



Tecpro Systems Limited

Q2 & H1FY13 Earnings Conference Call

November 12, 2012

Moderator

Ladies and gentlemen, good day and welcome to the Tecpro Systems Limited's Q2 & H1FY13 Earnings Conference Call. As a reminder, all participants' 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. Should you need assistance during this conference call, please signal an operator by pressing "*" and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference to Mr. Varun Divadkar of CDR India. Thank you and over to you sir.

Varun Divadkar

Thanks, Inba. Thank you for joining us on the Q2 & H1FY2013 earnings conference call of Tecpro Systems Limited. 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. Kulbhushan Arora, Chief Financial Officer, and Mr. Pankaj Tandon, General Manager (Corporate Affairs) & the Company Secretary.

We will start this conference call with opening remarks from the management, after which we will have the floor open for interactive question-and-answer session.

Before we begin, I would like to point out that 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 which was sent to you earlier. I will now hand over the call to Mr. Bishnoi to make his opening remarks.

A.K. Bishnoi

A very warm welcome to everyone present and I thank all of you for joining us today to discuss the operating and financial performance of our company for the second quarter and half year ended 30th September 2012. 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.

We have seen a good pickup in order inflows in the first half of the year, having booked orders worth Rs. 1,409 crore, taking the total order book position to Rs. 4,430 crore as on 30th September 2012. Post Q2, the company has booked further orders worth Rs. 210 crore and the total order book position as on date (November 12, 2012) is Rs. 4,640 crore. We have booked orders across all our business segments with the major thrust coming from the Coal and Ash Handling segment where we continue to be one of the leading companies in the country.

Some of the orders secured in the second quarter include the Ash Handling Package worth Rs. 162 crore for the Meja Thermal Power Project from NTPC and an order worth Rs. 80.7 crore from BHEL for the supply of Coal Handling package. We also secured an international order worth Rs. 209 crore from Bukit Asam of Indonesia. This is our second major international order won this year after the order from Hyundai, which we had booked in Q1 FY13.

We are further pleased to see an uptick in activity in the BoP segment, where we have recently booked our second order this year. As mentioned, this order was booked in October, which is from the Rajasthan Rajya Vidyut Nigam Limited worth Rs. 198 crore, where the scope includes the supply of all equipments and materials on EPC turnkey basis for the 160 MW Gas-Based Combined Cycle Power Project, which is coming up at Jaisalmer in Rajasthan. With a slew of economic initiatives recently announced by the government, we remain upbeat of revival in this segment in the coming quarters and will continue to explore further opportunities in this space.

We are hopeful of strengthening our order book position further going into the second half given the strong order pipeline with large number of live enquiries present in practically all our service offerings. I would also like to share with all of you that currently, we are placed L1 in about Rs. 650-700 crore, and we expect these orders to come in shortly.

As far as the Balance of Plant (BoP) segment is concerned, we have already submitted a major bid for which the BTG package has already been awarded and the financial closure has been achieved. We are optimistic that this BoP package should get finalized in the coming months. In the Coal segment, we expect to receive our share of business from NTPC for their new 800 MW series as well as some business from BHEL. I may mention that we have enquiries from NTPC for the Coal Handling segment in our hands. We also have enquiries from NMDC for some of their material handling requirements for their Jagdalpur Steel Plant and continue to have good enquiries from the cement sector for both Waste Heat Recovery and for Limestone Handling. Like Coal Handling, we are also expecting some Ash Handling orders from NTPC and BHEL since there is an activity in both these areas and they will be ordering both Coal and Ash. Additionally, after successfully demonstrating our capabilities in the cement sector, we are definitely optimistic to receive business from the steel sector as well for our Waste Heat Recovery system. I may mention that we already had our first success in the Waste Heat Recovery segment in the steel sector by booking an order from Steel Authority of India Limited. We are also looking at some reasonable business in the water and solar EPC businesses through our recent acquisitions in these spaces. Besides that, we will also look at booking some more orders in the international arena where we are aggressively marketing our Coal Handling and Ash Handling Systems with reasonable success. All these enquiries make us confident of expanding our order portfolio further and ending the year on a strong note.

To conclude, I would like to mention that we are well poised to deliver our expectations of 25-30% growth for FY2013 given our well-entrenched order book position coupled with a strong order pipeline. Operationally, all projects continue to run smoothly, which is a testimony to our superior design, engineering and project management capabilities. We continue to lay strong emphasis on improving our cash conversion cycle through timely execution of our current

projects and better negotiation of payment terms with our clients. Our distinctive business model with presence across the value chain makes us confident of consolidating and growing despite the uncertain times wherein interest rates continue to remain high and inflationary pressures still persist. We believe such challenges are generic to all players within the sector, but given the quality of our operations and hands on operating style, we are best placed to post a superior performance under diverse circumstances.

Now, I would like to hand over to Mr. Gabrani to take you through the financial highlights. Thank you.

Amul Gabrani

Thank you, Mr. Bishnoi. The first half of the year has been a promising one for us. We have witnessed good traction in order inflows; we have booked orders to the tune of Rs. 1,409 crore in the first half compared to a relatively softer H1FY12 where we only managed to book orders worth Rs. 837 crore. We have also booked some orders post September 2012 taking our total order book position till date to Rs. 4,640 crore. Our performance in the first half has been strong with our top line growing 43.2% and bottom line growing 39.7% on a year-on-year basis.

I shall now provide you with an overview of our company's financial performance for the half year ended 30th September 2012. I would like you to note that it is best to monitor the business on an annual basis since majority of the revenues are recognized in the fourth quarter given the nature of the business and the accounting practices they are in. For H1FY2013, our revenues stood at Rs. 1,149.26 crore, representing a growth of 43.2% as compared to Rs. 802.53 crore during the corresponding period last year. Material Handling contributed to 62.9% of revenues; BoP contributed 29.6%; and Ash Handling contributed 7.5% of the total revenues. Total expenditure of H1FY2013 amounted to Rs. 990.84 crore compared to Rs. 700.44 crore in H1FY12, implying an increase of 41.4%. EBITDA for H1FY2013 was at Rs. 155 crore, higher by 55.9% as against Rs. 99.5 crore for the same period last year. Our operating margins expanded 110 basis points to 13.5% driven by operational efficiencies and favorable revenue mix. Depreciation for H1FY2013 increased to Rs. 9.07 crore as compared to Rs. 5.69 crore in H1FY12. Finance charges for H1FY2013 was higher by 57.35% amounting to Rs. 138.34 crore compared to Rs. 87.92 crore for the same period last year on account of high interest rates prevailing at the moment which resulted in interest expenses increasing 60.2% to Rs. 117.1 crores in H1FY2013 as compared to Rs. 73.1 crore in H1FY2012. Tax expenses for the half year ended 30th September 2012 stood at Rs. 9.37 crore compared to Rs. 6.71 crore in the corresponding period last year. Consequently, PAT for H1FY13 stood at Rs. 19.5 crore, up 39.66% as compared to Rs. 13.96 crore recorded during H1FY2012. Profitability will increase in proportion to the revenues going into the second half of the year as expenditures and lower rate gets amortized over larger revenues.

Our Q2FY13 revenue stood at Rs. 591.1 crore as compared to Rs. 453.34 crore during Q2FY12, which is a 30.4% increase over last year's figure. EBITDA stood at Rs. 84.92 crore compared to Rs. 55.73 crore last year which is an increase of 52.4%. PAT for the three months ending September 30th 2012 stood at Rs. 12.47 crore, up 45.3% as compared to Rs. 8.58 crore during the corresponding period last year. Our total debt as on September 30th 2012 stands at Rs. 1,802 crore, which mainly comprises of working capital debt of Rs. 1,677 crore. We

continue with our strong thrust on improving collections and reducing the working capital provisions.

As mentioned in the previous conference call, we have been successful in negotiating better payment terms with some of the new clients against Letter of Credit which will enable us receive time bound payments. We have already received LCs from customers like Lanco for their Koradi thermal project; from Punj Lloyd for Haldia; from GVK Power and from NTPC for Pakri project and in addition to that both the international jobs booked from Hyundai Rotem and from Bukit Asam would be covered under Letter of Credit which would help to book part realization in this fiscal itself. Further, we will also look to recover some retention money on completion of execution of some large projects and the strong order inflow expected in the second half of the year will result in increased advances.

We will continue to be prudent in these volatile times with our focus on sustainable and profitable growth whilst managing our cash flows. Even though the sector faces some headwinds in the near-term with spiraling inflation and high interest rates, the medium to long term prospects are promising and Tecpro Systems will be at the forefront to capitalize on the opportunities once the business environment turns more favorable.

At this point, I would like to thank everyone once again for your participation and request the moderator to open this call for questions. Thank you.

- Moderator** Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from Mr. Nirav Vasa of SBI Cap Securities. Please go ahead.
- Nirav Vasa** My first question pertains to the retention money which is pending with the clients. Can you quantify that please?
- Amul Gabrani** About Rs. 850 crore.
- Nirav Vasa** And out of this Rs. 850 crore, what would be the retention money of two BoP projects of APGENCO that is Rayalaseema and Kakatiya?
- Amul Gabrani** I think we will have to calculate the break up and then you can separately get it from us.
- Nirav Vasa** Sir just wanted to understand, how much retention money are we expecting to be released from the client in the second half of this fiscal year?
- A.K. Bishnoi** In the second half, we are looking at release of at least two major job retentions where we have already done work and where the performance guarantee tests are on. However, it is difficult to quantify how it goes, as you know, release of retention is linked with many other things which are not really in Tecpro's control, but what I can mention at this stage is that we are looking to close two projects, which are fairly large value projects and if everything goes well, we should be able to collect those two retentions.
- Nirav Vasa** Sir, can you quantify that please?

A.K. Bishnoi Amount would be in the region of about Rs. 25-30 crore.

Nirav Vasa My last question pertains to the two projects of Rayalaseema and Kakatiya. Can you tell me how much of these projects are complete in percentage terms?

A.K. Bishnoi With regard to Kakatiya, I am sure you will agree that with these large projects, it is very difficult to quantify specific percentages because they include civil structure, mechanical and electrical work. What I can mention is that the key civil work including the TG deck casting which is a major civil work for the project has been done. The project is on core and whenever we are having the periodical meetings with APGENCO we are very much on schedule in Kakatiya and it is going much faster. As far as Rayalaseema is concerned, the civil work is going well, but as compared to Kakatiya this was a late starter for reasons not within control of Tecpro, but it has picked up very well and here again the progress is very good and we are on schedule.

Moderator Thank you very much. Our next question is from Chinmay Gandre of KR Choksey. Please go ahead.

Chinmay Gandre Are we revising our sales guidance upward to 25-30% from 20% as you mentioned earlier?

A.K. Bishnoi I think we had mentioned 20-25%. We are still saying 25-30%. The point here is that we had a very successful H1 as you have seen. Also, Mr. Gabrani has mentioned that we have a good order backlog in hand and in our business, you are aware that we have certain commitments on deliveries which we have to keep. So considering all that, I would imagine that somewhere around 25-30% looks doable.

Chinmay Gandre And what would be your total debtors outstanding?

A.K. Bishnoi I think today it is Rs. 2,385.7 crore.

Chinmay Gandre Sir actually your gross debt was roughly Rs. 1,600 crore as of Q1 FY13 and now you have mentioned roughly Rs. 1,800 crore. Debtors are roughly stable at Rs. 2,387 crore versus Rs. 2300 crore. So, the debt has increased at a higher rate. Could you elaborate on that?

Amul Gabrani What has happened here is, if you see our revenues have increased and lot of investments were made in the projects where we are yet to collect money. Please appreciate that we have to complete the projects in time, otherwise the implications on project executions come into enforcement. They can invoke those conditions. So to avoid this, we keep on investing in the project, some of it is being supported by debt, but overall collections have improved over last year undoubtedly by about 25-30%.

Chinmay Gandre And what would be your target debt as of FY13 considering about 25% top line guidance and execution in mind with whatever payments that are due which are expected to come up. So, at large what kind of target debt are you looking at as of FY13?

Amul Gabrani It's very difficult to quantify target debt because we are yet to execute a large part of our revenues in the coming months, but we have got a good number of orders where we can collect on the basis of the Letter of Credit. Hence, we are hoping that our debt will not grow by the year end; it should remain at this level or below this level.

Chinmay Gandre So you would be comfortable at about Rs. 1,800 crore kind of level of debt as of FY13?

Amul Gabrani No, it's not an issue of comfort, but it is dependent on various factors which include macroeconomic factors, the condition of the economy, the interest rate, all these factors and the conditions of our developers, our project owners, what is the kind of financial support they have which is very critical for all of us.

Chinmay Gandre And in this Rs. 73 crore interest cost, any bank charges are included or that will show in the other expenditure?

Amul Gabrani This is the total finance cost.

Chinmay Gandre Bank charges are included in this? Can you quantify this?

Amul Gabrani Yes it is included in this.

Chinmay Gandre How much would be the bank charges?

Amul Gabrani In H1 FY13, out of Rs. 138 crore, I just shared with you the bank charges which are about Rs. 21.24 crore.

Chinmay Gandre In H1 FY13, the margins have been quite good on the EBITDA front and previously you have mentioned that you would like to maintain these margins. So in the second half, can we see some pressure on the margins?

Amul Gabrani The margins are dependent on the revenue mix, which is very critical for a project and based on that revenue mix, we are hoping that our margins would grow at the rate we have projected.

Chinmay Gandre And one last question from my side, you indicated that you have bid for a Balance of Plant (BoP) order which is likely to come up in this quarter. So could you quantify that in terms of size and any further details on that project?

A.K. Bishnoi What I mentioned was that, there is a Balance of Plant (BoP) job which has all the clearances and the BTG package has already been awarded which is the first sign that the project will go ahead, but we are not only depending on that. If you see, we have already booked about Rs. 1,600 crore worth of orders till date. As I mentioned, we are L1 in about Rs. 650 to 700 crore orders. So if we take these two figures and if we just consider the L1 in this period, we have booked more orders than what we had booked in the entire last financial year. We had booked close to Rs. 2,200 crore in the last year. Currently, Rs. 1,600 crore plus Rs. 700 crore would give us about Rs. 2,300 crore and in addition we have very good enquiries from NTPC both for Coal and Ash Handling. We have very good enquiries from NMDC for their upcoming plant in Jagdalpur. We have very good enquiries from Ultratech, from ACC. So in addition, we are definitely

aggressively looking at booking a major BoP order. It will be difficult to give values at this stage because it is still in the finalization stage, but overall if you see it on the marketing front, I would imagine the company is performing as per expectations or as per the guidelines given earlier.

- Chinmay Gandre** Sir regarding the NTPC 800 MW series, what is the status? When are the projects likely to be tendered out?
- A.K. Bishnoi** They have already started tendering.
- Chinmay Gandre** So we have bid?
- A.K. Bishnoi** We have either bid or we are in the process of bidding. We have received the enquiry.
- Chinmay Gandre** And by when the tenders are likely to open?
- A.K. Bishnoi** It's difficult to give you the dates, but if you see NTPC's past record, normally they take anywhere between 90 days to 120 days to start finalizing depending on their specific requirement.
- Chinmay Gandre** So according to you by Q4?
- A.K. Bishnoi** Yes. We are expecting some jobs where we have already submitted our offers and some jobs where we are now submitting to get finalized by February-March 2013 because based on our past experience, there is a good amount of activity and lots of jobs are expected to get finalized in the financial year.
- Moderator** Thank you very much. Our next question is from Nirav Vasa of SBI Securities. Please go ahead.
- Nirav Vasa** Just wanted to understand on the shares that have been pledged by you. Can you share more details on that please?
- Amul Gabrani** The shares have been pledged with State Bank of India long back and we have now approached them from relieving it because when we had acquired Tecpro Ashtech, erstwhile Mahindra Ashtech, we have pledged these shares. Subsequently, this Company got merged in Tecpro Systems and majority of these shares are for this company only. We are hoping to get it relieved soon.
- A.K. Bishnoi** Yes, just to add to what Mr. Gabrani mentioned, SBI has already given us a written confirmation with regards to release of the Ashtech shares since Ashtech is now merged into the parent company and there is no real reason for them to hold it. So, it is just a matter of procedure and logistics. We have a letter from them officially stating that they are ready to release it.
- Nirav Vasa** Sir can we expect the shares to be back by the end of next quarter?
- A.K. Bishnoi** This again is matter of procedure and logistics, but yes it should happen.

Moderator Thank you. Our next question is from Amit Shah of Almondz Global. Please go ahead.

Amit Shah If you can just provide me with the bifurcation of the revenue mix, how much is from the MHE, how much is from the BoP and how much is from Ash Handling?

Amul Gabrani The total Material Handling contributed to about 62.9% of the revenue, BoP contributed 29.6% and Ash Handling about 7.5%.

Amit Shah What was the revenue mix in the same quarter last year?

Amul Gabrani I think we will have to get those figures. We will come back to you.

Amit Shah In the results, there has been a loss booked by us of Rs. 4.5 crore for setting up a power plant, can you throw some light on that?

Amul Gabrani This is related to one of the EPC projects which we had picked up long back. This is more or less complete by now. But, there are some issues with the client. Since these issues were taking some delay in getting resolved, we had provided for this particular project as a prudent fiscal decision.

Amit Shah Sir do we expect any more provisioning in the forthcoming quarter or this is it?

Amul Gabrani There is nothing like expectations; it is an ongoing business and we keep on discussing with the clients. If there are some figures, which we believe that the client will delay more than the regular procedures, then we definitely adjust our balance sheet proportionately.

Amit Shah Sir what is the quantum of order for this particular project?

Amul Gabrani This order was about Rs. 100 crore.

Amit Shah And how much of the revenue has been booked?

Amul Gabrani The order from our side is complete, but there are certain issues which has to be resolved with the client.

Amit Shah And one more thing on the debt-equity front, our balance sheet looks a bit stretched. So any fund raising plans?

Amul Gabrani As of now, we don't have any fund raising plans. The debt-to-equity ratio during the progress of the year always gets a little skewed, but we are hoping that with our collection plans and the expected order book, we should improve the debt-equity ratio by the time the financial year ends.

Amit Shah Sir what is the target debt-to-equity ratio that we are aiming at, by the end of this fiscal year?

Amul Gabrani By the end of this year the target debt-to-equity ratio should be similar to what we had last year.

Amit Shah 1.7-1.8?

Amul Gabrani Yes or a little below that, because obviously we are not happy with this situation. We would like to improve it further, but all this would depend on what kind of actions the macro level economy takes, like if the interest rates go down, the interest cost goes down. There are various other factors involved on account of which projection becomes a little difficult in these volatile times.

Amit Shah If you can just help me understand, which are the key projects that are being executed in this particular quarter?

A.K. Bishnoi Currently, we have both the Andhra Pradesh jobs which are under execution, we have NTPC Nabinagar, we have NTPC Pakri, and these are some of the jobs which are in the Coal Handling segment. Similarly in the Ash Handling segment, we have couple of NTPC jobs which are under execution. We have the ACC Waste Heat Recovery job which is under execution and we have Nirma Waste Heat Recovery job which is under execution. These are some of the major jobs.

Amit Shah As you mentioned that we have started LC backed orders, can you quantify out of the total order book what would be the quantum of LC backed orders?

Amul Gabrani No, those figures will not be there, but I can mention the names; it is Lanco Koradi jobs, Punj Lloyd job, Haldia, then we also have the two export jobs, NTPC Pakri where we have been able to manage LCs. Our focus is to push the clients to give us LC's wherever possible.

Amit Shah We have booked a foreign exchange gain of about Rs. 3.5 crore in this quarter. What is the foreign currency borrowing that we have in the books?

K.B. Arora Borrowings as of now are about Rs. 90 crore.

Amit Shah This is purely working capital loan?

K.B. Arora No, partly it is working capital and partly it is term debt.

Amit Shah Sir what would be the average cost of borrowing for the entire debt we have on the books?

K.B. Arora The entire borrowing cost is about 12%.

Moderator Thank you very much. Our next question is from Madanagopal of Sundaram Mutual Fund. Please go ahead.

Madanagopal So far we have secured about Rs. 1,600 crore in terms of order flows. Hopefully, if we do something like Rs. 3,000 crore for the year, then we will probably start FY14 with the same kind of order book that we had last year. So are you envisaging a situation where FY14 would be a flat to marginal growth kind of a year?

A.K. Bishnoi We started the year with about Rs. 4,135 crore and so far we have, as I mentioned, already booked about Rs. 1,600 crore of orders. So you have an executable order this year of about Rs. 5,700 crore. Above this, we are L1

already in about Rs. 700 crore, so it gives you about Rs. 6,400 crore and if we book another about Rs. 1,000 or 1,500 crore, then you will go to about Rs. 7,500 crore or slightly more. So, considering a 25% growth on last year, you will be somewhere around Rs. 3,000-3,200 crore. So you will obviously open at the same level or slightly higher. And as I mentioned, you have lots of enquiries in hand which are live enquiries. So, it would be too premature to really say what will be our final order book position because it will depend on what finalization takes place in the month of February-March 2013, but like last year if it does not happen in March, then it will slip over to the first quarter of next year. The point here is that these enquiries which we have from major customers like NTPC, NMDC etc., are live enquiries. They will get finalized and considering Tecpro's strong execution skills in these areas, we are definitely on course to achieve both our order book and our guidance on the top-line.

Madanagopal Sir, you said that NTPC Phase II 800 MW has started tendering. So, typically under Coal Handling plant and Ash Handling plant, if you get one or both of them, then what will be the size of order flow for 2x660 MW?

A.K. Bishnoi That will depend on the final scope, but without any commitment just to talk on thumb rule basis, Coal Handling plant would be in the region of Rs. 450 crore plus for 800 MW series.

Madanagopal It would be for 2x660 MW?

A.K. Bishnoi Yes, 2x660 MW. These are rough numbers, because this will obviously depend on specific enquiries, it will depend on what is the soil condition and a lot of other technical factors, but this is just to give you a feel on thumb rule basis without any commitment of the values. Similarly, Ash Handling would be anywhere between Rs. 175 crore to Rs. 225 crore, thumb rule.

Madanagopal And you were talking about NMDC also likely to give out, which project is this?

A.K. Bishnoi Steel Plant at Jagdalpur.

Madanagopal This project has been waiting for a long time right?

A.K. Bishnoi No, we are already executing a job there with BHEL. If you remember, we had mentioned in the concall before the last one, that we have received a major order from BHEL which is for the NMDC Steel Plant at Jagdalpur where BHEL bid for the job and then they again tendered out and we got the order for the material handling portion.

Madanagopal You might be executing a lot of private sector CHP or AHP packages. Are you seeing any slowdown in these projects or things are moving fine because i have heard that banks are delaying disbursements to projects which do not have a coal linkage. There are many projects which do not have a coal linkage today. Many of them have a linkage, but don't have an FSA signed. So are you facing such delays in any of these projects that you are executing?

A.K. Bishnoi The focus of the Company for the last 1.5 to 2 years has been primarily on major clients like NTPC, BHEL and others in the power sector. Also we have been

focusing on the steel, cement and WHR sector. Currently, we do not have any coal handling plant under execution for any of the private parties.

Madanagopal So next year if we see a marginal growth in top line and our debt numbers rising then it would lead to a decrease in the bottom line. So, how do you think we can address it? How do you think any improvement in margin is possible or still it is premature to state that there will be marginal growth in sales?

A.K. Bishnoi As Mr. Gabrani mentioned about debt and interest, it is obviously dependent on many factors in the country which are not really in Tecpro's control, but we have definitely taken positive steps, we have moved wherever possible to get Letter of Credit, we have improved our collection. Again, as Mr. Gabrani mentioned, if you compare year-on-year, our collection for the first six months is more by 27-28%. So we are very hopeful that even in the next six months, we will definitely continue to collect and get good jobs and with order booking coming in and advances coming in for the new jobs, debt levels will be at minimum basis possible. I think it will be too premature to feel that because of debt levels, the margins next year could be lower. It will obviously depend on what happens in the next five months and we are quite confident that with our current crop of jobs where we have a fair amount of revenues coming in from Letter of Credit, things should be as we are planning them.

Moderator Thank you. Our next question is from Rinki Gureja of Enam Direct, please go ahead.

Rinki Gureja What is the percentage contribution from BoP, Ash Handling and Coal Handling to the total revenues?

Amul Gabrani As I mentioned earlier, in H2 FY13, our Material Handling contributed about 62.9%; BoP about 29.6%; and Ash Handling about 7.5% of the total revenue.

Rinki Gureja Our debtor days are close to 300. Could you just highlight on how we would manage it going forward?

Amul Gabrani Our debtor levels are the same as of March 2012 and the number of debtor days from March 2012 till today have actually reduced from 336 days to 303 days and hence we are making efforts to collect as much as possible to reduce the debtor days, but this will definitely depend on the overall economic situation prevailing in the country and how banks are funding the project, how about their financial closure, etc. But as of now I think in this financial year, we have tried to maintain our debtor days position to improve upon that. From June to now, it has gone down from 336 days to 303 days.

Rinki Gureja Sure, but for the year end or for the next year, do you have a target considering that the LC base is coming in?

Amul Gabrani We will definitely target to take it further down to pre 2011 days, but yes, it will all depend on the environment and probably by the next conference call, I think it will be even more clear into which direction we are moving.

Moderator Thank you very much. Our next question is from Chinmay Gandre of KR Choksey. Please go ahead.

- Chinmay Gandre** I just tried to calculate the average interest cost; it comes to about 13.5-14%. If I exclude the bank charges, then the interest amount is about Rs. 62 crore on Rs. 1,800 crore. So could you clarify on that?
- Amul Gabrani** As far as interest costs are concerned, there are certain short-term fundings, long-term fundings and certain fundings when our own LC discountings are done, so those charges are always part of the interest cost. Hence, for collections also if we are collecting some money in advance from the clients, then those interest cost are also included in this.
- Chinmay Gandre** You said Rs. 21.2 crore are those charges which are there in the interest cost, so I have to remove it from H1?
- Amul Gabrani** These are Bank charges pertaining to LC openings and BG charges.
- K.B.Arora** We are giving advances interest on business advances also. There are certain projects where business advances also are interest bearing.
- Chinmay Gandre** Interest on advances would be how much of Rs. 138 crore?
- Amul Gabrani** I think we will have to work that out and come back to you.
- Chinmay Gandre** Regarding the debt, it was roughly Rs. 1,000 crore in September 2011 last year and then we ended up at about Rs. 1,300 crore by March 2012 and in H1 also debt has grown. So, basically last year we grew about 25-30%. So this time also are we planning something on the similar level? Do you think Rs. 1,800 crore is a realistic figure at this point of time?
- Amul Gabrani** The basis for Rs. 1,800 crore is our expected collections and our expected outflows during the second half where we expect our collections to be much better, due to which we will be able to execute the balance turnover and we are also hoping to collect the fresh billings because they are LC backed. So we have done our internal study and we believe that it is possible, we are making all efforts to achieve that.
- Moderator** Thank you very much. Our next question is from Pankaj Kumar of Edelweiss. Please go ahead.
- Pankaj Kumar** My question pertains to the revenue booking quarter-on-quarter basis. You said most of your revenue is booked in the last quarter. So, typically what are the revenue booking dynamics and what are the accounting policies that enable you to book larger revenue in the Q4? I am asking this because it is relatively higher?
- Amul Gabrani** No. Policy is same for the whole year. It is only that lots of clearances or supplies are received in the third quarter. The general process is that in the first quarter, the client is not very aggressive, he starts slowly, does the inspection process and starts giving clearances by the end of second quarter and then by third quarter we get the clearances and we start supplying with the overall objective of executing a certain portion of the contract by the fourth quarter. This is more of a process orientation rather than an accounting policy.

Pankaj Kumar And what is the average execution of your order backlog that you have?

Amul Gabrani It will depend on project-to-project; BoP project is 30 months, Coal Handling of NTPC is 16-24 months, Ash Handling is 18-24 months and some private sector coal handling jobs are 6-8 months, depends on the project itself.

Pankaj Kumar Is it about 24 months on an average?

Amul Gabrani No, it is very difficult to give you an average size. It is very difficult to actually sort it out from the sizing.

Pankaj Kumar So, how is the EBITDA margin in each of the segment?

Amul Gabrani I think margins are generally consistent across all segments, plus minus a percentage point. The margins are based on the specific projects, because all of them are similar businesses in sectors. So margins are generally consistent. A couple of points here and there depending on the competition and criticality of the project.

Pankaj Kumar So, what is the margin that you are guiding for the current year? With the current order backlog, what is the average EBITDA margin?

Amul Gabrani We have not given any major guidance on EBITDA margins. We would only like to mention that as far as this quarter is concerned, the EBITDA margins have increased and our operating margins have expanded by about 110 basis points to about 13.5% in the first half of the year.

Pankaj Kumar Shall we maintain this kind of margin in the second half?

Amul Gabrani Margin would be a little better because when we increase the turnover, our costs are amortized over the higher turnover. So we are expecting a better margin in the second half. If we see half yearly data of last financial year, EBITDA margins were about 15.5% without other income.

Pankaj Kumar And regarding debtor days, 300 days is relatively very high. Where do we have the maximum dues pending? Any particular project where we are expecting maximum recovery?

Amul Gabrani All projects that we are executing are consistent across sectors because all of them are in the same economic situation. So we are trying to push wherever the projects are close to completion and collect everything including retention money. Hence, this is the objective of our team.

Moderator Thank you very much. Our next question is from Nirav Vasa of SBICap Securities. Please go ahead.

Nirav Vasa Sir my query pertains to the APGENCO projects. Both the combined value of this project is Rs. 1,950 crore and as per my understanding the schedule commissioning of both these projects is April 2013. Am I right sir?

A.K. Bishnoi No, I think we got the jobs in October 2010 and we got the advance on 31st of March 2011. So you start 36 months from there.

Nirav Vasa March, this is for the Rayalaseema?

A.K. Bishnoi We got both the advances at the end of March 2011. We got advances within a week of each other in 36 months and then as I mentioned to you there have been certain technical issues which are recorded. So as of now I would imagine that the completion will be some time in 2014, but yes it will depend on lots of issues which are in the hands of different companies.

Nirav Vasa So if you can gauge, out of this Rs. 1,950 crore, would it be possible for you to share with me approximately how much is completed for these two projects? Say about 50%-60%?

Amul Gabrani We don't have the figures right now. What we will do is we will prepare those figures and then you can collect. I will just share with you that the sector balance order book breakup sector wise, in BoP our balance order is about Rs. 1,142 crore

Nirav Vasa And BoP is spread across how many project locations?

Amul Gabrani Three, two in Andhra and one in Korba.

Nirav Vasa So majority of this order backlog is from the APGENCO projects right?

A.K. Bishnoi Yes. You are right.

Moderator Thank you. Our next question is from Pranav Gokhale of Religare Mutual Fund. Please go ahead.

Pranav Gokhale How much is our export order book currently and how are the payment terms different from export orders versus domestic businesses?

Amul Gabrani Export orders are around Rs. 400 crore and they are all backed by Letter of Credit.

Pranav Gokhale So basically is the working capital situation much better in export business than the domestic business?

Amul Gabrani Yes definitely.

Pranav Gokhale Sir, just another question pertaining to PBT. You indicated that the PBT margins will be in the range of 6-6.5%. Historically that is what we have been indicating. Do you expect going ahead this year or next year probably it will be in the same range or do you expect things to deteriorate a bit because of the interest cost?

Amul Gabrani If you see that with each quarter, the growth of debt is going down and by whatever actions we are taking, we expect debt level not to increase from where it is. In fact, we are expecting it to go down to some extent. So based on that, I think on PBT level, whatever we had last year probably should be more towards bottom than towards further deteriorating, but I think the third quarter ending will give us some idea on the direction more clearly.

- Pranav Gokhale** When I did my calculations on interest and finance cost that is coming to ~16%, interest plus finance cost combined, which is equal to your EBITDA margin. So wanted to understand how things will change now? Last 12 months, EBITDA has been in the 15.5% range, if you see the last 12 month interest cost and divide it by the last 12 months revenues it comes ~16% - interest cost implies interest and finance costs combined. Basically what is happening now, as a percentage to sales also, our current EBITDA margin is lower than the finance cost which you are paying on the total sales. So how will the situation change as we go forward? Could you highlight?
- Amul Gabrani** What is going to happen in the next six months is, the turnover is going to be much lesser than what it was in the first half.
- A.K. Bishnoi** What will happen is that in the next half year, the turnover will almost be close to double of what we have done in the first six months and the interest cost would not really change much. So, as a percentage of sales at the end of the year, it will definitely go down.
- Pranav Gokhale** And you have highlighted earlier that when your debt-equity level will cross 1.5 or 2 then you will look at dilution. So, what is the update on that? Will things really change now with respect to working capital that you may not really have to stretch yourself or do you see dilution in the offing?
- Amul Gabrani** As of now we are hoping that in the second half, things would improve and based on the situation of the economy as far as dilution is concerned, it is just a decision and it is a call which we will take, only if things do not improve in next half and then we can definitely discuss.
- A.K. Bishnoi** Just to add one thing, if you see there are three plus factors which is in favor of the Company. One is that you are looking at good order inflows in the next half year which will definitely give you advances. Secondly, as Mr. Gabrani mentioned earlier, whatever revenue we do in the second half, we are hoping that a substantial portion will come from the Letter of Credit because part of the revenues would also include the export revenue. So as a result of these two major things, the cash inflow position would definitely be good. As Mr. Gabrani rightly mentioned, I think it is too early for us, but if you see the trend, the trends are definitely in favor of the company because things have changed, our debtor days are lower than what they were in March and in June, our collection cycle is better than what it was last year, the order booking is good. So with continued good order booking and continued advances coming in, the way the Company has planned, I would imagine that with everything else and with the national scenario improving a little bit, things should materialize.
- Pranav Gokhale** And since you have highlighted collections, I just wanted to understand, are there some significant sticky amount of debtors, where there are issues like private company trends because of which payments are not coming through and things might change once things are addressed at their end?
- A.K. Bishnoi** It is not that, if you see we have already collected close to about Rs. 800 crore in the first half of the year and we have already made plans on how much we will be collecting in the second half which are realistic plans. So, if you couple this with the LC based revenues and with the advances which the Company will

receive from order inflows, like we mentioned we are Rs. 700 crore approximately L1 position, then we are hopeful that the advances will flow in. So, as a result of all that, as things stand today, we are hopeful that we will be able to curtail the debt levels to what they are.

Pranav Gokhale And my last question is, excluding retention money, what is the quantum of debtors which are outstanding for more than one year or six months? Do you have that data point?

Amul Gabrani That data point will not be available at the moment, but yes it will be available with the accounts department. Probably we can organize it and you can collect; you can probably talk to Mr. Tandon.

Pranav Gokhale But from days perspective, is it very significant enough, more than one year excluding retention money at this point?

Amul Gabrani Primarily, it should not be extremely significant, but still let us see the numbers and we will come back to you.

Moderator Thank you very much. As there are no further questions from the participants, I would now like to hand the floor back to the management for closing comments.

A.K. Bishnoi Thank you gentlemen, thank you all for having participated and I am sure we have been able to answer almost all queries to the level at which you expected us to answer and I look forward again to having a call with you after our results in December and Mr. Gabrani will like to add a few words.

Amul Gabrani I would just like to thank everyone for continued support and would like to look forward to seeing you again with the third quarter results.

Moderator Thank you very much to the management. Ladies and gentlemen on behalf of Tecpro Systems Limited that concludes this conference call.