"Techno Electric & Engineering Company Limited Q4 FY'23 Earnings Conference Call"

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MODERATOR: **MR. KAMLESH KOTAK – ASIAN MARKET SECURITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Techno Electric & Engineering Company Limited Q4 FY'23 Earnings Conference Call hosted by Asian Market Securities Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectation of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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I now hand the conference over to Mr. Kamlesh Kotak from Asian Market Securities Limited. Thank you. And over to you, sir.

Kamlesh Kotak: Thanks, Ryan. Good afternoon, everyone. On behalf of Asian Markets, we welcome you all to the 4Q FY'23 Earnings Conference Call of Techno Electric & Engineering Company Limited. We have with us today Mr. P. P. Gupta ji, Chairman and Managing Director; and Mr. Ankit Saraiya, Director representing the company. I request Shri. P.P. Gupta Ji to take us through an overview of the quarterly and the yearly results, and then we shall begin the Q&A session. Over to you, Gupta ji. Thank you.

P. P. Gupta: Very good afternoon to all of you. I will say a very good morning. And welcome everyone to because our financial results for the quarter and full year ended 31st March 2023. Anything said on this call, which reflects our outlook for the future or that could be construed as a forward-looking statement must be reviewed in conjunction with this industry or sector faces as much reflects on our company.

Let me highlight our performance. Firstly, I would like to seek your apology as this year results are not very -- as simple as they have been in the past because basically, these results comprise 3 segments now; one is where EPC, second is Wind, discontinued business in the State of Tamil Nadu and the thirdly the upcoming subs or subsidiaries in form of data centre and AMI works we are doing now.

As all of you know, and we have been waiting for the last 3 to 4 years, we are happy to now acknowledge and bring to your knowledge the wind assets in Tamil Nadu stands sold, and we have parted with 105-megawatt capacity and accounted further out of 112-megawatt, the balance to another 4.2 megawatts and sold or 3.6 already stands sold in April and balance 4.2 is remaining due to land title challenges, we are trying to sort out fast.

Total revenue for the company from the EPC segment stands at around INR450 crores plus, which includes the execution of the works on data centre as well as the AMI sub at cost. We expect a similar level of forthcoming outputs in quarter -- in forthcoming quarters, but maybe be with a plus/minus of another 10%. The EBITDA for the company stands at INR38.78 crores. EBIT for the EPC segment stands at INR39 crores.

We have taken, as required by accounting codes the work done in data centre as well as the AMI at cost due to which the EBITDA margin, may apparently seems to be a little low or misguided but if you compare with the third party billing, which is INR312 crores in the consolidated accounts, you will find the EBITDA margin to be at 12.5% plus.

The other income is at INR22.14 crores compared to INR7 crores. The profit before tax from continued operations is at INR52.75 crores and VAT from continued operations is at INR36 crores. The VAT was lower from the last year basically because of higher tax outflow expenses. And also due to the increased deferred tax incidence. The profit from the discontinued business including capital gain on sale of wind assets is at INR56 crores. The total profit for the quarter is at INR92 crores, and EPS for this quarter alone is around INR8.55.

Now taking at the full year results, the revenue for the full year is at INR66 crores excluding almost INR80 crores for discontinued operations. Otherwise, we it would have been around INR1,050 crores. Revenue from EPC is at INR959 crores. EBITDA for the company stands at INR118 crores. EBIT for the EPC segment is at INR113 crores. EBIT margin for the EPC segment is at INR13.78% on third-party business, excluding our in-house subsidiaries which includes data centre and AMI.

Other income for the year is at INR74.30 crores compared to INR150 crores last year as you all know we took exit of our one subsidiary developed jointly with KPTL at Kohima and that gave us other income of almost around INR100 crores plus/minus. That is under INR10 crores is the profit of a Kohima as it partitioned last year. So the profit before tax for the year is at INR175 crores, the PAT for this year standalone is at INR128 crores and profit from discontinued operations is at INR90 crores. The total profit for the company is at INR218 crores. The EPS is INR20 plus.

The current investment values in all cash and cash equivalent is all-time high in the company at over INR1500 crores, that implies INR140 per share. This is after company has done a buyback of INR70 crores and have paid a dividend of INR22 crores of last year. And we have declared a dividend this year of INR6 per share to compensate for the buyback amount not utilized.

For current financial year we have taken order intake of INR3,300 crores and our closing order book is at the INR3,800 crores, which is all-time high. We are L1 in INR1,250 crores business in transmission and AMI orders and we are also in active negotiation in FGD business with private segments, so private players, whose numbers we cannot quantify at the moment. But we are of hopeful of bagging at least no less than INR4,000 crores business during this year also on an ongoing basis or more.

The outlook, I will say, is extremely promising. The past legacy or the bad patch of last 3 years, COVID impact, is all behind us, I will say 4 years rather, the election year and year thereafter. And we are in altogether new segments of business which are very, very promising.

And not only this, we believe that going forward there is a significant growth for the company. So whatever we have lost out and I have been promising for the last 4 years. We will have to -- we will be rightly placed to make-up in next 3 years.

We believe the growth momentum had just begun. Good morning in the company has happened and it will continue for the financial year '24, '25, and '26. We expect larger business out in our FGD segments, AMI segment and data centres. And in transmission also, we see more of technological high-end solution provisions going forward.

In the coming years, we see strong power sector reforms as power and energy converge. Additionally, there is a focus on stress on availability and reliability of power supply. And additionally, our grid has to be prepared to accept the renewable power injection up to 30% in next 5 years, from existing 14%, 15% on these.

While the focus will remain on the renewable power and related -- it's related infrastructure, but when I say, related infrastructure of the renewable power, the grid has to be strengthened strongly by backing up with pumping storage solutions or by voltage source converter solution, VSC solution as we call. These are all digital and ICD based.

There will continue to be a strong distribution segment based reforms, the transmission infrastructure is required for 500 gigawatt by 2030 will continue to be in place. FGD segment is going very strongly, and we are hopeful of bagging at least INR1,000 crores business every year from this segment. And we already have business worth INR1450 crores in hand, which will see execution during the current year.

And in our perspective, almost 100 gigawatt of thermal capacity is yet to be ordered out by SCBs and private sector mainly, which implies a business scope of no less than INR100,000 crores.

On the transmission sector, the TBCB bidding for 50 gigawatt of renewable power out of 175 gigawatt is in progress, and we are hopeful of our share of business, whether it is backed by power grid on private players, the inter-state transmission, ISTS of 13 gigawatt in Ladakh has been proposed with an investment of INR207 billion, and we expect major share here. We are already L1 in one package, which we are talking in this region and one is in execution.

The total bids for transmission is expected to be around INR40,000 crores, out of which Techno expects to book orders worth, I will say, about INR3,000 crores spread over 4 to 5 years. So we are not seeing very major growth for Techno in this segment.

The distribution side, we see a huge growth with PMDB Package B in execution, along with AMI being integral part of these solutions and government has also allocated INR300,000 crores to be spent over the next 5 years, we see a major business growth in this segment going forward. AMI, we are already part of and this business is being done in a TOTEX model, and we are parking it in a subsidiary to be hiked off to some strong investors going forward as we did in case of transmission assets.

We expect to get orders worth almost no less than INR1,000 crores to INR1,500 crores per year on next 4, 5 years. So in total, we would like to do about INR1,000 crores -- INR10,000 crores business in this segment.

And we are already L1 in one package in this and one is in execution in the State of J&K about 2.5 lakh meters. The Electricity Amendment Bill is already in place and gives consumers multiple type of empowerments. And we believe the government will walk the lateral edge spirit imbibed in these amendments. It should provide non-discriminatory open-nesses to the power generators as well as to the consumers. It should also facilitate the choice of power supplier to the consumers.

And it should also bring competition to bring down the tariffs going forward so that the gap between the cost of very generated power versus cost of the new add power is adjusted. We are hopeful of good days ahead in this sector as it is at a very critical juncture, and going forward, something good on this should happen.

As a generator, we have taken a total exit in the State of Tamil Nadu. Out of this, we have sold off 108.9 megawatts out of 111.90 megawatt, which has left only 2 machines with us of 1.5 megawatt each. This has added around INR425 crores cash to our balance sheet. In data centre, the COVID, as I have already stated, COVID has impacted our life in multiple ways, but the positive outcome is the digitization. It is growing multiply in the country.

With the growth in digital space backed by trust on data protection, it is expected that the third-party data centre industry will grow significantly from the current level of 500 megawatt to 2 gigawatts in next 3 years. There I ask Ankit to take up these all data centre development, market and prospects for Techno.

Ankit Saraiya: Yes, sure. So, till date the most data centres have been located in Mumbai and Chennai. We selected for ourselves to be part of the Chennai market. And we selected the location in Chennai as Siruseri. We were one of the first movers to capture the market of Siruseri at Chennai. While there were only 2 data centres before us, that was from Airtel and Adani and over the -- post our acquisition, post our development, we've seen entry of Equinix, Sify, STT, to name a few.

So this has further validated our choice of location and location is extremely important and key when it comes to data centres because they have to be located [inaudible 0:18:45] infrastructure so that they are well connected to the cable landing stations or the fiber network that is laid down domestically in the country.

Having so many data centres around us has us connect to the ecosystem and has further validated our choice. [inaudible 0:19:07] the data centre of 24 megawatt IT load because we have control over cost, quality and the timeline of the project having our OPPC capabilities; almost 60% to 70% of the capex in the data centre is towards electromechanical works.

And with Techno's inhouse capabilities to deliver high-quality electromechanical works, we are able to have greater control over the time of the -- schedule of the project, the quality and the costs, and that itself would be extremely advantageous for us. And industry has started recognizing slowly and steadily the advantages that Techno brings to the industry.

We have almost completed, one can say, 50% of our long-need equipment ordering, expect deliveries of equipment starting from the month of July. As far as civil works are concerned, ordering has been 100% completed, and we have completed casting up to the third floor of the building.

The total building is 4 floors and only 1 floor is less, and we are hopeful we should be able to complete the casting of the last floor also by the month of July. So we will start the mechanical work from the month of July onwards. And in 3 months down the line, we should have the complete project or the project almost ready for testing, commissioning, and operations.

Ideally we are looking to develop a couple of more data centres across the country. We have shortlisted a couple of more cities for similar sized projects, one of these is in Kolkata, while the other is still under discussion and -- but in advanced stages, so we shall be able to speak about it during the [inaudible 0:21:20] still in active discussions with a few potential strategic partners.

But in meanwhile, there have been significantly positive developments, where we have [inaudible 0:21:34] we have started indirectly and directly engaging with the end customers. And we might just be in a position to be able to lease the space in the data centres directly, but continue to scout for strategic -- we continue to engage with them. And at the right time, we shall be able to bring someone on board to reduce our exposure.

Capex for the Chennai project is at approximately INR1,400 crores, that is about INR45 crores per megawatt. And we are still hopeful that we should be able to complete the project [inaudible 0:22:25].

P. P. Gupta: Ankit, are you through?

Ankit Saraiya: Yes.

P. P. Gupta: Thank you.

Ankit Saraiya: Yes. Thank you. And I'll only add to this that the national payment centres of India catering to UPI and other applications is very close to our data centre that has also added -- adding more value to the very location or pocket we are in. With this background, I'll now seek participation from the members to further clarify our any of the details or prospects.

Moderator: Our first question comes from the line of Gunjan Kabra with Niveshaay.

Gunjan Kabra: Sir, I'm little new to the company and I have few queries regarding the business model. So firstly, result wise, there is difference between consolidated and standalone numbers because standalone is higher than consolidated. So is it because of the data centre EPC or how is revenue recognition? And going forward, how are we planning to recognize this revenue, because there is some loss and unallocable cost with segment also. So I wanted to understand why is there such discrepancy with the standalone and consolidated?

P. P. Gupta: Mam, I think all of you know, this is a requirement to consolidate the accounts as per the Accounting Standards and SEBI norms. And work done for your own wholly owned subsidiaries like data centre or AMI, the cost incurred on those projects, we have to account for it in the stand-alone accounts. But they are taken largely at cost till a significant stage is achieved. In the very project, we can add profit margin thereafter.

But it does not make larger sense as a business to pay out more taxes to show only -- and we would like to capitalize this work done in our subsidiaries when the opex or operating revenue visibility is close by. So this is a better way to manage your -- efficient way to manage your cash and consolidation is a requirement.

Gunjan Kabra: So actually, I was wondering because the stand-alone sales are higher than console sales, that is why I was wondering, Okay.

P. P. Gupta: They will always be, mam, because as long as you are working, carrying out some assignments of the subsidiaries, the output generated by work done there will be part of stand-alone but not in consolidated. They will be a part of the -- separately in the subsidiary accounts prepared for each company.

Gunjan Kabra: Okay. Sir, also, how are we placed in the data centre industry, though it is a very emerging and growing industry right now. So in terms of competitiveness, how were we placed, because there are quite a few competitors also who are building -- who are also in the same model. So how are we placed in terms of firming of what cost? What is it for us? And how is the rental model work going forward? And have the -- I mean going forward, then are we planning, how this model will work going forward is what I wanted to understand in terms of revenue and profits?

P. P. Gupta: Well, Ankit. Will you like to answer this?

Ankit Saraiya: Yes. Yes, I'll take it. So as you rightly mentioned, the data centre industry is still very, very nascent, and still maturing. The -- there are very few companies that we can consider to be mature companies in data centre industry, but they have also been in existence for only last 10 to 15 years, and they can be counted as 2 or 3 at best.

Market will always be competitive when there is -- we'll keep getting more and more competitive, obviously, because there is a demand-supply gap. Today, where just to give on broad numbers, where the supply would be at about 650-odd megawatts, the expected demand in the industry is close to around 1,100 to 1,200 megawatts.

So there's almost 100% gap over here. And till the time this gap remains, we'll keep hearing more and more players jump into the industry. But being a very high capex industry and requiring specialized skillsets to be an operator of data centre [inaudible 0:28:42] as much as we see around the industry, we won't be seeing deliveries happen on the ground.

And for a company like Techno Electric, we are not trying to compete with established data centre operators. We don't need to compete with them until and unless we are able to build those operational skillset, which we are parallelly working on. But till that time, we will be ones who will be able to address the challenges that the industry at large is facing such as sourcing of power, finding quality EPC contractors.

And also delivering quality project to the end consumers because even today, it is only lately that high-quality projects have started getting delivered. Until today, the kind of skillset required to deliver high-quality projects were not available. But slowly and steadily, industry is maturing towards it and customers have started pushing the operators towards delivering better and more reliable solutions.

So that's the way industry is. And we understand that today, Techno may not directly want to take any kind of business risk out of data centre that is going into the market to lease the space. We would like to first attempt to find a strategic partner and investor who can help us in achieving those relationship with the customers that will ultimately lease out the sale and kind of derisk Techno out of those business risks. And Techno would like to play on its strength, which is EPC and power, because power is the raw material for any data centre at least today.

So we'll continue to play on our strengths whilst find a partner who can derisk us off the business; risks, which come along. And that's the strategy we would like to adopt till the time we develop our own operational model, which might take another couple of years.

Gunjan Kabra: Okay. Sir, when is the -- when is it expected to operational -- I mean, commence the operation, I mean, when will the rental and the income start from the data centres; is it in FY '25 that you will see the revenue coming in from that?

P. P. Gupta: Absolutely.

Gunjan Kabra: Okay. And sir, you also mentioned the INR3,800 crores of order book, we closed it on March 31. So I wanted to understand how much will we be able to execute it this year? I mean to -- like FGD takes down 2 to 3 years to execute. So the total order book, at which stage are we in terms of execution, if you can tell like how -- if you can tell that. And for the smart meter also, if you can explain what's the order execution cycle?

P. P. Gupta: Maam, I will say that the first visit our office, number one. But coming to your question specifically…

Gunjan Kabra: Sir, I would love to visit your office...

P. P. Gupta: Yes. You are welcome, and we'll be happy to host you. So firstly, the business of order of FGD is nearly a year old, and now it is right to execute. Last year, we have not booked any output of this work, although we got this order sometime around June, July of last year. Now this year, it is ready, and we hope that at least 50% of work will be completed this year and another 50% next year. You are perfectly right; it is a work of no less than 2 to 3 years.

As far as AMI is concerned, it is a very fast-track job. The present 2.5 lakh meter job we are doing is only at 12 months execution cycle, which has already started. Out of 2.5 lakh, we have already supplied 1 lakh meters. We have installed about 15,000, 16,000 meters by now, and we have to complete this work by no later than December this year. So this entire work will be completed of the present AMI order in hand by this year.

Gunjan Kabra: Okay, got. I will come back in the queue and good luck.

P. P. Gupta: Thank you.

Moderator: Our next question comes from the line of Sandeep Tulsiyan with JM Financial.

Sandeep Tulsiyan: Good afternoon and congratulations on completing the execution of the site. I hope you are doing well.

P. P. Gupta: Now is the future, sir. Now it has started. We have boarded the bus.

Sandeep Tulsiyan: Sir, I have a couple of questions. Firstly, the way this entire reporting is done, the margins in EPC are booked at INR39 crores. And on top of that, we have booked other income of INR23 crores. But because of some loss, the overall EBIT, that we have shown in just about INR24 crores. So I'm not able to understand this math, if you can explain that, it will be great, sir?

P. P. Gupta: You are asking a wrong maths, Sandeep. I think we have boarded a grand trotter on board, as per your requirements. We want to be best of the best in accounting. And just one quarter results do not -- will always be a little juggle here and there because discontinued business, sub business, third-party business, they all classify differently.

But when you look overall as annually, so a lot of mud is out in the company now. And we are now the good -- I always say in the company now my message is a good morning has happened, and we must see the bright sun ahead, and company must grow at no less than 30%, 40% a year now. So that in the next 3 years, we have doubled top line and at least doubled PAT. So that is the mission we are on, sir. And for any specific details, you are welcome to my office, sit with my accountants. They will take care of it. No issue.

I can say overall, let me complete Sandeep. My accounting start with cash, ends with cash. But, my accountant tells me Gupta Ji's accounting do not happen in cash, it happens on mercantile system.

There is a huge disconnect between their way of looking on accounting and my way of looking on this business. I still trust EPC business should be purely based on cash, at cash flows; what I have earned in cash and what I have spent in cash and what I have paid out in cash. So that is my way of life, and I've done it successfully. And I think I'm no worse than others. I leave that judgment to you; we have won cash in this business.

We are sitting on a cash of INR1,500 crores. We have paid out all taxes. We have paid out all buybacks and dividends of INR1,000 crores in the last 10 years. So we are cash positive and cash generative company. That's all I know as a business; rest is accounting numbers.

Sandeep Tulsiyan: Sir, just because should we just add these numbers, it seems some INR35-odd crores...

P. P. Gupta: Discontinued business tend to account for and then secondly, tax outgoing more, because of the wind assets, the capital gain tax itself has taken away INR55 crores. We have paid out a tax of this year, INR110 crores, all-time high which I think was never more than...

Sandeep Tulsiyan: So I understand the discontinued part. My question was more on the EBIT prior to the entire tax outgo and continued itself because our corporate segment shows a loss -- EBIT loss of INR14 crores on income of this INR22 crores that we have got. So it seems that the INR36 crores is something like write-off we have taken on an account?

P. P. Gupta: They may have offset some deferred tax here and there -- that is how it goes -- you are welcome to come to office and...

Sandeep Tulsiyan: Yes. I think we'll connect separately on that one...

P. P. Gupta: Overall, we are positively INR218 crores net of taxes. That is more vital to us and it is all in cash.

Sandeep Tulsiyan: Sir, second question was on the data centre part. We have booked this INR150 crores of top line in this quarter. And I think the initial guidance that you had given was roughly about 60% of this INR45 crores should be EPC work. So if you could quantify what will be the total EPC order execution that we'll do over the next 2 quarters, where we expect to finish this. What would be that size about -- should it be INR800 crores, INR850 crores or will it be larger than that?

P. P. Gupta: But Phase 1 order on us is about for INR540 crores if I am not wrong. That is Phase 1 order out of this. And so far, we have invoiced, spent rather not invoiced, about INR120 crores and the balance, you can say, about another INR200 crores or INR250 crores will be in next 2 quarters and balance will be in third quarter, another INR150 crores.

Sandeep Tulsiyan: Got it. I understand. Then balance part of cost, Phase 2 will be after that, which will form part of the total INR45 crores project, right?

P. P. Gupta: That is -- we are only at the moment working on Phase 1, which is Ankit referring to be ready by October.

Sandeep Tulsiyan: Understood. And sir, one question is on these sticky receivables of Afghanistan project, Bengal from execution done TANGEDCO INR80 crores receivable. Sir, what is your entire outlook on this? How soon can you realize this total INR150 crores, INR160 crores of receivables which are sticky. Over what time period can this be realized by the company?

P. P. Gupta: I trust it should not take us more than 1 year maximum because now we are in a closeout mood and we will put all possible resources and influences. Dealing with Discoms has always been a pain. Had it been what our Central Government makes us believe, there was no concern to exit here. The very pain to exit lies there that we don't implement what we say. We don't mean what we do. That is [inaudible 0:40:15] in my life. So -- but you take it 1 year, the perfect answer to your question is 1 year, it will all be liquidated. Rather we have to get much more, Sir. We don't want to put it in books. We'll count on cash basis as and when received.

Sandeep Tulsiyan: Understood. And sir, on this -- next question is on this AMI business. In the past calls, you had highlighted that when you come closer to execution, you'll be able to give more colour on the business model. If you could explain that briefly to us how the revenue bookings and what will be the typical cost margins in that segment? Exactly how the P&L of this entity Techno AMI will look. If you could give a broader sense of the business model that will be helpful?

P. P. Gupta: Sandeep, I think I'll be better placed to explain you in June quarter results because if the -- as I explained, they are like to have some accounting process called HAM which was used in highways, which will be a similar model of accounting here -- but we are a little more -- will be innovative because of our comfort with the lending bodies. Going forward, we'll examine how we can, apart these receivables, win some of them.

Sandeep Tulsiyan: Okay. So fair enough. I understand that. So we'll probably connect on that in the quarter after that. And lastly, just for reconfirming the wind assets, which are in hand. So now we have some 6 megawatts in Andhra Pradesh and around 3 megawatt, 3.5 megawatts in Tamil Nadu. So 9.5 megawatts will be left after this entire transaction is completed, is that right?

P. P. Gupta: No, sir. 18 megawatts in Karnataka we are left with and another 3.3 megawatts left in Tamil Nadu. We never had any asset in Andhra. So 21 megawatt is presently with us, 3 megawatt we had a volume we could not execute because of the lag issues. Digitization sometimes can be a blessing and a victim both. You can see that.

So all that data are digitized now and multiple people have registered the same land parcel, on which our windmills are lying, although we have assurance Suzlon, the ultimate challenge that it belongs to them. But we'll be able to unlock it, sir.

There was a company in Chandigarh called PAPCL, they did some kind of teak farming claims and collected a lot of money from investors. SEBI knocked down on them. There was a Lodha committee and whatnot. It was a mixed up of all type of scam you may be knowing it. So we have to go through all the processes to unlock that land parcel from there, sir. But we'll be able to do it.

Sandeep Tulsiyan: 21-megawatt entirely will be sold and -- or we will retain something for in-house consumption in Karnataka?

P. P. Gupta: No, we are not retaining anything for consumption now, sir, because a lot of policy changes have come. With the very amendment to the Electricity Act, where renewable power enjoys open assets now already over conventional power. So buying power in open assets with, ISTS charges being not there, makes this power more competitive in buying out than generating yourselves.

So these regimes are changing every month, Sandeep, and we have to catch up with that regulatory side. It's highly regulated business. Government is keen to promote this business in India, decarbonize India. So all these kind of facilitations will continue. Like yesterday, only notification has come from CRC that our next 25 years ISTS charges waived for generators.

Sandeep Tulsiyan: All right, sir. All the best to you.

Moderator: Thank you -- our next question comes from the line of Sarvesh Gupta with Maximal Capital.

Sarvesh Gupta: Sir, first is on the revenue guidance for this current fiscal year. So I think this year, despite having almost INR3,000 crores, INR4,000 crores order book, the overall EPC execution ex of data centre has only been like INR830 crores. So it has been much lesser than last year also. But going forward, if you can just help us understand how the execution can be on the INR4,000 crores order book that we have, excluding data centre, sir, that would be helpful.

P. P. Gupta: Minimal. We're talking very conservatively; you can take it almost around INR300 crores plus/minus third party business other than our own works to be carried out for data centre and AMI.

Sarvesh Gupta: Okay. So that is INR1,300 crores. And then as you were mentioning, out of the INR540 crores of data centre, I think INR130 crores, we have already done INR140 crores, we have already done. So INR400 more will come from data centre?

P. P. Gupta: Right. It should come INR350 crores further.

Sarvesh Gupta: Okay. And on this INR1,300 crores, sir, how do we see the margins playing out for this financial year?

P. P. Gupta: I will continue to maintain guidance at 12% plus for this year also, but I'm very hopeful it should be a little better, may be not quarter-on-quarter, but prices are softening at the moment because of China backlog. Even steel prices have softened by INR3, INR4 in the last 1 month. That's very positive. So if commodity prices are softening, inflation is going down, we are very hopeful that it should be something better than 12% only.

Sarvesh Gupta: So the last call, we had mentioned around 14.5% for the EPC side. So are we guiding for a lower sort of margin this year?

P. P. Gupta: I'm not saying lower or higher, sir. You see it depends on very, very job-specific interactive part. Ultimately 12% may become 14% because last year, when we guided 14 we had that kind of PV provisos in our contracts additionally available.

Now under TBCB model, the order becomes by and large future price with the developers. So if commodity cycle remains softened, it will be better only. But I must give you something which I cannot breach, like you can see last year also, we are nearly 14%, which I told you on an average for the year. But quarter-on-quarter, we have been coming down a bit, like last quarter is now 12% or 12.5%. So similarly, you take 12.5%; 12.5% to 13% will be safe enough.

Sarvesh Gupta: Understood. And on this INR400 crores, rather this INR540 crores data centre project, now this quarter, we have not booked any margin, so that is 0. So going forward, as the milestone comes, what is the strategy to sort of book profits here?

P. P. Gupta: It will be guided by the accounting norm, sir. We cannot apply our own mindset on this. I'm not sure how margins are taken care of. If eligible, it will be taken. Otherwise, it will be zero only, it will be cost-to-cost.

Sarvesh Gupta: So even after the completion of the Phase I, there is a...

P. P. Gupta: You see once you have completed, COD has happened, as it is capitalized in the subsidiary and it is no more work-in-progress, then it is a final billing, then it is a close-up. COD has happened. Once you have executed the whole contract, margin flows in. I have no doubt. But progressively, at what stage that is eligible for margin, I'll have to see guidance from my accountants.

Sarvesh Gupta: Understood, sir. And sir, finally, on the order book side. So currently, we are at INR4,000, INR3,800-odd crores. And did I hear it correctly that you said that as against INR3,300 crores of order flow in FY '23, you are expecting around INR 4,000 crores of order flow in FY '24. And what will be the breakup of that, sir, in terms of various segments and especially if you can highlight the L1 also INR1,250 crores, where is that?

P. P. Gupta: One is, as I said, is a [lay 0:50:16], we are L1 we founded in transmission asset business, and another in AMI business. These are the two businesses, where we are L1, and we are also seriously engaged in FGD business with a private developer, whose name I cannot disclose at the moment. So definitely, we are looking for a year-end order close of no less than INR6,000 crores by the year end of '24.

Sarvesh Gupta: Okay. So INR3,800 crores and INR4,000 crores more this year and lessened by maybe INR1,300 crores of this year?

P. P. Gupta: INR1,800 crores including data centre and AMI and third-party business. So INR1,800 crores, you can minus out of it. INR1,150 crores [inaudible 0:51:09].

Sarvesh Gupta: Understood, sir. Thank you, sir. Thank you, sir. All the best.

Moderator: Thank you. Our next question comes from the line of Mohit Kumar with ICICI Securities. Please go ahead.

Mohit Kumar: Good afternoon, sir. My first question is on the inquiry pipeline for the transmission side. Are you seeing any -- I understand there is a -- the bidding pipeline is very large. So, can you please comment on that?

P. P. Gupta: See, I will say that pipeline is long sure, but not the value in transmission assets because these are largely limited to two states as of now, which is Rajasthan and Gujarat. That is where most projects are happening as of today. And it is already densely populated with transmission assets, but we still see a lot of scope in intrastate business in augmenting their own capabilities, capacities. And also grid need technological improvements in injecting more renewable power vis-a-vis conventional power.

We are already at around 12%, 15%, which need to improve to 25% to 30% in the coming four years, five years. So that will give a lot of challenges to the grid, which has to be backed by many new technology solutions as well as pumping storage backups or gas-based stations. Any ongoing technological innovation, but we, at the time, are taking this sector a bit conservatively at least for this year.

Mohit Kumar: My second question is for intrastate. Are you seeing -- are you reasonably hopeful of intrastate transmission activity picking up in medium term? And does that create an opportunity set for us?

P. P. Gupta: Yes, if there is opportunity, it is for us, sir. Whether it is corporate or private, that's not an issue. The question is the very opportunity happening in a right manner and right time, and government is time and again postponing the biddings, number one. The ground reality is little different than, what you see is the media or what minister talks about, that is my takeaway. Because still they are not able to sign is, they are counter party, which are mounting with every day. So challenges are also growing within these sectors, sir, because I've always mentioned to you, this sector need market reforms, not regulatory reforms.

And regulatory reforms are not going to take us anywhere in this sector. 20 years of electricity act, what has happened to consumer, where you produce electricity at INR3, you tell me. And at your house, it comes at INR10, and you are still in loss, sir. And that DISCOM is in loss. How do you define the balance sheet of DISCOMs, by reforms in this sector at the end of the day. So, these are all the cosmetic progresses, I will say. So we are all going along with it happily. But if they leave this sector like aviation, telecom, highways, to the market forces, you see what kind of changes happens. It will be entirely different, sir.

Mohit Kumar: Sir, my third question on the data centre, of course, we are building up our data centre. Is there a faster way that, we can participate or build data centre for third party?

P. P. Gupta: Yes, absolutely.

Mohit Kumar: What are our capabilities, sir? In the sense, let's say, for this INR1,400 crores which is spent, on our -- what is our scope?

P. P. Gupta: Ankit, will you like to address this issue?

Mohit Kumar: Can you make up the data centre cost between the various parts and let us know of the scope, which -- where you can work?

P. P. Gupta: Yes, we will be largely having the scope in electromechanical and multi-layered power supply solutions, sir, that will belong to Techno. Data centre is defined in terms of megawatt, number one. So -- and it need to have a reliability of power supply. So it has a multi-layered power supply solutions around it. Two grids and two backups then [N plus one 0:56:16] in backups then you need a lot of renewable power storage solution, if you can afford going forward, that will be a way of life, then all kind of electromechanical solutions from medium voltage to DC voltage, they will be digitally part of the solution. So then safety solutions around it. Security surveillance around it.

So these are highly secured, reliable 99.99% available installations. They're not like power stations, which are configured around availability only. They should not have latencies, that's a very big thing. You have to have an internet exchange very close by, to your data centre to avoid latency, which we often experience in our line. So OTT is growing, apps are growing, e-commerce is growing. So this has quality demand of data centre and cloud services are growing. So all this will mean a lot more use on data centres.

Mohit Kumar: Sir, my last question is, sir, have you tied up -- sorry, I missed out, but have you tied up with the client for the renting out our data centre? And what is the kind of utilization level, you expect to achieve in, let's say, two years to three years?

P. P. Gupta: Ankit, will you like to answer this?

Ankit Saraiya: Yes. So as I started the call -- we started the call, we explained the progress at that point of time. We are still in discussions with a few that we are looking to tie up with customers or client directly for this project because we do not have those kind of skill sets, which are required for operating a project, to the satisfaction of a client. But rather have a partner on board that can help us operating these projects, and who can help us tie the facility or the space available in the data centre by leasing it to those specific end customers.

So we are trying to de-risk ourselves from those aspects of the business, which we are not fully conversant with or yet comfortable with. So the whole customer time part shall be taken care by the partner that we finally shortlist for the project. As far as Techno is concerned, we'll continue to work on what we are very strong at, which is ensuring that, the project gets reliable power and the project is built to the best specifications possible for the end customers.

Mohit Kumar: Understood. Is it fair to assume that you'll have, you'll be tying up in the next couple of months?

Ankit Saraiya: I wouldn't want to put a timeline because we not added for last two years and -- or, let's say, last 1.5 years. But as the project is progressing, we are seeing better quality of interest and better terms as well. So, maybe once we are more closer to commencing the project, I'm more hopeful that, we have a position on the table that we'll finally be able to accept and go ahead with.

Mohit Kumar: Understood, sir. Thank you and all the best, sir…

Moderator: Thank you. Our next question comes from the line of Chirag Shah with ICICI Direct. Please go ahead.

Chirag Shah: Good afternoon, sir. So, just one clarification. When you mentioned that, you're looking guiding for INR1,800 crores of stand-alone revenues. So the margins that you mentioned, 12% includes the margin on the revenues book on both the subsidiaries of AMI and data centre, right?

P. P. Gupta: No. No margin. It's at cost.

Chirag Shah: But, sir, as you mentioned, whatever I understood that, if you book out the whole order in FY '24, at the end of the order, you'll book some margins, right? So that...

P. P. Gupta: Yes, absolutely. That will be a part of the bottom line. Absolutely, for the year end of '24. You're right.

Chirag Shah: Okay. So in that case, sir, what will be our margins look like, if I just look at the stand-alone piece per se?

P. P. Gupta: Look, sir, then I will not say margin, which overall, will remain same 12.5% to 13%. I'm not going to make a profit-eating out of my subsidiary. But our top line eligible for margin will become larger. That's all I'm saying. Everyone have not met. Presently, the margin which I'm saying is, on the third-party business as an accounting norm.

Consolidated will speak better in that case. But once my own sub business becomes eligible for profit booking in the top line, then margin percentage will remain same, but the top line eligible for margin grows.

Chirag Shah: Because I was coming from the point that tomorrow, if in future, if you take a third-party data centre execution project, so what kind of margins one can, I can [inaudible 1:02:07]. So I was just trying to understand that?

P. P. Gupta: You can expect around 15%, sir, easily, if not 20%.

Chirag Shah: And, sir, my second question is more on the FGD side of the business because you mentioned that, your commentary suggest that, you are quite gung-ho, on that segment. But if you look at the market per se, few of your competitors are mentioning that FGD market is slowing down. And if you look at NTPC, it is almost done with its FGD ordering. So, where is the scope or where is the opportunity that you are looking at?

P. P. Gupta: Sir, government has fixed a date by which, everybody is to do the business, you are very right, NTPC is more or less completed its assignment. But states and private players are still lagging. They are usually backlog with them. Almost 100 gigawatt is yet to be fitted with solution on NOx and SOx solutions.

You're right. So it is a time to address market emerging out of the captive power, private players and [BHV 1:03:19] State Electricity Boards. And something to do with the ICBs also, CPSU also like DVC. They have just now come out with the tender in one of their units now.

Now, they are further expanding the capacity in thermal world, which government has recently approved to the extent of about 25 gigawatt. Those projects will also be retrofitted with these solutions additionally. So the market for next four years, five years exist. Yes, there is a bit of a slow start because government has already granted them time extension up to '27.

Chirag Shah: Got your point, sir. Thank you also. That’s it from side.

Moderator: Thank you. Our next question comes from the line Dhavan Shah with Alfaccurate Advisors. Please go ahead.

Dhavan Shah: Yes. Thank for the opportunity. So I would like to understand more from the order book side. So, we ended up roughly INR3,800 crores of order book. Can you break it up between the generation, transmission, distribution, what is your end order book for these three segments, sub-segments?

P. P. Gupta: Yes. INR1,500 crores in generation, taking FGD as a part of the generation and another about INR1,000 crores is in transmission, and about INR300 crores is in AMI, and further our data centre order is about INR400 crores or INR425 crores. And AMI business for our own totex market is about, you can say, INR250 crores.

Dhavan Shah: Okay. And normally, you mentioned that roughly 50% of the FGD contract work is already completed. And the 50% execution would be completed this year and the rest would be next year. So in the transmission wise, the execution cycle would be four years to five years, right? So including all these things, you mentioned that, we will end up the revenue of roughly INR1,300 crores odd, for this fiscal, that is what we have mentioned, right, excluding data centre?

P. P. Gupta: Your well [inaudible 1:05:59]. I never mentioned that. Today, renewable power generation starts within a year, sir. The days of three years, four years or four years, five years are over. Transmission system has to be in place by one year, number one. Number two, I mentioned that, FGD do take two years to three years, but the order is one year old, where we have not booked any revenue so far. So this year, second year will be the first year for the revenue booking ending within next year, that will be the third year of the order and '24, '25 of the company. That is what I was explaining.

And I also said that, the metering order we have with us today, is only to be completed within 12 months. But as per the government scheme now, they are generally giving us about 27 months in [inaudible 1:06:52] for schemes in new metering solutions. The old work, which I am doing for 2.5 lakh meters is to be completed in 12 months, that is by March '24. So, all of this will get executed, in this year.

Dhavan Shah: Okay. And the margin-wise, can you share the sub-segmental margins, how are the margins between this FGD transmission and data centre, should, we assume the average 12% or is there any difference between these 3, 4 sub-segments?

P. P. Gupta: On average, you can take 12% to 12.5% easily, but they are differentially distributed. Transmission is 10%, FGD is 15%, EMI is another 13%, 14%. So average out is about 13% plus/minus, you can say.

Dhavan Shah: Sure, sir. That's it from my side. Thank you.

Moderator: Thank you. Our next question comes from the line of Shreyansh Gathani with SG Securities. Please go ahead.

Shreyansh Gathani: Hi, good afternoon, sir. I had a question on the data centre, basically. So, I wanted to know, are the -- is the partner just waiting for Techno to demonstrate like certain capabilities in terms of construction of the data centre, which is why, it is getting delayed and terms are, like you said, getting better or like, why would the contract signing not happen today and would happen at a later stage, and also like, if the clients, that you're talking to like you mentioned, like, since the last 2 or 3 con calls that, there is a term sheet and back and forth. So are they the same people you are talking to? Or is there different people, in terms, of the partners that you are considering.

P. P. Gupta: Ankit, will you like to articulate the answer?

Ankit Saraiya: Yes, I'll address it. So basically, what we are trying to say is that, every project goes through its own cycle. And today, it's at a place where, most of the development risk is behind us. When you look for a partner at the very concept stage where it's a barren land, it's very, very blank. It's like both the developers coming together and setting up a project and taking on the development risk equally. I think, by that much more development risk is getting behind us. And therefore, the expectation of rewards are constantly changing and how the market perceives the project also changes. Second, the industry timelines, it helps you sometimes because…

Moderator: Sir, your voice is breaking. Hello?

Ankit Saraiya: I'm saying that with time, obviously, industry dynamics also changes. And today, we are at a position wherein -- you see for the year 2024, there will hardly be any space in data centres available in the Chennai market. This probably will be the only project that will be available with this kind of a space. So most customers should prefer this project. And the competitive advantage that, we would have in compared to the industry would be much better. Many projects, which were planned to get executed or completed in 2024 for obvious reasons have got delayed to 2025, which gives Techno Electric better edge in the industry.

Third is that, sourcing power is always a very big challenge, especially in a state like Tamil Nadu. And somehow Techno's experience has helped us in securing the required amount of power for the project, which is significantly unique to other projects. While some are struggling to even secure power, we have that security available. So as we are progressing, we are unlocking certain challenges. And that is improving the prospects of the project and the -- one can say the valuations one can command with the partner.

And the quality of partner also changes because at the time, when you discussed for the first time, they also see that the project is at a very decent stage. There's still time for capital deployment or the availability of the project in the market.

So those discussions take time to mature out, but now that we are coming close to completing civil works and coming close to commissioning and these development risks are behind us, there are more serious conversations that have started taking place. And it's just a matter of time, when we decide that, okay, this is the terms and valuation at which we are comfortable now closing at it.

Shreyansh Gathani: Got it. So you had mentioned like around an 18% IRR for this. So that was, in the September con call last year. So like should we assume that we should do better than that, given that you're looking for better terms now or does that remain the same?

Ankit Saraiya: You see ultimately, IRRs are obviously about the amount of risk, which we want to keep on our table. If -- till the amount of revenue risk that we are willing to take on the table, that much more the returns obviously improve for us. But that much businesses is also Techno goes through. So the final call, we will take on the basis of what kind of revenue risk is Techno willing to take on the table. So the IRRs are ultimately dependent on what kind of a lease, if we don't want to take leasing risk of the project and we wanted to be 100% borne by the strategic partner, obviously, IRRs would be much different than in case, if we are willing to take the lease risk on our table.

Shreyansh Gathani: Got it. And are we still talking to the same partners? Or have we got additional partners or some of them have changed or...

Ankit Saraiya: We're in discussion with three partners.

Shreyansh Gathani: Okay. Got it. Thank you. That's all from my end.

P. P. Gupta: Let me add here, sir, for all of you, whatever assets, we developed 10 years back or five years back or we are developing now, we have always aggregated, had a huge gain and never had hair cut, whether it was transmission assets or it is wind power or going forward, our own AMI assets.

We are very sure, we understand quality and life cycle of an asset in performance in this business. That is the biggest forte, we have.

We are not commercially scaling up or building up some issues, to be party tomorrow to third-party at some margin. If market supports me, I make a gain, if does not, I take a haircut, that is not the business of Techno, sir. My business is to excel, first technically and then financially. So I have always, finance has followed me, my excellence in technical application of the solutions more than other way around. So finance is not a criteria, when we work on a project. But it is important and we have always been positive on it, benefited with it.

Shreyansh Gathani: Got it. That is helpful. Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing remarks.

P. P. Gupta: I will like to thank all of you for joining our investor conference and asking very-very simulating, stimulating questions, and you are welcome to visit our office. I will only say that, with the lapse of four years and stagnating work all years is behind us. The sunrise in the company has happened now. And we are on a strong footing to grow in next three years. And you will find our top line and bottom line doubling out in next three years to four years. And we'll be building more modern day technology-based solutions, both in data centre, transmission, AMI and whatnot all we like.

We are very excited for our tomorrow today, I will say. With this, I will like to thank all of you for joining the conference and if you are still left with any query related to our future technology journey, our performances, please drop a mail to us. If you happen to be on this side of the city or in Delhi, we have now large-size office added by Ankit in Delhi in Gurgaon, you are welcome to drop in and call on us. We'll be delighted to host you. Thank you very much, once again.

Moderator: Thank you. On behalf of Asian Markets Securities Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.