11-'12 with very healthy order backlog. Now this year also what we have booked so far we have mentioned this earlier in answer to one of the queries is that we are still booking jobs at the overall profit and overall margins which we have been maintaining in our execution process. Now coming to what will happen in the coming scenario I think we have discussed this but I would like to again repeat that for us as a company because we don't depend on only one segment we have a very diversified portfolio in the sense that we cater to the cement industry, steel industry, power industry and we also offer ash

handling, material handling, captive power plant, waste heat recovery, and we also offer balance of plant. Hence we are not as much affected as some of the companies who may be doing only one portion of the work. So obviously I am sure you will appreciate that we in Tecpro can speak only about Tecpro so as the company we have we started the financial year with very healthy backlog of orders and have so far booked orders which are very good. They are some of the prime orders which have been decided in the country including the NMDC Steel Plant and the Pakri Coal Handling Plant which we have booked from NTPC and we are also L1 in some of the jobs and we believe that whatever we are mentioning in terms of growth in the order book we will be able to achieve it.

Kamlesh Kotak: All right thank you.

Moderator: Our next question is from the line of Chinmay G from Asit C Mehta Investments. Please go ahead.

Chinmay G: You mentioned that interest bearing advances has increased. Why is it so, I mean the change in client mix or have clients started asking for interest on the advances?

A. K. Bishnoi: It is not the change in the client mix. It is as you are aware earlier Tecpro was doing smaller jobs. We were doing mainly the supply contracts and the design contracts and now in the last couple of years Tecpro has moved into the larger balance of plant jobs, Tecpro has also moved into the larger contracts where we are doing a turnkey projects where civil erection everything as part of our scope. Some of these contracts are from the Government of India and the commercial terms there provides for interest bearing advance and as you are aware in all these large government contracts the commercial terms is something which is fixed. One can't really negotiate on that. So since we have moved from the smaller projects to these large projects where we are taking advance against interest obviously there is a change in the figures.

Chinmay G: And for FY11 what was the amount as a part of interest?

A. K. Bishnoi: Are you asking is what were the interest figures for advances which we have drawn from the customer.

Chinmay G: Yes.

Kulbhushan Arora: So that figure you have to derive and this time it is Rs. 13 crore for six months so earlier it was about Rs. 10-11 crore for entire year.

Amul Gabrani: It was about Rs. 10 to 11 crore for entire year last year.

Chinmay G Okay, Rs. 10 to 11 crore sir and your other current assets has increased and your loans and advances has also increased as part of current assets?

Kulbushan Arora: Yes, because of some big size order we have released certain advances so there is increase in advances to certain suppliers which are specific to

certain projects. So there is an increase in the advances to creditors particularly.

Amul Gabrani: In all of our balance of plant jobs we have got consortium associates and partners and we have given them advance vis-à-vis the contract we have.

Chinmay G: But the proportion is on the higher side I mean?

Amul Gabrani: Yeah, because we are now doing larger BoP jobs.

Kulbushan Arora: And for this waste heat recovery as well as for the EPC contract for the power sector we have released advances and in that case we are supplying BTG portion also so we have released some advances to BTG suppliers.

Chinmay G: So this run rate would be maintained?

A. K. Bishnoi: Basically it will depend on the type of contract we book like what Mr. Arora is saying is that we are executing a job for Kohinoor where we have to order the BTG from BHEL so obviously we have got the advance from the client and we have released some of the advance to BHEL. And what Mr. Gabrani was saying is that we have got consortium jobs where we get advances and we in turn release the advances.

Chinmay G: Okay sir and on a broader scale like assuming 1 lakh capacity addition in the 12th plan and broadly as per few industry sources there are almost like 90,000 odd BTG order have been placed what is the scenario relating to BoP or the coal handling, and ash handling plant. How many project orders have been placed, I mean if you can give some ballpark figure and what are the kind of any opportunities still there to be grabbed?

A. K. Bishnoi: See if you talk of coal handling and ash handling the biggest user is obviously NTPC. We just discussed sometime back in answer to one of the queries that for the 660 series they have already tendered the coal handling and the ash handling where the prices have been opened. Most of the bids to the best of our knowledge have been tendered. The 800 series are yet to be tendered by NTPC. So if we talk for the next financial year we can definitely as a coal handling and ash handling player expect NTPC to order out the 800 series. In addition to that you also have the state electricity boards which are looking at augmenting their capacities and if you just see what various state electricity boards are talking about there is good enough business in the segment of power which will include balance of plant because most of the state electricity boards will not order on the package basis but would order on the balance of plant and the BTG route. So as a company, Tecpro would have the coal handling and the ash handling orders from players like NTPC and some of the private players like Lanco, etc., and we would also have the balance of plant business from the electricity boards.

Chinmay G: Sir and regarding the private players how many of them have placed their BTG but they have not placed their BOP order or coal handling order. Do you have some ballpark figures?

A. K. Bishnoi: No in the government sector, all the electricity boards which have released the BTG have more or less released the balance of plant of the packages. Some of them are now finalizing the BTG packages which are under finalization.

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

Nidhi Agarwal: Yes, sir congratulations on a good set of number. My first question, is there a sharp increase in inventory in the last two quarters around Rs. 39 crore last quarter around Rs. 34 crore this quarter. Sir where you sort of building up inventory or is there some change with the business?

Amul Gabrani: Yes, I think it generally happens this way because you will appreciate that our major revenues come in the last quarter. And we have to consistently build our inventories otherwise our capacities will not be able to fulfill our demand of the last quarter. So that is why we think it is a natural progression wherein we keep on building our inventories for in the earlier year quarters so that we can supply in the last quarter.

Nidhi Agarwal: Yes, but you can see the metal prices that have been high in the last two quarters and now we are seeing some downturn so is it like that we will be having a higher cost inventory and after that hike cost inventories would be possible?

Amul Gabrani: The inventory valuation is done at the current market price only.

Kulbhushan Arora: It is valued either at cost or market price whichever is lower.

Amul Gabrani: But overall impact on the margins will not be very high because in any case if we don't keep our inventory ready then probably tomorrow the liquidity damages are imposed it would be a much bigger impact on the P&L. So the impact because of increase in certain metal prices will not be very high. This is already considered when we are bidding for our project we keep certain cushions like I had mentioned earlier on.

Nidhi Agarwal: Okay and sir what is the bank charges this quarter?

Kulbhushan Arora: Bank charges about Rs. 14 crore in this quarter.

Nidhi Agarwal: Okay and can you give the mix between MHE and BoP in terms of revenue this quarter?

Amul Gabrani: That I think we will segregate and let you know because normally BoP we treat it as part of material handling. Segmentation point of view we treat both of them in the same segment. So I think I can give you separately on that. We will get to Varun and he will definitely forward it to you.

Nidhi Agarwal: Okay and then there was a news in the last week that you are looking for partnership in BTG space?

Amul Gabrani: I think no, we have clarified what we meant was we are doing EPC projects and since we are doing EPC projects so we need tie ups with BTG players that is only the intention. We don't really look at going in for any manufacturing for BTG. That is not our intention at all.

Nidhi Agarwal: Okay so this is basically saying that we are looking for someone more, than just turnkey kind of partner?

A. K. Bishnoi: No, it is basically once you are executing the EPC you have to have relationships and associations with the BTG player that is what was mentioned that is what Mr. Gabrani is saying but we have clarified this earlier also that as a company we are not looking at per se getting into manufacturing of BTG. So that's what we are saying.

Amul Gabrani: If you see that article it is written very clearly that this association is only for the purpose of EPC contract.

A.K. Bishnoi: We have earlier also mentioned and now also we are mentioning that we are definitely looking at associations and partners. Like we are quoting for the balance of plant we obviously have our consortium where we have partners who support us for various important items like cooling towers, water systems and in the same way when we are doing EPC we have associations with BTG manufacturers.

Nidhi Agarwal: I think it basically means that you will have dedicated BTG supplier instead of deciding on project to project basis?

A. K. Bishnoi: Yes we would like to have an association.

Nidhi Agarwal: Okay and sir last thing is that somebody asked as well if you can give the progress on different major projects, Chhattisgarh & APGENCO?

A. K. Bishnoi: Yes Chhattisgarh is on schedule we have time up to June '12 and we will be able to complete it by that. APGENCO both the jobs are still very in the initial stages because I mentioned earlier we got the advances only in the month of March and it's just about 7 months or 8 months that we are into execution. They are progressing well, most of the drawings have been approved and the supplies of steel have been done. The civil work has been taken up, survey, etc., all have been done and the both the projects are progressing as per the plan.

Nidhi Agarwal: If you can also give me how much revenue is booked in this quarter as well as overall?

A. K. Bishnoi: I think that we mentioned when someone else also had asked that question and we said we will work that out and we will give.

Moderator: Our next question is from the line of Mr. John from Asian Market Securities. Please go ahead.

John: Good afternoon sir. Sir I see that there has been an increase in the fixed assets by around Rs. 57 crore during the first half. May I know where we incurred this kind of capex?

K.B. Arora: Rs. 57 crore in first half is the capital work-in-progress that we have initiated in this current year. We have developed a design center in Gurgaon as well as a corporate office. Apart from that we have acquired a design center at Calcutta. So these are two major investments apart from the regular much investments in the plant and machinery at factory.

John: Okay and these design centers would cost how much when they are fully completed?

K.B. Arora: The Design center at Calcutta we have acquired at a cost of about Rs. 36 crore and additional cost on interiors will be incurred in the next 3 to 4 months and for Design center in Gurgaon there is an additional cost of about Rs. 25 crore as of now.

Moderator: Our next question is from the line of Madan Gopal from Sundaram. Please go ahead.

Madan Gopal: A follow up question on the interest that we are paying on the advances. Which are these PSUs who are asking for interest on advances?

A. K. Bishnoi: These are mainly on the Balance of Plant. APGENCO and Chhattisgarh are the main. And I think it is also MECON, NTPC projects.

Madan Gopal: NTPC is now asking for interest on their advances?

A. K. Bishnoi: In one or two jobs not all of them, it depends you know they have different commercial terms for different projects. It is mainly the Korba and the AP GENCO projects where these advances are coming.

Madan Gopal So for the new supercritical projects for which the tender has been opened, the CHP tenders, are you paying interest on advance?

A. K. Bishnoi: As I mentioned it just depends. NTPC is executing jobs under various companies they have joint venture companies with the railways. For example, for Nabinagar they have also joint venture companies with one or two of the States. So we would have to look at each and every tender to answer this question. It will vary, it won't be a standard thing.

Madan Gopal: Okay but because your interest cost as a percentage of average loan in the first half is around 16%. Is this one of the reasons that it is a high because of this interest that we are paying on the advance?

Amul Gabrani: No, we have considered this as part of our cost when we were estimating for the project.

Madan Gopal: Okay this interest where do you show it in your account?

Amul Gabrani: The part of the interest cost which is Rs. 73 crore in first half includes this.

Madan Gopal: How much is it?

Amul Gabrani: It is Rs. 13 crore.

Moderator: Our last question is from the line of Ravindranath Naik from SBI Caps. Please go ahead.

Ravindranath: What is the percentage of debtors you have from subcontractors which are not directly got from the customer? For example, you have got a project from MECON which is executing projects for NTPC.

A.K. Bishnoi: Most of our debtors would be from the direct client because most of our jobs are with the end customer. We will have only one or two examples, like we will have BHEL where we are doing a job for BHEL and the end customer could be either NMDC or somebody else. We will have one MECON where we are doing for Neyveli. But if you see the majority of the sundry debtors would be against direct billing against Chhattisgarh against APGENCO against NTPC jobs so that percentage will be very, less.

Ravindranath: Sir and regarding this contract cost that you have mentioned it has gone up substantially in this quarter as a percentage of sales. You mentioned that it is due to the business mix change or the type of work you are doing due to that the changes that have happened. So should we expect it will be higher in this year as compared to last year?

Amul Gabrani: No contract cost is up in relation to contract revenue. It is only treatment of the cost which is there, Cost in any case is there, so we have treated it as a contract cost, we have written it as part of those contracts, which are being treated as Accounting Standards 7 contracts.

K.B. Arora: Our proportion of AS-7 contract is increasing in our total revenue proportion that's why contract cost is also higher.

A.K. Bishnoi: But what you are saying that you can expect it to increase I think is correct because now the company is taking more of AS-7 contracts and as we just explained that these are contracts which are classified under AS-7 and where our scope of work is total, these are turnkey jobs. So since the company is now taking larger contracts from NTPC and Balance of Plant, it can be said that yes the jobs which are being executed under AS7 will definitely go up.

K.B. Arora: If you take a look at the last year our contractual earnings based on the contract cost to about Rs. 270 crore, this time it is Rs. 580 crore.

Amul Gabrani: See last year our revenues was Rs. 270 crore from contract revenues against contract cost, and this year it is about Rs. 580 crore.

Ravindranath: Okay sir regarding this employee cost it has gone down on a Q-on-Q basis any reason for that? Rs. 28 crore in the Q1 to Rs. 27 crore in Q2? Your turnover is growing but the employee cost is remaining same.

Amul Gabrani: See we give some performance bonuses which were given in the first quarter but not in the second quarter so that probably is the difference. Otherwise it's a fixed cost.

Ravindranath: Okay because we have we are going to book some revenue in the second half so you mean to say that this employee cost will remain at this normal level of around Rs. 27 or Rs. 28 crore every quarter?

A. K. Bishnoi: That is mainly because of the performance bonus which is coming in the first quarter that is why there is a difference.

Ravindranath: Okay so you could manage the employee cost in the range of Rs. 100-120 crore for this year?

K.B. Arora: Most of the overheads would be in the same proportions as are the existing proportions.

Moderator: At this time I would like to request the management to add a few closing comments.

A.K. Bishnoi: Yes we would like to thank all of you for your presence and for your questions and also for your interest in the company. We would like to mention to conclude that in spite of the environment as it exists today, considering the business prospects which the company has and also considering the various products which the company offers we are fairly confident that we will achieve what we have said and we look forward to your joining us again at the end of the December quarter.

Amul Gabrani: I would like to thank everybody and hope that your valuable support is available to us on a continued basis.

A.K. Bishnoi: Thank you very much on behalf of Tecpro Systems.

Moderator: With that we conclude this conference. Thank you for joining us. You may now disconnect your lines.