Tecpro Systems Limited

Q4 & 12 Months FY2011 Results Conference Call
May 26, 2011

Moderator Ladies and gentlemen good afternoon and welcome to the Tecpro Systems Limited Q4 & 12 months FY2011 results call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call, you may signal 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 over to Mr. Varun Diwadkar of Citigate Dewe Rogerson. Thank you and over to you sir.

Varun Diwadkar Good afternoon everyone. Thank you for joining us on Tecpro Systems Limited Q4 2011 earnings conference call. We have with us today Mr. A. K. Bishnoi, Chairman and Managing Director of Tecpro Systems Limited; Mr. Amul Gabrani, Vice Chairman and Managing Director; Mr. 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 Q&A 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 and the conference call invite which was sent to you earlier. I will now hand over the call to Mr. Bishnoi to make his opening remarks.

A. K. Bishnoi Thank you Varun. A very good afternoon to everybody and a very warm welcome to everyone present and let me thank each one of you personally for joining us today to discuss the operating and financial performance of Tecpro Systems Limited for the fourth quarter and the year ended March 31, 2011. I would like to begin the discussion with an overview on the company's operational performance and give my perspective on the sector following which, my colleague and Co-Director Mr. Gabrani will provide the financial highlights of the company for the quarter and the year ended March 31, 2011.

Tecpro has stood out and has delivered a robust performance which can be attributed to our diversified product portfolio, a very strong order book and healthy margins. We have continuously expanded across the value chain which we believe has been the core reason for our success. We started off as equipment suppliers and moved to providing complete material handling solutions. We added coal and ash handling to our portfolio in which we now occupy a leadership status. We have

leveraged this expertise to foray into the balance of plants and the EPC segment for power plants. More recently, we have collaborated with Nanjing Triumph Kaineng Environment and Energy Company Limited (NTK) of China for Waste Heat Recovery power project and under this collaboration; we have already bagged orders of approximately Rs. 224 crore in the waste heat recovery segment. The scope of work here includes the design, engineering, supply of equipments and machines for the waste heat recovery based power plant. The clients for these projects are Grasim and Shree Cements Limited. Waste heat recovery is a new concept which is now being taken very forcefully by the Indian cement industry. Very simply, in this process the exhaust gas which is produced during the production of cement is used as a fuel to produce power. This model of alternative energy for cement plant can generate normally anywhere between 2-15 MW or 18 MW of power in any given cement plant depending on the capacity of the cement plant.

The current order book of the company as on March 31, 2011, is very healthy and stands at Rs. 4,371 crore and it gives me immense pleasure to share with all of you that in the last financial year 2010-2011, the company has booked orders worth Rs. 4,353 crore. The most notable highlight for the year with regard to order booking was obviously the two prestigious orders which we have won from APGENCO. The total value of these two orders is Rs.1,978 crore and these orders are for the Rayalaseema Thermal Power Project and for the Kakatiya Thermal Power Project. These orders have definitely consolidated our position as one of the prominent players in the BoP space. I am sure all of you are aware that the company is already executing another Balance of Plant order for the Chhattisgarh state which is for their Korba power plant. In addition to these orders, our efforts of establishing ourselves as a major EPC supplier were further strengthened by an order from Kohinoor Power which is for design, engineering, project management and supply of 66 MW power project which is coming up in Jamshedpur.

I would like to bring to your kind attention that in our business, balance of plant orders are placed only after the BTG order i.e. basic equipment's like the boiler, turbine and generator orders have been released. To give you an example both for the Korba project and the Andhra project, the BoP orders which were released on Tecpro Systems were after the BTG orders were released on BHEL. Hence the BoP orders are normally at the second stage when the basic boiler, turbine and generator have been finalized. This is important because we generally bid for a balance of plant contracts only after we are sure that these contracts are going to be finalized, which is based on whether the BTG has been released on one of the BTG manufacturers. I would also like to add that the BTG orders are normally released after the financial closure is achieved and this again becomes a very important factor for us since once the financial closure is achieved and the BTG order is released, we are sure that the project is financially on course and the project will be executed and there would not be any delays due to lack of finance for the project. As I just mentioned that in the waste heat recovery segment, we have booked orders from Ultra Tech Cement and we have also booked orders from Shree Cement for their plant which is in Rajasthan.

On the sectoral front, the balance of plant segment of power plant is poised for a very exciting growth and it is expected that it will attract huge amount of investment in the next 5 years. As per published figures, approximately 65,000 MW worth of capacity is likely to be added which is primarily from coal based capacity addition. This obviously means that the balance of plant segment would provide a good opportunity to companies like Tecpro especially since we now have strengthened ourselves by booking two further jobs in Andhra Pradesh after our Chhattisgarh project. In the recent past, however, we have witnessed a challenging macroeconomic environment which is marked by high interest rates, delays in financial closure and deferment in environment clearances. As a policy, we are only looking at projects where we are sure that the financial closure has been achieved

and we are also sure that the BTG package has been awarded. In the coming financial year, we have identified three or four projects where financial closure has been achieved and BTG has been awarded and these are the projects which the company is pursuing in this particular segment.

With the tremendous growth potential in the industry to be unraveled in the coming year as I mentioned, Tecpro is well positioned to capitalize on this opportunity. We will continue with our aggressive strategy to book orders, but as I mentioned we will only pursue jobs where we are sure that the projects will come up in the given period of time. I am happy that we have delivered a strong performance on all fronts in our maiden year as a listed company. Going forward, we expect to continue to maintain the growth momentum and are highly optimistic that in the coming year we will be able to achieve greater milestones to take Tecpro to the next level.

I would now like to request my colleague and Co-Director Mr. Gabrani who will take you through the financial performance of the company. Thank you very much.

Amul Gabrani

Thank you Mr. Bishnoi and good afternoon everyone. It is a pleasure to have all of you on this call. I am extremely delighted to report that we have ended our first year after listing on a fairly strong note. We have witnessed a robust growth in both topline and bottom line and intend to maintain the current momentum going forward. The ability to sustain our margins can be attributed to higher efficiencies, project management skills and competitive cost structure. The consistent growth in order book position is a result of company's proven execution track record and ability to successfully market services to existing and new clients. I shall now provide you with an overview of our company's financial performance for the quarter and year ending 31st March 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 have been set. For the year ended March 31, 2011, our revenues stood at Rs. 1973 crore representing around 35% increase as compared to Rs. 1463 crore during the corresponding period last year and in line with the guidance we have been providing. Total expenditure amounted to Rs.1776 crore in FY2011 compared to Rs.1307 crore for FY2010 implying an increase of 36%. EBITDA was at Rs. 301 crore, higher by 52% as against Rs.198 crores for the same period last year. Our operating margins were at a very healthy 15% and we expect to maintain the same going forward. Depreciation for the year increased to Rs. 10 crore as compared to Rs. 7 crore in FY2010. Interest expenses for the year amounted to Rs. 93 crore compared to Rs. 36 crore for FY10. Tax expenses for FY2011 stood at Rs. 74 crore compared to Rs. 60 crore in the corresponding period last year. Consequently, PAT for FY2011 stood at Rs. 136 crore, up 24% as compared to Rs. 110 crore recorded last year.

For the Q4FY2011, the figures in terms of revenues were Rs. 961 crore as compared to Rs. 741 crore during Q4FY2010 which is a 30% increase over last year's figure. EBITDA for the quarter stood at Rs. 199 crore compared to Rs. 151 crore during the corresponding quarter last year which is an increase of 32%. PAT for the three months ended March 2011 is Rs. 110 crore as compared to Rs. 91 crore during the corresponding period last year showing an increase of 21%.

Our focus will be on availing the opportunities available in material and ash handling solutions as well as actively pursuing EPC and BoP contracts in the power sector. We will presently seek to undertake a consortium bidding approach for large projects in the BoP and EPC space where Tecpro will successfully bid for and jointly execute the large projects. For certain large value projects, the company also plans to form strategic alliances with relevant experienced and qualified subcontractors. The long-

term strategy, however, would be to extend our competence and successfully execute associated BoP orders which would enable the company to independently place bid for turnkey BoP projects without the need for consortium. We are also highly optimistic about our entry into the Waste Heat Recovery space which is expected to see strong traction going forward and we expect to bag more orders from the cement industry in this space.

As we move into the next financial year, we remain confident of maintaining the growth momentum given our strategic initiatives and the infrastructure we have such in terms of knowledge skills, partnerships and project management capabilities. We will concentrate our efforts on enhancing the order portfolio bidding profile and project execution. I believe we have laid a firm platform from which we can take Tecpro to the next level of growth.

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

Moderator Thank you very much sir. Our first question is from the line of Rohan from Keynote Capital.

Rohan Admane What are the opportunities and potential over next 2-3 years in this waste heat recovery space?

A.K. Bishnoi The waste heat recovery segment is now being aggressively looked at by all the cement manufacturers. There is huge potential mainly because the power is being generated by using waste gas with no real cost of raw material. You are not using coal or any other fuels which you are burning and then creating power. Here you are using the gas which is produced by your own cement plant and through a specialized boiler you are moving the turbine and then producing power which is required by the cement plant. As you know all cement plants, they need huge amount of power. So power is being generated from gas which is already being produced by your cement plant. So I am sure you can appreciate that with this background, almost all existing cement plants and also all cement plants which are being expanded or new units which are being set up are all including waste heat recovery as part of their original plan. So considering this, there is going to be huge business in the market. I can mention that we have good inquiries currently from almost all major cement manufacturers.

Rohan Admane And what is our role in this waste heat recovery segment?

A.K. Bishnoi What we are doing is that we have a partner which is Chinese ,M/s NTK. We are going to import the basic boiler and turbine from China and the balance of plant which is the civil work, the erection and all the other auxiliaries will be taken care of by Tecpro.

Rohan Admane And for a 1 MT cement plant, how much MW it can produce?

A.K. Bishnoi That thumb rule is still not established because there are other considerations also not only capacities. There are considerations like what amount of captive power plant the cement manufacturers are already having. There are also considerations that what are their expansion plans are in the coming 2-3 financial years. So whenever they are looking at waste heat recovery system they are considering all these aspects and then they are going ahead. Also different gases have different sort of calorific values based on which, the capacity of the WHR is determined.

Rohan Admane Are there any other players in this space?

A.K. Bishnoi Like any other business, there are other players, but we have an advantage that we have a very good collaborator which is M/s NTK and they have done many projects of this type for almost all major cement manufacturers in the world. So they are an established player worldwide. Their name is accepted. So that is what gives us the edge.

Rohan Admane And how much time it takes to set up one waste heat recovery plant?

A.K. Bishnoi It again depends on the scope of work; it varies between 18 months to around 22 months.

Moderator Our next question is from the line of Chavvi Agarwal from Ambit Capital. Please go ahead.

Chavvi Agarwal Sir my first question is related to your BoP consortium that you have formed with VA Tech and Gammon. You said that you have already won 2 projects from APGENCO and are looking for 3 to 4 projects in the coming year. So are you looking at bidding as a consortium or are you looking at bidding individually only for your part of the business?

A.K. Bishnoi All the three projects which we are doing, we are doing in consortium as you rightly mentioned with M/s VA Tech and with M/s Gammon India. The project which we are considering for bidding this year, we will be bidding again on the consortium with M/s Gammon and M/s VA Tech.

Chavvi Agarwal So can you give us some idea about the projects, may be the regions, I know you cannot mention about the clients right now, but may be the amount that you are looking for in total for bidding?

A.K. Bishnoi It is very difficult to give you the amount. I can just mention that these projects are again for well-known electricity boards and these projects will come up for tendering shortly. So I am sure once they are tendered because it will be a public tender, it will be known to all of us. But these are for some well-known electricity boards and we expect the tenders to be out in the next 2-3 months.

Chavvi Agarwal Your interest cost has tripled in this year. Is it the impact of rising interest rate? Your debt has also increased, if I am not mistaken, but the increase in interest cost is much higher than the increase in the quantum of debt is what I suppose. So is the impact only because of working capital, rising interest rate, or is it something else also?

Kulbhushan Arora The increase in the interest cost is practically because of the expansion in the working capital as we have now driven up our business from a lower period to longer period project. That is one of the reasons and there is also some capital outlay during the year where we have incurred about Rs. 57 crore in terms of increase in investment as well as fixed assets. So some amount of interest is because of that also.

Amul Gabrani Overall what has happened is that the company has been moving from short duration projects to long duration projects especially for BoP and large NTPC projects. So what happens is that the payments are generally back-ended. So first we have to execute large part of the portion then you are able to collect your debtors. So which has stretched our working capital cycle a little bit and which has been one of the reasons why the interest costs have risen. Also, Mr. Arora has rightly mentioned that there has been additional investments into fixed assets and other investments which have also increased the outlay and increased the interest cost.

Kulbhushan Arora Apart from that, there is some saving in terms of the procurement also because of some financial cost. So there is a barging between the saving in terms of the procurement cost because of the financial cost incurrence.

Chavvi Agarwal Sir my third question is relating to the order inflow that you are looking in FY12. Can you give us a guidance of your FY12 order inflow, revenue growth and margins that you are looking to achieve?

A.K. Bishnoi As regard to order flow, I can just mention that if you just see we have double orders in hand than what we had in the same period last year. So currently we are well placed in the BoP segment. We are very active in the waste heat recovery, in the captive power plant, and you also know that we are very strong in our bread and butter business which is coal and ash handling. So it will be difficult to give number, but I can just mention that the market is good. We have huge amount of inquiries in all the different segments and we obviously are a strong marketing company. So we are definitely looking at repeating our performance of last year, if not bettering it.

Chavvi Agarwal How are the inquiries coming in from the capacity expansion for cement and steel because from what I hear given that macroeconomic environment is not very robust right now. So do you see the inquiries at the same level of last year or is there an upward trend or a downward trend in terms of capacity expansions for the cement plant, steel plant?

A.K. Bishnoi On the steel plants, I agree with you that there are lesser amounts of investments now and we have fewer inquiries. But on the cement front, we have very good inquiries. We have inquiries from UltraTech, Grasim. We have good inquiries from other cement manufacturers and as I just mentioned, we have booked two jobs from UltraTech and one from Shree Cement. In cement, I would say to answer your question that we have fairly good inquiries and in addition to cement, obviously power is another sector which is of great importance to us in the company.

Chavvi Agarwal What is the amount of order that you and NTK as a consortium have received from UltraTech, Grasim?

A.K. Bishnoi No, we have received as a company orders worth approximately Rs. 200 crores from UltraTech, Grasim. This is for the waste heat recovery which I mentioned and is not under the consortium. Tecpro has received these orders with M/s NTK as partners.

Chavvi Agarwal When you talk about the expansion in the cement industry, these are for power plants that they are planning to set up for their captive power plants right?

A.K. Bishnoi Yes.

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

Madan Gopal Sir my question is on the order inflow guidance that we will be doing. Having done around Rs.4300 crore this year, where do you see growth coming in for the next year? If you can split it like how much do you plan to get it from cement, IPPs, BoPs, from SCBs, NTPC? What is the opportunity and what is our target from there because growth from this level is it really possible and if it so if you can split it up?

A.K. Bishnoi See in this year like last year, we are looking at 4 identifiable sectors or products. One is obviously our coal handling which is very strong. We have inquiries from major customers. We have also quoted to major customers. We are obviously looking at booking jobs in coal handling. The next segment is ash handling where

again we have inquiries. We have quoted and are looking at booking jobs in ash handling. Last year we had started marketing WHR and we will obviously strengthen the marketing year. So we will be looking at booking jobs in waste heat recovery and the captive power segment. Also, we will be looking at jobs in the balance of plant segment. So these are 4 identified segments where we will be aggressively looking at our marketing efforts and I am sure we will have good results to share with all of you.

Amul Gabrani What Mr. Bishnoi was saying last year in terms of sector, our 84% of order book was from power sector and steel and cement were between 5 -6% and others were about 5.5%. If we divide that in terms of our product line, then BoP was about 48%, material handling including coal handling was about 43% and ash handling was about 8.5-9%. We believe that primarily the ratios will be almost similar and the same trend will continue this year. In cement, there might be some increase because of waste heat recovery.

Madan Gopal So overall what kind of growth that we are targeting internally? Is it in the range of 20s or in the range of 10s?

Amul Gabrani You are talking in terms of revenues or in terms of order book?

Madan Gopal Order flow for next year?

Amul Gabrani Order flow I think we are looking at in terms of about 30% increase this year.

Madan Gopal Sir second question is on the working capital. I understand that you said that we are moving more into long duration projects that has led to our increase, but still the working capital days excluding cash looks very phenomenally high like 180 days. So where do we see the same working capital moving one year down the line because at 180 days, it becomes really difficult to make cash at operational level. So what is the thought of management on this?

Kulbhushan Arora The time period that is exactly in the balance sheet is because of the skewness at the fag end of the year. Almost 45-50% of the business is executed in the last quarter itself. So if you see in real terms, it is 120 days transaction only, which on an annual basis reflects to 180 days. So primarily if you spread it across the year, normally 120 to 130 days is the working capital cycle and management is expecting to maintain that level in the coming future.

Madan Gopal So we will reduce it to 130 days at least by the end of the year?

Amul Gabrani That is what the target is. Last year in quarter 4, skewness was a little more than what was in FY10. Because of which, the working capital cycle seems to be little stretched as on 31st March. But because of the healthy order book position, we believe that this year our net working capital excluding cash will be reduced to 130-135 days.

Madan Gopal Would not increase much?

A.K. Bishnoi It would not increase because we have got a very healthy order book position and this year the skewness we are expecting is going to be lower than what it was last year.

Madan Gopal What is the size of this NTPC Pakri Barwadih order?

A.K. Bishnoi NTPC Pakri order has been already received.

Madan Gopal What was the size of that?

A.K. Bishnoi I think Rs. 250 crores.

Madan Gopal Any other projects for which NTPC is calling bids for?

A.K. Bishnoi We have already bidded for some NTPC jobs which has been opened.

Madan Gopal I am asking about mining.

A.K. Bishnoi Mining no. Mining as of now only Pakri, but there is another tender from the same mine which is Pakri mine.

Moderator Our next question is from the line of Naysar Shah from Birla Sun Life AMC. Please go ahead.

Naysar Shah What is the arrangement with NTK?

A.K. Bishnoi The arrangement with NTK is that they are going to give us the technology because they are our technological partners and they will also be supplying the critical equipment like boiler, turbine and generator and the balance of plant will be done by us here in India that is by Tecpro.

Naysar Shah How much do we have to pay in terms of technical collaboration and all that?

A.K. Bishnoi We are not paying them anything for technical collaboration since we are going to source the boiler and the turbine from them. So they are also benefited by coming as a partner to us because we have booked the jobs jointly. So obviously they are going to supply their equipment to us and we will supply to UltraTech. So it is a win-win situation for them and for us both.

Naysar Shah And what is your current cost of debt and what was it about 6 months ago?

Kulbhushan Arora Average cost of debt is 11% and that was the figure even 6 months before also Incidentally SBI has come out with the reduction in the interest rates for Tecpro from 12.5% to about 11% again.

Naysar Shah And when did this happen?

Kulbhushan Arora This happened in March 2011.

Naysar Shah You are saying in March, SBI has cut the rates from 12.5% to 11%?

Amul Gabrani That was because of the new sanction which has been coming up.

Kulbhushan Arora We are banking with them since long time and our working capital relationship with them is high so we requeted them in terms of the cost cutting and they aceepted it.

Naysar Shah You received orders worth Rs. 224 crore in waste heat recovery right, in terms of MW, how much is that?

A.K. Bishnoi It is 10.7 MW in Rawan and in Rajashree, it is 15.17 MW. So totally it is about 25 MW between both of them.

Naysar Shah But Rajashree order is just Rs. 83 crores right and the other order is Rs. 120 crores, so I am just wondering in terms of per MW realization, there is huge difference?

A.K. Bishnoi Let me just explain. It is very difficult to correlate to 'per megawatt' because here what happens is that certain scope of work can be with the client. So one will have to analyze both the jobs item to item, because in certain cases the client would like to do a certain job like in certain cases civil part of the scope of structure is taken care of by the client while in certain cases, it is kept with us. So it is very difficult to correlate it MW wise.

Naysar Shah So, in all you are Rs. 203 Crore and in terms of total MW how much does it add up to?

A.K. Bishnoi About 25 MW.

Naysar Shah Thank you.

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

Ankit Babel Sir my first question is on the status of your Chhattisgarh project. How much have you completed and how much is left?

A.K. Bishnoi We have completed physically close to about 60-65% of the job and the job is absolutely on target. The Chhattisgarh board is very happy with the performance and we expect to complete the job sometime around June 2012. That is scheduled completion as per contract.

Ankit Babel Sir secondly you have just discussed about the strength of your APGENCO order. I agree that all the orders are financially closed. Just wanted to understand are the environment clearances and fuel linkages also in place for that particular unit?

A.K. Bishnoi I mentioned this in my initial introductory talk. Normally before the BTG order is released, the fuel linkage and environment clearances are all taken by the respective electricity board, in this case Andhra Pradesh Electricity Board, and then they have released the BTG order on M/s BHEL. In fact the Rayalaseema order on BHEL was delayed as a result the balance of plant also was delayed on us since they were tying up certain internal clearances. To answer your question, they have all the clearances after which they have released BTG and the BoP.

Ankit Babel So that delay was after we got the order or the delay happens even before tendering of the BoP order?

A.K. Bishnoi That delay was between the date of tender and the finalization before we got the order. If you see the date of tender and if you see the date of finalization, there was a very big gap. That is the gap when they were getting all their internal clearances.

Ankit Babel So have we started work over there?

A.K. Bishnoi Yes, we have started the work. I would also like to share with all of you that we have received the initial advance for both the jobs, for Kakatiya as well as Rayalaseema.

Ankit Babel Amounting to around Rs. 200 crores?

A.K. Bishnoi Amounting close to Rs. 200 crore, about Rs. 190 odd crores.

Ankit Babel And what is the status of the BTG over there? Is that all going as per schedule?

A.K. Bishnoi Yes. The BTG has been ordered on BHEL as I mentioned. Kakatiya BTG was ordered on BHEL much before Rayalaseema. So obviously the status in Kakatiya is much better, but even in Rayalaseema, the BTG is ordered, BHEL has got the advance. Work has started in full swing.

Ankit Babel So in a nutshell, we do not expect any kind of delay other than any unavoidable reasons in this particular order?

A.K. Bishnoi Absolutely except for unforeseen circumstances, we do not expect any delays because both these projects are very important to the state of Andhra Pradesh and they have all the clearances in place and they have released the order. They have released the advances and work has started.

Ankit Babel And what has been the bank charges in this particular year, Rs. 92 crores is your pure interest expenditure. So what are the financial charges which you pay like bank guarantee and all those?

Kulbhushan Arora Now the charges in terms of bank guarantee commission is 0.60% p.a. In value terms, it is Rs. 15 crores in terms of the bank guarantee we have paid during the year.

Amul Gabrani Total bank charges will be about Rs. 32 crore. Out of 30 crores, he is dividing into bank guarantee and the other charges separately. The bank guarantee commission is different, bank guarantee processing charges are different, and LC processing charges are different. So total is about Rs. 32 crore.

Ankit Babel And sir this interest cost of Rs. 92 crore considering your existing debt levels, if we average it out like your last year's debt level and this year's, it comes to around 15%, the cost of debt. Could you just bifurcate these Rs. 92 crore into pure interest cost or is there any other expenditure included into that?

Kulbhushan Arora Interest cost is not only for the debts but on advances from customers also that is one aspect and term loan rate of interest is close to 12%. So some extra payment in terms of interest cost is there.

Ankit Babel What rate do we have to pay interest on advances from customers?

Kulbhushan Arora It is around 11%.

Ankit Babel Lastly you have already shared that in waste heat recovery in India, there is a robust opportunity available. Just wanted to know would it be possible to quantify the amount like on an annual basis?

A.K. Bishnoi It will be very difficult to give numbers to you. I can just mention that we have inquiries from almost all the major cement manufacturers in the country and I repeat almost all.

Ankit Babel Thank you.

Moderator Our next question is from the line of Suryakanta Behera from Edelweiss. Please go ahead.

Suryakanta Behera Sir FY10, actually if I look at your interest cost of Rs. 71 crore that has bank charges of Rs. 35.8 crore. Can you explain that and is there any such element in this year's interest payment also included?

Kulbhushan Arora No practically till last year, initial charges for bank guarantee as well as LC opening was high. There is a reduction in that cost, so practically total bank charges came down.

Suryakant Behera So what could be that portion from these Rs. 92 crore of interest payment?

Kulbhushan Arora Rs. 92 crore is the pure interest cost. I am saying in terms of the bank charges, it has reduced from Rs. 35 crore to Rs. 30 crore from FY10 to FY11 because of these reasons.

Amul Gabrani Total financial charges are close to Rs. 123 crore out of which, Rs. 92 crore are attributed to interest and another Rs. 30 crore are attributed to other bank charges and other financial charges. So this has come down from Rs. 35 crore because of our performance and growth. Banks have reduced their terms of association and reduction in terms of processing charges, in terms of DD issuance charges, in terms of DD processing and LC processing charges. So there has been a saving on that like we have explained earlier that because of the skewness of the business and lot of business was done in last quarter, that debt position went a little more and we had to pay interest on the debt which has been the reason for interest to be about Rs. 92 crore. Apart from bank interest, this also includes interest on account of additional fixed assets and investment which is close to Rs. 57 crore which was there and also the interest payable to the clients from whom some advance payments are interest bearing. Therefore what are the interests applicable because of this interest bearing advances also has been included in Rs. 92 crore.

Suryakant Behera But you said the Rs. 30 crore the bank charges has not been included in this Rs. 92 crore, so that has been included in the other expenditure?

Amul Gabrani In Rs.123 crore, total finance charges are about Rs.123 crore.

Suryakant Behera No but I can see only Rs. 92 crore as the interest expense, where is the other Rs. 30 crore that is what I wanted to know?

Kulbhushan Arora That is on the other expenditure in the initial expenditure column. Another Rs. 56 crore mentioned in the first column under item 2 as other expenditure.

Suryakant Behera We have around Rs. 200 crore of EPC projects, how is the execution taking place on that?

A.K. Bishnoi See, this project is for Kohinoor Power and we are doing the designing, project management and supply. The designs are more or less in place. Our partners here are M/s. BHEL, from whom we are sourcing the boiler turbine and generator and we have also released the order on M/s. BHEL for all the three equipments. We have also paid advance to M/s. BHEL and the project is completely on schedule as far as supplies are concerned.

Suryakant Behera In FY10 we have booked around Rs.30 crore under EPC segment but in FY11, we have booked nothing. So just wanted to understand why there is no revenue from EPC segment in FY11?

Amul Gabrani See, what has happened is that while this EPC job which we have considered as EPC here, the civil and erection is not in our scope. So the auditors, they

recommended that this particular job should be treated under segment of material handling rather than EPC. Because the erection and the civil work is not in our scope and it is the EPC for complete designing, project management and supply. That is why this has been included in the segment of material handling.

Suryakant Behera So how much can I attribute towards that project?

Amul Gabrani Towards that project it is I think around Rs. 50-odd crores.

Suryakant Behera Our net fixed assets have gone up from Rs.130 crore to Rs. 200 crore, implying an increase of Rs. 70-odd crore. During the Q3 con call, we had guided for a total CapEx of Rs. 40-50 crores including the buildings. So just wanted to understand where actually these additional Rs. 30 crore of CapEx have taken place?

Kulbhushan Arora This is a consolidated figure including assets of subsidiaries also.

Amul Gabrani See, there is a subsidiary, wholly owned subsidiary called Microbase Infosolution which owns a building which is valued at about Rs. 40 crore approximately. So if you take the standalone our fixed assets was Rs.161 crore, this is the consolidated statement which includes the Microbase. Incidentally, just for your information, we are in process for amalgamating Microbase into Tecpro Systems for a merger which we have already filed with High Court and in the process.

Kulbhushan Arora In the standalone balance sheet it is represented as 'investment.'

Suryakanta Behera In our consolidated PAT and standalone PAT, there is a difference of Rs. 4 crore. Standalone we have done Rs.136-odd crore and consolidated is Rs. 132 crore, there is a loss of Rs.4 crore in any of the subsidiary?

Amul Gabrani We have some subsidiaries like Tecpro International and Tecpro Singapore which are primarily marketing arms and they do not have any income as of now of their own. And there are certain expenditures there which have been booked in the consolidated statement which is impacting in a minor way by reducing the profit after tax by about Rs. 3-4 crore. This will impact even on the revenue side also a little bit.

Suryakanta Behera And same I can attribute towards the reserves and surplus because standalone and consolidated difference is around Rs. 95 crore?

Kulbhushan Arora Absolutely.

Suryakanta Behera Thank you.

Moderator Our next question is from the line of Pranav Gokhale from Religare AMC. Please go ahead.

Pranav Gokhale If you see the overall macro environment, do you see the lull in the BTG orderings slowly moving towards the BoP space in the ensuing years?

A.K. Bishnoi Not really. Let me just share with you, this is based on, even if you see what the BHEL as a company mentioning in the market, there are good number of active enquiries in the thermal power segment and these enquiries obviously mean good business to BHEL and also for BoP players like us. As I just mentioned that in this year we are expecting firm and good enquiries from some of the leading electricity boards, we are also looking at some good enquiries in the private sector. So

contrary to what is generally been talked about, if you see ground realities, they are little different and they are quite on the positive side.

Pranav Gokhale Sir, about 80,000 MW of 1 lakh MW expected in the 12th five year plan already being ordered, in terms of BTG, how much has actually been translated in terms of BoP orders? So what is the remaining order base for us when it comes to BoP for these plants?

Amul Gabrani So far as BoP is concerned, I think, the most of the ordering is yet to be done. See, NTPC ordering is yet to be done. If you go through the 12th plan, probably the plan is that they are going to add about 75,000 MW in thermal power projects, totally all between super critical, sub critical and medium size and out of this 75,000 MW in the 12th plan, probably we do not have the final figures but I do not think more than 10-15% has been ordered as of now. The whole NTPC is yet to be ordered and also tenders are in process, few have been opened and balance are yet to be opened and all the projects from private sector are also in place.

A.K. Bishnoi What will happen here is that part of it only will go through the BoP route, part of it will go through the package route, especially all the NTPC jobs, you are aware they do not order on BoP segment, they will all go through the package route. So as I mentioned in my opening remarks, we have good enquiries in coal handling and ash handling, obviously, some of these enquiries are from NTPC and they are for the projects which are going to come up with the 12th five year plan.

Pranav Gokhale Can I infer that the enquiries from NTPC implies that they are going for a negotiated bid and not inviting tenders as they normally do?

A.K. Bishnoi They have invited tenders, we have quoted for some of the tenders, and some of the tenders are also open. When I say open means that they have been formally opened and which is the first process for ordering.

Pranav Gokhale Okay and between our product and the project segment, what will be the broad composition between product and project in terms of revenue and also order now?

Kulbhushan Arora In value terms the product is not more than 10% but they are critical to the projects, so they are very important.

Pranav Gokhale The question then relates to the margin. Going ahead, your business mix has changed or transformed over last couple of years to more projects driven businesses and your margin also increased significantly to that 15-15.5% level over last couple of years. You are also guided for the similar number going ahead. Do you still perceive that the project business is fetching these kinds of margins now? Earlier, we used to get just an order for a coal handling plant or just a pure coal handling versus that you are getting orders for a combined BoP work where there will be certain element of construction, there will be certain element of chimney, there will be certain other elements and accessories would be also go to it, right? Now, your margin seems to be expanding despite the overall consolidated order or overall project comprising significant junk of your revenue. Now I wanted to understand basically if some of this is bought out, some of the portion and some of them is also in terms of construction and other element which is theoretically at a lower margin, how do we still get a 15% EBITDA margin and have our outlook towards similar?

Amul Gabrani If you see our last year's FY11 performance, out of about let us say about Rs. 1970-odd crore, the contract revenue where construction is involved, is about Rs. 1080 crore. The rest is either the coal handling orders or the service income which is a sizeable part. Contract revenue is increasing in terms of its share but the other area

of business is also consistently increasing. So on the smaller size projects, obviously, the margins are little better than the larger size projects, which is helping us in sustaining our margins of 15% what you are talking about.

Pranav Gokhale On the overall interest cost which is been asked many times, if execution of bulk of the project actually happens in the fourth quarter, how does our interest cost like Rs. 92 crore which essentially translate into a debt of about Rs. 850 crore of average debt when the bulk of the execution is limited to that one quarter, I believe then your working capital cycle will be restricted to the execution which happens in the fourth quarter and receivable which happens by the first quarter of the next year?

Kulbhushan Arora To a certain extent this is milestone recognition of the revenue that takes place in the last quarter but build up in terms of the execution is from the second quarter itself. So the only thing is the recognition of the revenue on most of the milestones gets finally recognized in the fourth quarter because of the timing terms at the client level.

Amul Gabrani Our revenue recognition happens in the last quarter but in terms of consistently getting ready, preparing for the material, getting down the material ready keeps on happening from second and third quarter. So the cost is being incurred in second and third quarter where the revenues been recognized in the fourth quarter. That is the reason that there is a generally debt even in the second and third quarter and it is not only the fourth quarter where the debt is there. Because the back ended positioning of payment terms what happens is when we are doing our job we are supposed to pay our subcontractors or suppliers in a certain time but we get paid at a completion of a certain milestone. Large projects are generally back-ended and that is the reason why debt levels are rising.

Pranav Gokhale Because if I look at your cost expenditure up to nine months which you had given of about Rs. 910 crore and last quarter of Rs. 750 crore, does it mean that it actually does not get in book in the financial but is already expended and sitting outside the P&L?

Kulbushan Arora That is reflected in the stock at that time.

Pranav Gokhale But that will theoretically reflect in the P&L right sir?

Kulbushan Arora No, it is at the cost level only. It does not run through the P&L in revenue terms

Amul Gabrani It is only booked at cost level

Pranav Gokhale Can I have some broad bifurcation between your actual debtors and the retention money?

Amul Gabrani Out of about Rs.1400 crore debtors, possibly around Rs. 530 crore is retention.

Pranav Gokhale And just in terms of going ahead as you plan to increase your business by a percentage, do you expect this 200, 250 days of cycle to crash down somewhere to some reasonable levels and if so, what are the drivers which will actually kind of bring it down?

Amul Gabrani I think our cycle is about 170 days and not about 200 days.

Pranav Gokhale So if I take Rs. 220 crore of total working capital and from the cash cycle if I remove Rs. 50- 60 crore it comes to 170-180 days?

Amul Gabrani Yeah, net working capital excluding cash is about 171 days. I think we believe that this year because the order book is already in hand and the skewness is going to be less, so we believe that we should be able to reduce it to some extent.

Pranav Gokhale But does the business actually not generate any operating cash flows and when you are growing at 30-40% sort of order inflow level, which will translate into revenues would it not warrant higher debt, higher interest cost and maybe no actual cash inflow coming into the business for some years? This is more a directional question; I am not looking at an absolute number.

Amul Gabrani See, directionally yes, till the time in any business if you are on a higher growth rate obviously investments are consistently needed for growing the business. The only objective is in this whole challenge is that how you are managing your cash flows so that with minimum amount of debt, you can generate the growth. So currently we are looking at growth rate of about 35-40%, earlier we were doing about 100% when we were smaller, so you need consistent investment for that kind of growth. But yes, tomorrow, if we reduce our growth rate or there is a slowdown, obviously, cash will be generated from the system.

Pranav Gokhale And if you were looking at a two, three-year growth of 30-35% does it warrant equity dilution to manage the debt to equity ratio somewhere?

Amul Gabrani See, as of now, because we had gone public only last year, our debt to equity ratio is approximately about 1:1.1 or less than 1 as of right now. What is happening is there is about if you reduce my cash and bank balance, then my debt to equity ratio is lower by 1. And till it is 1 or 1.1 till then we are fairly comfortable. This year with a focused approach and with the order book we have, we believe that our net working capital cycle excluding cash would improve. Once it improves I think from next couple of years onwards probably we should not look at raising any funds and once we see our next year results or in FY13, then we will take a call whether we need any further fund infusion. But as a consistent philosophy of the company the moment the debt to equity ratio which become little unfavorable then definitely we look at that option. But as of now we have a firm belief that we will not need any further dilution for some time.

Moderator Thank you our next question is from the line of Mohit Kumar from Antique Limited. Please go ahead.

Mohit Kumar How much revenue have you booked from Korba, Rayalaseema, and Kakatiya? Can you just provide me a breakup the same for the year?

Kulbushan Arora Till date for Korba we have booked about Rs.620 crore in terms of revenues and the Kakatiya and Rayalaseema jointly about Rs. 180 crore till date.

Mohit Kumar What is your revenue guidance for margins for FY12?

Amul Gabrani We are expecting that we will be consistently going ahead at the rate at which we have been doing earlier. So let us hope that our profitability will grow at about 25-odd percent and on top-line we are looking at growth of around 35-40%.

Mohit Kumar The margin of roughly how much?

Amul Gabrani The margin growth we are expecting about 25%.

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

Supriya Subramaniam How well is our order backlog cushion from the recent commodity price hike? Are there price variation clause built in or do we absorb the entire commodity price increases?

Amul Gabrani For large projects, like in Chattisgarh and also in certain commodities like steel there is a price variation built-in, but otherwise most of our jobs are fixed price. But coming to how we hedge it on BoP jobs, which is almost about 44-45% of our balance order book, whoever is our consortium partners or subcontractors there are back to back jobs with them where the same terms are there. So since we are fixed price, then they too are fixed price, and there is no additional risks involved as far as our company is concerned. Our risk is limited only to coal and ash handling. In coal & ash handling whatever jobs we have, again ~60% is bought out where we have a back to back offers with us which is available already at a fixed price for the time of the execution of the contract. So that is also fixed. So in terms of risk proportion it is only whatever we manufacture, which is about 35% of coal and ash business. So then if we translate that into numbers it becomes fairly negligible, the impact of commodity price rise on our backlog of order book.

Supriya Subramaniam And what is the scheduled C.O.D. for the APGENCO orders?

A.K. Bishnoi It is about 30 months for both of them.

Supriya Subramaniam Okay. Could you give us segmental breakup between BoP, Ash and Material handling of the revenues of FY2011?

Kulbushan Arora No, as of now, that is not possible because we are considering the orders under the single segment of material handling only.

Amul Gabrani We have not prepared this as of now.

Moderator Thank you. Our next question is from the line of Gagan Thareja from B&K Securities. Please go ahead.

Gagan Thareja Sir, in a thermal power plant BoP you would have this scope of coal and ash handling for yourself. But when you are coming to Waste Heat Recovery and the Waste Heat Recovery boiler, generator and turbine has been given to the Chinese company, what is it that is your scope of work?

A.K. Bishnoi Our scope of work would be all the auxiliaries. The electrical, the civil work and the erection of the complete plant including the Chinese equipment will be done by us. The Chinese equipment will also be erected by us and obviously we will do the civil restructure, the entire electrical and auxiliaries.

Gagan Thareja Okay. I will put it this way. I think in a thermal power plant BoP would be roughly 40-45% of the total project cost and BTG would be another 50%. When you go into Waste Heat Recovery, if I knock out the Waste Heat Recovery generator and TB set what would be the value of the balance part of the total order?

A. K. Bishnoi See, on a thumb rule basis, for the jobs which we have in hand the scope of work would be roughly about 55-57% with Tecpro and balance 43-45% with NTK.

Gagan Thareja Okay. And what would be the margin profiles in the Waste Heat Recovery stream as compared to your other operational areas?

A. K. Bishnoi Gross margins they also are quite similar to the ones which we have in our other businesses because as you are aware margins are something which are decided at

the corporate strategy level. So we have ensured that we are operating the Waste Heat Recovery also with almost similar margins and the market is able to accept the prices with those margins.

Gagan Thareja Where I am coming from is simply that some of your well-entrenched competitors, domestic competitors, who would impact manufacturing the Waste Heat Recovery generator by themselves, tend to show margins which would be lower than what you show right now on your P&L. And considering that they are backward integrated into manufacturing, how do you reconcile that your margins outlook in the Waste Heat Recovery would be slightly on the higher side of some of these companies?

A. K. Bishnoi Yeah, let me just share with you that for the Waste Heat Recovery boiler, there are only two or three Indian companies who are approved**.** Because these are specialized boilers, they are not run of the mill boilers and as I mentioned since this technology is comparatively new to the country so there are hardly two three good manufacturers who are approved, and the others are mainly Chinese players who are there in the market. So when we are competing we are either competing with Chinese equipment or we are competing with some of the top names in India as far as boiler manufacturing is concerned. Those companies again are companies which do not really quote very low because they have their own overheads. So it is not a problem that is why I made the comment that the market is able to absorb it because as we have seen by booking three jobs, two in Grasim and one in Shree Cement, that we are able to maintain almost the same margin which we have in our other businesses.

Gagan Thareja Okay what could be the magnitude of enquiry flow, if you could give the total number in Rs. crore, of the enquiries related to the WHR segment?

A K Bishnoi I can just tell you instead of crores I can tell you we have enquiries currently from about 9 different cement plants. It is difficult to quantify these enquiries because these enquiries are being estimated but we have 9 enquiries from different cement plants in hand.

Gagan Thareja And apart from cement waste heat recovery is there good enquiry flow from let say secondary steel manufacturers sponge Iron and BRL?

A K Bishnoi There is but as a policy we have first decided to enter the cement segment and to make our presence felt we also want to have one or two successfully installed waste heat recovery projects in the cement sector. As a company we have still not started marketing waste heat recovery in the steel sector.

Gagan Thareja Would purely from a strategic point of view would you feel that as you go forward into waste heat recovery and more into BoP that you would want to increase the scope of manufacturing that you do?

A K Bishnoi In BoP yes, we had mentioned that last time also we are obviously looking at the water segment and we have also strengthened our civil construction department in the last 2-3 years. We have started by doing civil works for NTPC jobs. We have also recently competed major civil works for other clients. So as we go ahead civil construction would obviously be something which would be done totally departmentally. Structure work is already being done by us departmentally. Civil and structure as you know in terms of percentages would mean a good amount of job being done by the company departmentally as we go ahead.

Gagan Thareja And lastly, some of the other companies like Hindustan Dorr-Oliver or an Elecon have shown interest in moving into the BoP space and in material handling you have someone of international repute like Metso building up their capacities in

India. This obviously implies there will be an increase in competition for you going forward? How do you see that impacting you know both your market share and your margins as you move ahead?

A K Bishnoi See in material handling you are aware that all leading customers like NTPC, BHEL have their own list of approved vendors and this list of approved vendors have been more or less stagnant for the last couple of years. The four five main names which all of us are aware of have been there all this period and if you also see the type of jobs which are being ordered out by the NTPC and BHEL and the others you will find that there is good business for everybody. There is also entry barrier as far as entry into the material handlings and ash handling segment is concerned. So there could a situation where one or two companies do get in, I can't deny that, but I would imagine that there is good business available for all of us.

Moderator Thank you. The next question is from the line of Harshad Shukla from KR Choksey, please go ahead.

Harshad Choksey Could you please bifurcate your total revenue in terms of how much is from the products manufactured, how much is from products supplies and the contract revenue if possible, like you have bifurcated in your DRHP as well for the previous years?

Amul Gabrani See as of now we don't have a segment where we bifurcate in that fashion but yes if you would see we bifurcate in terms of our contract revenues, in terms of our sales of projects which are non-contractual, where the construction is not in our scope, service income and these three are the areas by which we break-up our revenues. So out total contract revenues this year has been about Rs. 1081.78 crore and our sales net of excise duty where construction is not in our scope is about Rs. 758.79 crore and as far as our service income is concern it is Rs. 127.86 crore.

Harshad Choksey And coming back to the margins, again like you have mentioned that generally the smaller projects command the better margins than the larger projects but at the same time you have also mentioned that the company is now moving in to getting a large size project from the smaller size. So just wanted to understand like despite this how would you be able to maintain your margins in the scenario?

Amul Gabrani Obviously yes, when companies grow up the margins get impacted on the larger size project but our endeavor has been to a large extent to keep on integrating backwards so that our margins are fairly consistent. That is the reason why we have been able to maintain our margins from around 7% or 6.5-7% although last year if you see margins were a little over 7% and this year we are a little below 7%. That is the kind of impact which has happened but that is why the revenue increase has been about 35% and margin increase has been about 25%. But then in overall business terms definitely it is a better scenario when you have larger size projects so that then you can scale up your organization in a much better manner. The philosophy has been to have a proper mix where we don't lose out on margins in terms of percentage in a big way but keep on growing, keep on the growth path.

Kulbushan Arora And see in terms of indirect cost to execute big size projects require less amount of indirect cost compared to the smaller size projects.

Harshad Choksey And would it be safe to assume that around 100-150 basis point margin contractions would be possible because of the change in the business model?

Amul Gabrani No I think it will not be there because the mix right now is fair, is proper and we think that if we continue with the same mix whatever margins we have achieved last year we should achieve it this year also.

Kulbushan Arora See if you compare last year figures we have practically saved 1.17 bps in terms of the margins because of the better management of the procurement policy.

Harshad Choksey In your earlier remarks that you have mentioned that you have a competitive cost structure over your competitors, if you look at your competitors, Elecon etc., all these players are falling at 30-40% of in-house manufacturing and then outsourcing the rest of the parts in their projects. Even for the BoP if we take the other players as well. Sir just wanted if you could elaborate at how your cost structure is or you are at an advantage position as far as your cost structure is concerned in relation to your competitors?

A K Bishnoi If you see the competitors, there is quite a lot of difference. If you see Elecon they don't do BoP, if you see TRF they don't BoP, they don't do ash handling. Then if you also see Elecon does lot of manufacturing of large equipment like stacker reclaimers, wagon tippler which we don't do. There is good amount of difference. Then ash handling is something which none of the other competitors except possibly Mcnally Bharat to some extent they are into ash. So the product profile is quite different and I think Tecpro is the only company which does coal, ash and BoP all the three. There is no other company which does all three.

Harshad Choksey BGR does that?

A K Bishnoi BGR does BoP but they do not do coal and ash. In fact we do ash handling for BGR. So it is very difficult to compare the companies because the product range and product profiles are significantly different.

Harshad Choksey Thank you.

Moderator The next question is from the line of Tejash Shah from Spark Capital, please go ahead.

Tejash Shah Sir just wanted to understand your guiding again on such a huge base for a 20% jump in your order inflow next year. Can you quantify the live enquiries that you are having right now?

A K Bishnoi Without naming it I can tell you we have about 3 or 4 enquiries in coal handling from NTPC and we have about another 3 or 4 enquiries in ash handling from NTPC and we have good number of enquiries from the private sector for both coal and ash handling. We also have about 8 or 9 cement plants where we have waste heat recovery enquiries, we also have certain balance of plant enquiries from the private sector.

Amul Gabrani See overall in terms of enquiry position we are fairly strongly placed but since it will become price sensitive information it will be difficult for us to really give you a number in Rs. crore.

Tejash Shah Coming to your working capital cycle, in your balance sheet how much of your advances would be pertaining to orders?

Kulbhushan Arora Practically in balance sheet advances from the orders is about Rs. 65 crore because we are knocking off the advances for the payments that we are doing to the customers.

Tejash Shah if I have to summarize the commentary which is coming from your sector from whatever con calls we have had so far, you seemed to be on an extreme end in the sense that your optimism is not shared by other people in the industry. In the sense according to them competition intensity is actually increasing and that is putting pressure on margin whereas you seem to be believing that there is enough pie for everyone to share. So I just wanted to understand where exactly you are drawing your optimism from?

A K Bishnoi It is not really a question of optimism; the results speak much more than optimism. If you also see the results of Elecon which they have declared 1 or 2 days back, you will find that they have done much better than what they had done last year. So I am sure if you go by their results and even if you go by the results of Mcnally Bharat, I think they have done much better than what they did last year. So if you see the financial results of some of our competitors without naming them which are published and then also you see the Tecpro results I think the answer is there. Everybody seems to be doing much better in March 2011 than in March 2010. Now coming to the optimism part, the optimism is obviously based on the market scenario and the based on the live enquiries which a company has in hand at any given time. Again, if you go by sheer numbers, as I mentioned earlier, last year we have booked close to about Rs. 4300 crore worth of orders, which is almost doubled to what we had booked earlier. So if you see the performance in practical terms you will find that it is not optimism based but performance based.

Tejash Shah Would it be possible for you to quantify the amount in terms of Rs. crore of live enquiries?

A K Bishnoi No please, it will be very difficult because the enquiries are partially in the stage where they are being estimated. We do not even know what the total cost is, so it will be difficult to put numbers. I can only mention that as compared to whatever enquiries we had in May last year, we have better enquiries this year; better and sizeable. Value wise they are much better than what they were last year.

Moderator Thank you. Our next question is from the line of Anand Vyas from Nirmal Bang, please go ahead.

Anand Vyas Sir you said that because of the increase in the size of the order, your working capital size has increased a bit and because of that the interest cost has increased. Do we see further increase in the order sizes or may be working capital cycle such that the interest expenses can increase disproportionately to the overall increase in the revenue?

Kulbhushan Arora Now see the duration of the order that is on the higher side around 30 months, I think it is stagnating around that level for the future projects so working capital will be better managed in that respect.

Amul Gabrani See there has been in the last about 2-3 years a shift from a general order execution period of 7-8 months we have moved to orders for about 15 months, 24 months and 30 months. There are no orders which have executing periods generally beyond this. So I don't think our working capital cycle would be stretched further. Although our belief is because now we have a well-entrenched order book position in the beginning of the year, probably our working capital cycle will reduce than what is was last year. That is the endeavor the company is going to focus on this year.

Anand Vyas You mean to say what ever the interest cost will be there in the next year will be in proportion to the more or less change?

Kulbhushan Arora See that depend on the sizes of infusion that we do. See if we are growing at a reasonable pace there must be some increase.

Amul Gabrani Obviously it will be in proportion to what is normally attributable to that area.

Anand Vyas You have said just to confirm that overall sales are likely to grow around 30-35% and PAT is likely to grow by around 25%?

A K Bishnoi That is right.

Moderator Thank you. The next question is from the line of Devang Patel from Avendus Capital, please go ahead.

Devang Patel Sir in the press release you had given a breakup of order into Material Handling, BoP & Ash Handling. On the margins also could you give a broad range where they stand in each of the segments?

Amul Gabrani We have a consistent margin policy. We believe it will be close to what we have been achieving till now and if the execution period is low there might be a little higher margin and if the execution period is high there might be lower margins, but it will not be a very major change.

Devang Patel On your waste heat recovery boiler now you will competing with these 2-3 players that you mentioned that are also there in Indian market. If you compare their cost structure how much competitive advantage do we get because of Chinese boilers?

A K Bishnoi To put again numbers to this would be difficult. I can just mention that with our experience in Grasim we were able to book the jobs at prices at which we are obviously comfortable and which is in line with our overall policy. And obviously our prices were competitive otherwise we would not have got the job. I would like to put it this way that it is not only question of price but what we bring to the table, along with the Chinese, is a product which is widely accepted all over the world, including some of the leading manufacturers of cement in the world. So all have used NTK products in the waste heat recovery segment which are widely accepted. So we bring a good product from China to the table, we also bring the expertise of Tecpro Systems in executing the balance of plant jobs and then combined with a competitive price we are able to give a package to the customer which is obviously acceptable by them and which gets converted into orders for us.

Devang Patel Sir are these all negotiated orders?

A K Bishnoi In the private sector, yes.

Moderator Thank you. Our next question is from the line of Sandeep Tulsian from JM Financial, please go ahead.

Sandeep Tulsian Earlier in the call you mentioned about the retention money figure that is close to Rs. 500 crore, am I right?

Kulbhushan Arora That is right.

Sandeep Tulsian What proportion of a contract total is held up as retention money?

Kulbhushan Arora It is normally 10% but in isolated cases may be 15%. But on an average it is 10% only.

Sandeep Tulsian If we add up the revenues of the past two years i.e. Rs.2000 crores odd in FY11 and about Rs. 1500 crore odd in FY10, that cumulates to amount of Rs. 3500 crore. The retention money seems to be a little higher than the cumulative revenue of last two years. So I wanted to know, are there are certain non-moving debtors or retention money which is not moving ahead?

Kulbhushan Arora No it is not like that. See retention is receivable after 12 months of the completion, not immediately on the completion. Projects are at very various stage of completion during the course of the year. So we are regularly monitoring that situation and there is no retention money which is not recoverable.

Sandeep Tulsian Can give me your retention money figure which was at the end of FY10?

Kulbhushan Arora It was Rs.322 crores at the end of FY10, now it is Rs. 527 crore.

Sandeep Tulsian So, it has increased about Rs. 180 odd Crore.

Kulbhushan Arora That's right.

Moderator Thank you. The next question is from the line Chinmay Gandre from Asit C Mehta, please go ahead.

Chinmay Gandre Yeah I just wanted to understand, we book revenues using percentage completion basis for projects of long duration, right?

Amul Gabrani No let me tell you there are two kinds of projects that we do. If you see even our P&L Statement, any project in which construction is not involved, the revenue is recognized on the basis of the revenue recognition policy on itemized billing basis and transfer of risk and reward basis; for all those sales which do not have construction as a part of it. Wherever the construction contractors are part of it then it is on percentage completion. So out of about Rs.1975 crore of which we had done about Rs.1000 crore is based on percentage completion and about Rs.950 odd crore is on basis transfer of risk and reward.

Chinmay Gandre I asked this question since normally if you book orders on percentage completion basis, every quarter your margins should be round about similar. But in our case, like in the fourth quarter the margin is quite on the higher side.

Amul Gabrani There is one more reason because there are lots of revenues which are recognized in the fourth quarter where as the expenditure on that account is consistent over the year.

Chinmay Gandre But in the percentage completion basis you don't do it that way, you proportionately book it?

Kulbhushan Arora Yeah even in that some milestone has to reached while recognizing the revenue. Till then it is recognized at cost only.

Chinmay Gandre In percentage completion basis also?

Amul Gabrani Yeah.

Chinmay Gandre Regarding the margins, you have said like because of the small jobs or rather jobs of lesser value you are getting good set of margins but off late you have got order which are on the larger scale so I believe like 15% should definitely come down by

at least 200-300 basis point going ahead because other players, even McNally if you see they don't do these kind of margins or even Elecon or say other.

Amul Gabrani If you see our last 7-8 years of record whatever numbers we have been having, we have generally been having better margins than most of our competitors. See what is certain is that on the larger size of the orders the margins should technically go down, but we have also been consistently integrating backward in terms of increased number of equipment's we manufacture, increased number of areas where we ourselves do the job. So that is helping us in sustaining margins on the higher side. Plus because of the increased turnover, the overheads get amortized over a larger turnover. So because of the better efficiency in management, the cost also goes down in terms of indirect overheads. So we try to keep an eye on the bottom line also along with the growth of top line.

A K Bishnoi See another important thing if you compare which I mentioned some time back Tecpro with any of its competitors our range of products is little different to all of them.

Chinmay Gandre But Mcnally would be quite similar because they all are also doing BoP, they are also into coal and ash handling so fairly similar kind of thing they are doing?

A K Bishnoi No, you are right to the extent that they also do all three but just see the amount of ash handling business they do and just see the amount of BoP they do and that if you compare with Tecpro, it will answer your question.

Chinmay Gandre And there are two NTPC projects, have you booked any revenues on the same for this year?

A K Bishnoi For Pakri I don't think we have booked anything but for Nabi Nagar, which we are doing for NTPC, some minor revenue have been booked.

Chinmay Gandre What about the 1x600 MW BoP projects from APGENCO, have you booked any revenues in FY11 from those projects?

Kulbhushan Arora Yes we have booked about Rs. 180 crore from these projects, both together

Chinmay Gandre What percentage of each project has been roughly completed?

A K Bishnoi No, see both the jobs are in very initial stages. Because you can see that in a total order value of Rs. 2,000 crore, we have hardly booked Rs.180 crore, which itself signifies that they are in their initial stages. So among the two, Kakatiya is in a more advanced stage of completion as compared to Rayalseema.

Chinmay Gandre Okay sir and regarding the EPC project, have you booked anything on that?

A K Bishnoi In Kohinoor we have booked Rs. 50 crore revenues.

Moderator Thank you. The next question is from the line of Sangam Iyer from Alfa Accurate Advisors, please go ahead.

Sangam Iyer When we say that we are looking at a 30% increase in our order inflows for FY12, the assumption being is that majority of this would actually be coming in from the BoP orders?

A K Bishnoi No-no, it will be a combination of BoP, coal handling, ash handling and also waste heat recovery and captive power. It will be all the four segments together.

Sangam Iyer So as per you there won't be much of a material change in the order book in terms of verticals when we say 48% was from BoP and 45% from ash handling which should not be much of a difference?

A K Bishnoi There can be certain changes in the percentages but what is important is that the company today has live enquiries in all the four segments and we are pursuing all the four segments aggressively as far as the marketing is concerned. So we will be booking jobs in all the four segments and yes percentage change could be there because that will depend on the values at the end of the day.

Amul Gabrani In addition, what happens is we consistently review the order book position on a regular basis and based on whichever comes first, we decide that which area we have to focus more. Let us say we get lot of job in coal and ash then probably we might go little slowly on BoP, if we get BoP, then we might go little slow on coal and ash. Depending on our execution capabilities, the time line available for the job, it is consistently reviewed and monitored and then we keep on taking the new jobs.

Sangam Iyer Right and sir just for my understanding, when we say the BoP project that we get, what percentage of that contract is actually done in-house and the remaining is actually in the form of bought-our or subcontracted?

A K Bishnoi See that percentage is changing. If you see Korba, we had gone with a larger percentage to our partners, in Andhra that is slightly changing and as I mentioned it is changing because certain civil work and other structural work which we were earlier giving it to others, we have started doing it in-house. There is no change in the basic scope; in terms of water system is done by VA Tech, in terms of the cooling tower being done by Gammon India. But the civil structure portions there are some changes. So as far as BoP is concerned, the basic fabric will remain the same, which means that we will continue to book orders with our partners which are VA Tech and Gammon but yes depending on each project, each scope, the percentages could vary.

Sangam Iyer Right and in terms of our initiatives going forward, which would actually help us in increasing our percentage share in the BoP, could you just share the management thoughts on that?

A K Bishnoi Yeah, that is why I said we have already started looking at civil and structure being done in times to come totally departmentally. We are also looking at water systems which we mentioned in our last conference call also. So may be in times to come, we could be doing this departmentally.

Sangam Iyer So these initiatives are what gives the confidence of maintaining the margins at around current level?

A K Bishnoi Yes absolutely. In this, as I mentioned civil we have already started doing partially and in times to come we will be doing more and more civil works. Structure we are already started doing partially, as I said in Andhra we are doing it in-house and in times to come we also look at doing water departmentally.

Amul Gabrani See this is the philosophy which had been helping us over the years to maintain our margins or remain close to what we strive for.

Sangam Iyer Right, in terms of our execution cycle, it is typically around 30 months right?

A K Bishnoi For balance of plant jobs only it is 30 months.

Amul Gabrani For NTPC job it can be 14-24 months, for some jobs it will be 10 months or some jobs it will be 6 months.

A K Bishnoi See there again coal handling cycles should be a little longer and ash handling cycles are little shorter. So it depends project wise and it depends on the scope of work.

Sangam Iyer So if you were to put a number on terms of, average execution cycle for our remaining 52% of the project of our order book, how much would you attribute there?

Amul Gabrani So it will be difficult to give you standard number but let's say on the Rs. 2,000 crore, it was about 30 months from the day we got the letter of intent which is around October and let us say on all other jobs it should take approximately 18-20 months is the average, some would be 24 months some would be 10 months. See it is the proposal in terms of value also.

Sangam Iyer When you talk about 35-40% revenue growth next year, are you looking at a lot of shorter term orders that we are already in negotiation with?

A K Bishnoi See if you just see 35-40% growth, it means if you convert it into numbers, we are talking about Rs. 2,800 crores. Now already we are sitting on close to about Rs. 4,400 crores worth of orders in hand. Now these are jobs which are already under execution, as I mentioned even for the Andhra job we have received the advances and they have already gone into execution. So for a company which opens the book with Rs. 4,400 crore, and which is looking at booking 30% more than what they booked last year, some of those jobs will be with larger execution cycles and as Amul said some of them will be with smaller execution cycles, it is quite on cards that we will be able to achieve the Rs. 2,700-2,800 crore which we have mentioned.

Amul Gabrani Let me explain that let us say it is a 30 month job that does not mean that there is an average billing every month. It is like a bell curve. First 6 months there will be a little billing, and then there is major billing for next 18 months and last 6 six months it will only be testing and commissioning. So revenues are primarily recognized in the middle 18 month period. So that is why the number Mr. Bishnoi mentioned of around Rs. 2,700-2,800 crore seems to be fairly comfortable on cards.

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

Ankit Babel What would be the target debt equity ratio going forward?

Amul Gabrani For Debt equity ratio, like we mentioned earlier, the company's policy has been that we should try to keep it around one, which is right now below one and we believe that we would definitely be focusing more this year so that for next 2 years we can continue without any further dilution and a comfortable position will be 1:1.

Ankit Babel In your current order book what is the share of public sector and private sector?

Amul Gabrani It will be predominantly public sector see because out of Rs.4,000 crore if you see Andhra itself is Rs.2,000 crore, then you have NTPC jobs, both in ash and coal handling. So about 70% is public and 30% would be private.

Ankit Babel And the whole 70% would be having a PVC Clause and this 30% would be on fixed price contract right?

A K Bishnoi No, not necessary, no Andhra is again fixed price.

Ankit Babel Okay Andhra is fixed price.

Amul Gabrani Yeah, so it is not necessarily fixed price. In Andhra also steel and cement there is variation and everything else is fixed price. So for us I think most of it you should treat major portion as fixed price.

Ankit Babel Okay and of the current projects which you have bided for, what could be the L1 position as on date?

Amul Gabrani L1 position it is again difficult for me to communicate, but yes we can always say that there are fair amount of orders in which we are already advanced. The numbers again, because it is a price sensitive information it is difficult.

A K Bishnoi For confidential reason we won't like to disclose but we are L1 in about 3-4 projects.

Ankit Babel Of coal handling?

Amul Gabrani Yes.

A K Bishnoi Coal handling and ash handling both together.

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

A K Bishnoi First of all let me thank each one of the participants personally. We thank you for your time and also thank you for spending so much of time and asking us details about the company. We are sure that as a team we have been able to answer your questions and we have been able to give you all the details which you wanted from us. It also gives us immense pleasure to interact with you on a regular basis and to address your questions and comments. I am sure we will continue to have your valuable support on a continued basis as we go ahead and if you have any further queries we would be available outside this forum also to answer them. On behalf of the management, I once again thank all of you individually for taking this time out and for joining us for this call. Thank you very much, thanks a lot.

Amul Gabrani Thank you everybody.

Moderator Thank you very much. On behalf of Tecpro Systems Ltd that concludes this conference call. Thank you all for joining us and you may now disconnect your lines. Thank you.