"Techno Electric & Engineering Limited Q2 FY'24 Earnings Conference Call"

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MR. ANKIT SARAIYA – WHOLE TIME DIRECTOR – TECHNO ELECTRIC AND ENGINEERING LIMITED

MODERATOR: **MR. SURAJ SONULKAR - ASIAN MARKET SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Techno Electric & Engineering Company Limited Q2 FY '24 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 expectations of the company as on date of this call.

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I now hand the conference over to Mr. Suraj Sonulkar from Asian Market Securities Limited. Thank you, and over to you, sir.

Suraj Sonulkar: Thanks, Zico. Good afternoon, everyone. On behalf of Asian Market Securities, we welcome you all to Q2 FY '24 Earnings Conference Call of Techno Electric & Engineering Company Limited. We have with us with today, Mr. P. P. Guptaji, Chairman and Managing Director; and Mr. Ankit Saraiya, Director representing the company.

I now request Mr. Ankit to take us through the overview of the quarterly results, and then we shall begin with the Q&A session. Over to you, Ankit, sir.

Ankit Saraiya: Thank you, Suraj. And good afternoon, and I welcome, everyone, to discuss Techno's financial results for the quarter ended 30th September 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 the risk that the industry and company faces.

So now let me quickly highlight our performance for second quarter FY '24. It is to bring to your knowledge that we have sold the wind assets of Tamil Nadu in FY '23. With regards to this the operations for the same has been disclosed as discontinued operations in the results as per accounting standard.

Techno has created a subsidiary to promote business of data centre. The company is not operating and not revenue accretive. In the consolidated results, we knock-off the financials of this SPV of data centre as per the accounting standards that is the major difference in the stand-alone and consolidated results. As and when this asset becomes revenue accretive to the business, it will start showing its contribution in the results and hence, it would be good to analyse then.

Total revenues for the company from EPC stands at INR482 crores, including the execution of data centre subsidiary order at cost, up by 167% year-on-year. We expect the similar level of revenue for the forthcoming quarters as well. EBITDA for the company stands at INR75.62

crores, up by 133% year-on-year. EBIT for the EPC segment for the quarter stood at INR72.37 crores, up by 161% year-on-year.

Other income for Q2 FY '24 stood at INR28.30 crores compared to INR19.03 crores last year. PBT from continued operations for the quarter is INR98.08 crores, up by 103% year-on-year. PAT from continued operations for the quarter is INR71.42 crores, up by 98% year-on-year. EPS for quarter 2 FY '24 stood at INR6.63.

Now coming to half year results, revenue from EPC in H1 FY '24 stands at INR825 crores, up by 152% year-on-year. EBITDA for the company stood at INR123 crores, up by 125% year-on-year. EBIT for the EPC segment for H1 FY '24 was around INR117.67 crores, up by 129% year-on-year.

Other income for H1 FY '24 was INR58.94 crores compared to INR33.77 crores. PBT for the half year was at INR170 crores, up by 106%. Profit after tax from continued operations stood at INR125 crores compared to INR60.54 crores, up by 107%. EPS for H1 FY '24 stands at INR11.64. Current investment value, including cash and cash equivalents as on 30th September 2023 stands around INR1,500 crores that is more than INR140 per share.

For H1 FY '24, we had an order intake of INR611 crores. Post September, we got 2 L1 orders converted that is one smart meter order from Indore for 5 lakhs smart meters for INR536 crores and one transmission order from PGCIL for 765/400kV substation at Dausa for INR288.32 crores. Thus, our unexecuted order book as on date stands around INR4,361 crores.

Other than this, we are L1 in orders worth INR3,550 crores, comprising of one transmission order from power grid for INR225 crores, 1 transmission order from Sterlite for INR200 crores, 1 transmission order from NTPC for INR227 crores, 2 smart meter orders, 1 from Jharkhand for INR1,395 crores for 12 lakhs smart meters and Jammu and Kashmir for INR1,041 crores for 7.25 lakh meters, and Tripura for INR445 crores for 4 lakh smart meters. We have bids in pipeline for over INR5,000 crores, which is yet to open and we are hopeful to bag at least INR2,000 crores worth of orders out of the same.

Coming to the outlook of various business verticals, as committed in last quarter, we have been able to tie over the difficult times, and we foresee significant growth. We expect the growth momentum has just begun and should continue for FY '24, '25 and '26. We expect larger businesses out of smart meter segment, transmission and data centres.

The FGD segment is a bit subdued because of the energy issue country is facing at the moment. Probably this is the first year when energy demand is going to grow in double-digit growth, which in the last three years, we have seen no more than 3% to 4% per year or maybe stagnating. So, Government of India has promised another thermal capacity of 30 gigawatts, 40 gigawatts, but it will largely be brownfield and in PSU segment.

We are also seeing strong power sector reforms as government desires to ensure timely payment to the generators, as well as watts to contain losses of the discoms. Strongly the amendment of the Electricity Act December '22 is also in place and now central government is trying to take a larger role out of the amendments, ensuring availability and reliability of power supply, as well as billing and last mile collection out of the sale of power.

The overall financial health of the sector is likely to improve in the coming years, if this focus really stands implemented, while the focus will continue to be on renewable power, by addition of almost 500 gigawatts by 2030 as committed by Government of India. We will definitely need energy storage solutions like; battery, energy storage system or pump storage of no less than 20% of this capacity and this will also have to be additionally supported by many kind of capacitive reactive power management solutions in the grid. And we see significant activities where Techno is fully qualified and competent to provide solutions.

Speaking on FGD segment, the FGD segment continues to be a bit subdued at the moment. However, a lot of work is still pending. Thermal capacity being largely in private sector, probably the owners believe that they may get more time up to 2030 in the future. So, they are definitely reviewing and waiting for commodity cycle to be subdued further so that the solutions can be rolled back to sub INR50 lakhs per megawatt as was happening 4 years back.

Our orders which we have got in Rajasthan is progressing smoothly. We have got orders worth INR1,450 crores in FGD segment. This level of business will continue for next 5 to 7 years as 100 gigawatt is yet to be ordered out by CPSUs, SEBs and private sector totalling to a scope of almost INR1 lakh crores.

In transmission segment, we would say after a long gap the traction in transmission sector is back. bidding is happening for 50 to 100 gigawatts now, and a lot of bidding is in progress at the moment. And we are finding that every month, 4 to 5 concessions are being awarded to power grid or the private sector. The interstate transmission system for evacuation and grid integration, while 15-gigawatt renewable energy from Ladakh has been proposed with an investment of INR207 billion, including central support of INR83 billion.

Total bids open for transmission is around INR40,000 crores, out of which Techno expects to book orders worth INR3,000 crores over the next 3 to 5 years. We have won orders worth INR610 crores in first quarter, and we are L1 in another INR940 crores within the segment.

Coming to metering segment or distribution. On the distribution side, we see a lot of activity happening going forward, particularly in the area of smart meter. Budget 2023 has also assured in a key measure for the financial health of state distribution utilities by tying 0.5% of the deficit to power sector reforms. This is an added incentive for the states to reform the discoms. We are witnessing focus on strengthening power distribution network to make them smarter and intelligent.

The main aim of the government is to improve efficiency and contain losses so that the health of discoms would be improved. Around INR22.22 crores meters are under various stages of awarding, totalling to around INR2.22 lakh crores, out of which around 88% would be under RDS scheme. Out of the above, around 73.53 lakh smart meters, 9% of total awarded meters have already been installed. We expect to get orders worth INR2,000 crores to INR2,500 crores out of the segment every year. We have already got one smart meter order in J&K for 2.5 lakh meter worth INR338 crores. And at and one smart meter order in Indore for 5 lakh meters, worth INR536 crores under model, and we are L1 in orders worth INR2,900 crores or 23 lakh meters. We are very hopeful that power sector is at a very critical juncture and something good should happen going forward.

Coming to data centre. We all believe that digitization and services on cloud is the most prominent reason that has led to growth of data centres, and demand of data centres apart from other reason, such as 5G and many more. Over the last 6 months, the industry has taken a very dynamic position, especially because of the way AI and machine learning has become more prompt and has becoming a way of life so that has especially led to a change in the way data centre infrastructure or design is conceived.

As the world is moving towards adopting AI on a day-to-day basis, the requirement of infrastructure to cater to those kind of computing requirements will also change but lead to exponential growth in investments in data centre. Given the kind of land bank we have compared to other countries in Asia Pacific region and adding to it the renewable energy capacity that we have plus the Digital Data Protection bill that has been passed in the parliament, the demand of data centres or the investment in data centres in India is going to increase significantly.

And Techno is also in advanced stages of setting up a data centre of 24-megawatt IT load of ultra-scalable hyper-density nature. We have achieved significant progress on construction. We have completed the civil works for the data centre building. We have already invested INR222 crores on this project. Procurement of long lead equipment have been completed almost up to 80% or one can say significantly. We are hopeful of commissioning the first phase of the project by March 2024.

We are seeing a significant and aggressive interest from strategic partners to enter into JV for developing data centres in India. We are evaluating the available options and shall conclude a way forward very soon. With capex of INR1,400 crores, that is INR45 crores per megawatt, about 60% to 65% of this capex is invested in electromechanical work, which is an in-house expertise and strength of the company, and we will be able to leverage on the same for executing the work. With the EPC capabilities and prior experience of developing infrastructure projects, we are uniquely placed because we have great control over cost, time and quality of the project.

With this, we are opening to answer your questions that you may have. So, we look forward to receiving questions from you now. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Gunjan Kabra from Niveshaay.

Gunjan Kabra: Congratulations to the entire team for such superb set of numbers. I had a few questions. First is, I wanted to understand the business size, where will be like in transmission segment supposed in particular, how much can we execute in a year, assuming a project takes around 12 to 15 months. So how much according to our manpower ecosystem and other bandwidth, how much of the total the order book or how much of the total order can we execute in transmission and distribution in a year, I wanted to understand that?

Padam Gupta: You have through with your question or you have some more?

Gunjan Kabra: I have some more questions. Should I ask now or one by one?

Padam Gupta: Yes, no issue. By and large, we are happy, strong in building transmission, distribution solutions in the country. And at one time, we have done no less than INR1,500 crores per year also. I think given the inflation factor and you're projecting I trust we can even expand our ability to do around INR2,000 crores per year. Did I take care of your question, ma'am?

Gunjan Kabra: Yes. Also, if you can bifurcate like in Q1 in transmission order book was around how much segment-wise you can bifurcate, and the EPC segment, how much was executed from FGD and how much from transmission and distribution?

Padam Gupta: Yes, you can take in Q1, Q2, almost 80% is from transfusion. And another you can say, 20% or 15% -- 18% may be from metering work and another 12% from data centre.

Gunjan Kabra: Okay. And sir, if we close the order book in FY '24 at around say INR4,000 crores, INR5,000 crores, then what kind of revenue from that we can target in FY '25?

Padam Gupta: Our target will be almost about INR2,500 crores plus. And this year, we -- as I have already said, we should be anywhere between INR1,600 crores to 1,800 crores. stabilizing the execution at INR400 crores to INR500 crores per quarter.

Gunjan Kabra: Okay, that's great. And I also, in this quarter, resulted in higher EBITDA margin in the EPC segment. So, was it because we incorporated some profitability from AMI business, which we used to do it on cost basis? Or is it sustainable at 15% EBITDA margin in this business? 15%, 16%?

Padam Gupta: No, ma'am, you see our guidance will continue to be 13% plus/minus depending on commodity cycle, quarter-on-quarter, sometimes you see better happening. And also, the mix of the jobs in execution. If they are take-off stage, they are a little more operative than closing phase projects. So, it's all a blended question. Commodities are, at the moment, a bit cooled down. So, that may have also helped. But the yearly guidance, we will not like to change from 30%.

Gunjan Kabra: Okay. And last question is, sir, like in STD, the demand scenario is subdued. So, initially, we were targeting around INR1,000 crores every year in this segment. So, now, what are we targeting in this segment...

Padam Gupta: No, we have always targeted around INR500 crores to INR750 crores of demand. Because these are little bit medium-sized construction projects. So, it involves more efforts than compared to station work. But you can take it, at the moment, around INR500 crores per year.

Moderator: Our next question is from the line of Subhadip Mitra from Nuvama.

Subhadip Mitra: Just wanted to reconcile some numbers that you spoke about in the opening comments. So, I understand correctly mentioned that in transmission we are looking at a potential annual order inflow of INR3,000 crores. And for smart metering, you are looking at about INR2,000 crores, INR2,500 crores of annual order inflow, is that correct, sir?

Padam Gupta: I've talked of INR2,000 crores as a capacity of transmission and distribution works, not the order books. Order book is a market-driven exercise. I trust we should be able to take an order intake of about INR1,000 crores to INR1,200 crores per year as far as transmission is concerned. And another INR2,000 crores may be out of the metering work.

Subhadip Mitra: So, transmission, INR1,200 crores per annum of annual order inflow and smart metering INR2,000 crores. Is that correct, sir?

Padam Gupta: Yes. On an average, but it will keep changing.

Subhadip Mitra: Of course. I appreciate it. And similarly, in FGD, what is the annual order inflow that you would be looking at?

Padam Gupta: FGD, we are having an order of about INR1,500 crores already in the hand. In this very year, we don't see any new orders.

Subhadip Mitra: Understood. But for FY '25 and '26, given that there are a lot more orders on the annual, is there any number that you would take that at?

Padam Gupta: You can take around INR1,000 crores per year as the order book.

Subhadip Mitra: Understood. Understood. So, on an overall basis, I think you should be comfortably able to be somewhere near the INR5,000 crores mark if I put all of these 3 segments together.

Padam Gupta: Absolutely. It should be like that.

Subhadip Mitra: Perfect. Perfect. And given that, clearly, the macros are so strong on the transmission and the smart metering side and the way your order inflows and order book is growing, would you anticipate a higher growth in terms of top line, let's say, over '25 and '26? You did mention, I think, INR2,500 crores as a FY '25 top line number. So -- can we hazard a guess, that maybe the number will be INR3,000 crores plus, let's say, by '26?

Padam Gupta: Yes, you can safely take that because '24 itself, we should be around INR1,600 crores to INR1,800 crores. And '25 our target will be less than INR2,500 crores number. So '26 INR3,000 crores seems feasible as for the order intake now.

Subhadip Mitra: Perfect. Very, very useful. And would you again be looking at naturally upping let's say, the margin number, maybe not for '24, but going into '25 and '26, would you see that there is hope for the margin to expand further?

Padam Gupta: Look, it depends on the commodity cycle. So, it is a bit speculative to my mind. The safer is to be around 13%-plus/minus. But definitely, we'd like to do better. We'd like to assure, we part 13%-plus/minus. We may change it after six months maybe, but not now.

Moderator: Thank you. Our next question is from the line of Faisal Hawa from HG Hawa & Co. Please go ahead.

Faisal Hawa: Sir, what is our ROCE and ROE for this quarter? Second is, sir, how are we seeing the data centre opportunity as a total? So, do we see that as a good annuity income where we set up the data centre and really give it on rent to the final holder of the data?

And third is, how do you see the smart meter opportunity. Genus has also got a very large order. Is there any kind of tie-ups that we are looking at for smart meters which would get us these kind of orders? And even in data centres, sir, do we have any kind of tie-ups with any foreign majors to take advantage of the data localization policy of the government?

Padam Gupta: See, let me answer your questions one-by-one. Particularly, coming to smart meters, we will not like to like Genus. We trust the sector that discoms have their own risk element. And we are almost a developer here in this segment and projects are mostly of DBFO in nature. Their funding us to be also made by the very concessioner in this case.

So, our target is by and large depending on whether scheme gets executed in country over five years, seven years or 10 years or 15 years, because generally, power sector, we see the schemes are for five years, but execution carries on for 15 years. So, if it is a scheme meant for five years, seven years, our target will be collectively no more than maybe 5 million, 6 million meters. And if it happens over 10 years, then maybe 10 million meters. And if it is 15 years scheme, then we'd like to target 15 million meters. So, our game plan will be more than 1 million-meter, 1 million, 1.5 million per year on an average as a target to execute these projects, number one.

Number two, we definitely are more excited about data centre, that's a very huge opportunity. It is in the building. Presently, it is more value accretive, but it will be revenue accretive post-'26, more strongly but some revenue flow should start from '24, '25, with first facility, I'm happy to also inform we have also been allotted land in Kolkata now in Silicon Valley. It is very next all the prominent players in the segment like Adani, Reliance and others [SGT] and RailTel. So, we will be in a place to grow this segment post-'26 more strongly we see traction coming out of it.

But within renewable power also, we see more technologies becoming part of the solutions, while integrating renewable into grid more solutions or capacity ability to be part of the storage to be part of the group. So, we see a lot of things evolving. We are transforming now and as well as growing, I'd say both. So, you have to keep space for transformation and growth also, and new solutions within the space. So, we will -- we are not, as you know, as a company, we have never tried to be the biggest, that is not the goalpost of Techno. We will always like to be the best as a performer and also better in terms of the margins, bottom line. Does that answer your question?

Faisal Hawa: Sir, about the ROCE and ROE, what is the ROCE and ROE that year end? And will data centres be like an annuity income for us where we keep getting paid per monthly? And will the revenue come that way or we will be like a EPC provider to the larger companies?

Padam Gupta: Sir, it can be a hybrid or both, depending on if we get an investor, the annuity income goes to him. If we don't get an investor, it becomes [my 0:30:57] income. So, question is the long post goalpost of Techno is, not to be annuity income earning entity and more of a business development entity in this segment. But in the past also in transmission asset or in the wind assets, we have lived with the annuity income also on a regular basis. And we are clearly exposed to these businesses PPP or BOOT basis. So that is not the issue, sir. Depending on how asset is more demanding, we'll keep taking a call.

Faisal Hawa: You mentioned that we have INR156 per share of cash on books? Or was it INR156 crores? And do you have any kind of a plan to utilize this so that our ROCE and ROE really improved?

Padam Gupta: Yes. You see we have almost INR140 per share as a cash. And total cash in the books is about INR1,500 crores as of today. And definitely, this is meant to develop these assets like data centres, smart meters and others because we prefer to be debt-free company. And our target to one ROCE will never be less than 15% on any of these resources in the company. Cash is reality in any company, and we will always keep it productive. Cash also do not generate money only by investing it, but it create value accretive application also. So, we are very prudently utilizing the capital available with us.

Faisal Hawa: But no chance of any buyback or a large dividend as such?

Padam Gupta: No, not in the present business. There are so much of growth opportunities, so we don't want to spend money after buyback at the moment. But definitely, we will be larger dividend payout company as we have done in the past. Last five years, we have paid out no less than -- for four years almost INR500 crores to the investors, both through dividend and buyback. The last dividend payout was almost 300%. And it will improve in going forward.

Faisal Hawa: I really appreciate you answering my question so well, sir.

Moderator: Thank you. Our next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Good afternoon, Mr. Gupta, and congratulations on a very good set of number. Good afternoon, Ankit also. Sir, one question was on this L1 of INR3,550 crores. So, by when do we expect this to convert into confirmed number for us?

Padam Gupta: Out of the INR850 crores, we have already got after September. And the rest of the business, we are hopeful to have it by maybe December, January should be there. But INR850 crores we have already received in last one month or two months or 1.5 months.

Sarvesh Gupta: Out of this INR3,500 crores, sir?

Padam Gupta: Yes.

Sarvesh Gupta: So now what will be the -- including the INR850 crores, are we like at INR5,100 crores of unexecuted order book?

Padam Gupta: No, no, no. The unexecuted order book has now is about INR3,600 crores. So, if you include this INR850 crores, it becomes INR4,300 crores. As of September, it was INR3,600 crores. And if you include this INR850 crores, it will be around INR4,400 crores.

Sarvesh Gupta: L1 excluding this is around INR2,700 crores?

Padam Gupta: Yes, absolutely, you are right.

Sarvesh Gupta: Okay, sir. And the other bid pipeline of this INR5,000 crores, and we expect to get INR2,000 crores out of this. So, what is the timeline for this, sir?

Padam Gupta: So, it is a loan tendering, we do not have a control as yet to be a participant. Sometimes government closing -- utilities close these programs earlier than expected, sometimes they take a long time. So, it is so difficult to predict. But my takeaway is that we can easily expect order intake of about INR4,000 crores per year going forward.

Sarvesh Gupta: Understood, sir. And sir, one question which I had earlier also was on a management bandwidth because now I think we are growing by leaps and bounds. So, any colour or update you would want to provide in terms of what we are doing to sort of upgrade the organization also, sir, for the huge opportunities opening up?

Padam Gupta: Yes, it is an ongoing process in the company. And we take at our lowest level almost 40, 50 trainees from good colleges of engineering, diploma holder, NICMAR in Pune, and many other good schools. And similarly, we are also literally accepting the people, our land transfer. So, it's an ongoing process, I'd say, at our own in-house development programs are there. So, training programs, exposure programs, we do send our people training to institutes to good trainers, we organize programs in-house also. So multiple techniques are being deployed to stay updated, competent and relevant to the business.

Sarvesh Gupta: Understood, sir. Sir, finally, one more question was on the -- if I look at the pipeline, we see a lot of orders from these states like Tripura, J&K, some of the Eastern states. So, is there any geographical risk that you foresee from these sort of geographies? Because like these are not the regular ones. I mean, FGD, we have a big one from Rajasthan, but from the usual larger states, we are getting slightly lesser business, and it seems to be more concentrated around these slightly more, I think where the state governments are probably not in the best of the health or the geographies which are slightly difficult.

Padam Gupta: I think it is an issue of perception. If you see likely, the more of metering work and digitization in discoms is required by those very states who are presently very inefficient, number one. So more inefficient you are, the more prone to performance they are by installing updated solutions. So, in a mature state, the chances of reward are always lesser than these kind of states where already the revenue collection is no more than 50%, 60%. If 50%, 60% revenue collection becomes 85%, 80% by virtue of installing any solution by us, they never like to deprive of or share the benefit with you as a minimal cost of per meter, per month or even any solution given to them on the software side.

So, I trust more inefficient you are, that more prone you are to a better performance in the solutions, but for your information, we'll keep it properly blended like last order of metering this month we have got, these from a discom of Indore in MP for INR650 crores.

Sarvesh Gupta: Understood, sir. Thank you, sir, and all the best and very happy at the performance.

Moderator: Thank you. Our next question is from the line of Ashwani Sharma from ICICI Securities. Please go ahead.

Ashwani Sharma: Yes, thank you for the opportunity and congrats for a great set of numbers. My first question is that you mentioned that you have already spent INR220 crores in Chennai data centres. So similarly, over the next two years to three years, how much -- what is our capex plan in these assets like data centres and smart metering and TBCB? How much can be outflow from our side?

Padam Gupta: Going forward, we should be investing more than INR500 crores to INR750 crores in data centre and another INR1,000 crores in meter work.

Moderator: Sir, may I request you to come a little closer to the speaker phone while speaking.

Padam Gupta: What I was saying that INR500 crores to INR750 crores in data centre for next one year or two years, and another INR1,000 crores in meter work.

Ashwani Sharma: Anything on TBCB side?

Padam Gupta: Pardon?

Ashwani Sharma: Anything on the TBCB front?

Padam Gupta: TBCB today, we are not very strongly focusing of our own. I will say, we are only TBCB there, with private developers or Power Grid. We are happy with that business with them. So, we won't be looking for any investment from our side.

Ashwani Sharma: Okay. What is the kind of return that we are targeting?

Padam Gupta: On what?

Ashwani Sharma: Let's say, on smart metering and data centres?

Padam Gupta: Yes. Data centre is a high-end solution. So obviously, everybody expects more rewards. And smart meter is a little blended business, I will say. So compared to EPC, you will always expect a little more return. It's a grid made distribution; all are not alike in terms of the risk. So, you have to blend them with the risk and rewards ratios accordingly, either with technologies or with the financial risk you are taking. and developing that asset.

Ashwani Sharma: Sir, we haven't started booking profits in the data centre. Why -- when we can -- we'll be able to start that?

Padam Gupta: When we are close to the revenue stream, sir. It is no good idea to book profit or bill out costs when it is still in the development stage. So, it is value accretive at the moment. So, we will acknowledge in our books only when it becomes revenue accretive.

Ashwani Sharma: Okay. Sir, on the guidance, I think there has been revision. So just wanted your inputs segment wise for FY '24 and '25. If you could tell us within the EPC, how much will be from transmission, how much will from your distribution and from FGD?

Padam Gupta: I think if you please write to us, we'll give you the answers or visit us, no issue. because this kind of business is not done with this kind of accuracies or preciseness on many opportunities. Some opportunities you build up for relationships, some you build up are rewards. But overall, our guidance will say that we should look for EBITDA of about 30% at the company level to the top line.

Ashwani Sharma: Sir, I was more looking on the revenue guidance, sir?

Padam Gupta: Revenue guidance I have given already that this year, it is INR1,600 crores to INR1,800 crores. Next year INR2,500 crores. And the year after next will be INR3,000 crores.

Ashwani Sharma: Okay, sir. Thank you very much.

Moderator: Thank you. Our next question is from the line of Abhineet Anand from 3P Investments. Please go ahead.

Abhineet Anand: Yes. So just trying to understand your business model for the data centre. I mean, you are investing in it. And obviously, when there will be somebody who leases it, you will get the earnings. So, what type of investment do you expect, INR220 crores is what you had indicated that we have already put in. So -- and will this be a next three years, five-year process? Or how is it?

Padam Gupta: No. It does not go so long, sir. But the Phase 1, will be ready by March '24, and our capex will be about INR550 crores in that by March. And thereafter...

Abhineet Anand: Of which INR220 crores has been done.

Padam Gupta: Yes. Out of INR550 crores, INR220 crores -- I don't know if commitment may be more, almost INR280 crores, out of which INR220 crores spent on this project. And this will happen over next four months, five months. And to complete this project, this whole project is worth about INR12 crores or INR13 crores, which will be completed by almost around March '25 in all the phases of the project. These I am talking of Phase 1. That our Kolkata project will catch up. We are also planning a project in Hyderabad. So, over the period now three years, you can say, the data centre capex will grow to almost INR1,000 crores per month per year by third year.

Abhineet Anand: So, every year, starting maybe in the next two years, three years, you will spend INR1,000 crores on data -- building data centre across wherever -- whichever region?

Padam Gupta: All we will be monetizing and reinvesting or we would like to raise capital at a subsidiary level to fund these expansions growth.

Abhineet Anand: And while you did mention, it's a high-end stuff and your returns will be better. But any qualitative broader number, what type of returns you're expecting on INR1,000 crores investments that you'll be making?

Padam Gupta: Year-on-year, it may range anywhere between 15% to 20% as IRR.

Abhineet Anand: And in the smart metering, you talked about INR1,000 crores investment. What exactly will be our spending on that, sir?

Padam Gupta: No, the spending will be INR1,000 crores. That's what I said, because these are all DBFOT model, where government gives you a grant of no more than 15%. And just 80% you have to invest from your own capital, which is paid out on a per month per meter basis over 94 installments. That is the scheme of the government.

Abhineet Anand: Okay. And so, if I have to take the example of a, say, Indore smart meter project that you got for INR500 crores, INR600 crores, so that the revenue that you will get initial investment might be anything. Revenue will be spread over 94 months or whatever 100 months, right?

Padam Gupta: Right. 94 months for each meter.

Abhineet Anand: Yes. So -- and for that, let's assume, INR600 crores project, how much you'll have to invest?

Padam Gupta: You take it -- you see, these are bit complex. If you write to us, we can explain more because it has a tax element of 18%. It has a finance cost of almost 20%. So, all those elements once taken off, the core capex may be no more than 70% in each or maybe 65%.

Abhineet Anand: Okay. Thank you, sir. I will probably reach out to understand better.

Moderator: Thank you. Next question is from the line of Keshav Garg from Counter Cyclical PMS. Please go ahead.

Keshav Garg: Sir, firstly, I wanted to understand that out of our total receivables of around INR670 crores sir, how much are due from Tamil Nadu Trade Electricity Board being wind power receivable?

Padam Gupta: It is about INR125 crores.

Keshav Garg: Okay, sir. And sir, apart from that, we have recovered all the dues, etcetera, from the state electricity boards?

Padam Gupta: Yes, absolutely. And out of INR125 crores, also they are part of LPF scheme now, which are paid out in a strong amount, which is already being paid out for the last 15 months, month-on-month as a committed payment to REC PFC. This is a scheme of the government to liquidate them over four years. I'm talking about 1.5 years has already been over.

Keshav Garg: Sure, sir. And sir, also, sir, FY '21, I remember, you used to be very confident that, we will do at least 15% operating margin on the EPC side. But after that, the commodity prices went up post-COVID. And now again, they have come down. Sir, but then why -- and now the order inflow has also increased. So, considering that, sir, one should have expected that margins might go up from 15%, but you are still giving guidance of 15% only, sir, so that's a bit strange?

Padam Gupta: There is no strange in it. You must understand, firstly, the tariff post '21 itself has seen a decline of 20%. These are very developers number one. Number two, all commodities have not cooled down in last two years. Still the electronics like semiconductor-based solutions, whether it is PLCC or CRP or your SaaS or DCS, they are almost double the price of what we used to get before '21.

So, some commodities like steel, copper have bettered. Transformer prices are all time high. Nobody wants to manufacture CRG in the world now. Everybody wants [CRNO] to make batteries, storage batteries, vehicle batteries. So, these pressures on cost as well as on pricing will always be there in a competitive market.

Keshav Garg: Sir, but now that, sir, for the new orders, when we bid for new orders, sir we must be bidding, keeping in mind whatever the cost of the latest prices are of various inputs. Sir, so even on new orders, once our old orders get executed, sir, then can we expect our margins to revert back to 15%?

Padam Gupta: Maybe, if my commodity cycle sports availability of electronic forms you please understand India is transforming now. We are opting more and more got renewable power. And these solutions are met for evacuation of renewable power and integration into our main grid. Similarly, the whole world is now transforming into the renewable power. A lot of progress are happening in U.S., Europe and other countries also.

So, demand of all the high-end elements of transmission is very high at the moment in the market. And supplies are hardly few. Weatherly it is all supplier-led market. So, we are compressed between the ability of developer to phones ones he does supply expectation of prices or they are timely. So, no cycle is always free to EPC. EPC is always a bit of a challenging business and you need ability to make money in this market.

Keshav Garg: Sure, sir. And sir, lastly, sir, if we look at our cash flow statement consolidated, sir, then for the six months of this financial year, sir, our operating profit is down from around INR123 crores last year to INR95 crores this year. So now I understand that on a consolidated basis, we don't include the data centre EPC work that we are doing. Sir, but the point is that, apart from that data centre work that we are doing in the rest of the EPC business, sir, why is the operating profit for the first half less than last year?

Padam Gupta: So, you are comparing non-comparable, sir, that 123 includes business discontinued. That is wind business. So, you please remove it. So, then you will see that the margin has doubled over last year. See our segment results.

Moderator: The next question is from the line of Vignesh Iyer from Sequent Investments.

Vignesh Iyer: My question is on the data centre side of it. Just to understand, you did say that it would be a -- revenue would be a mix of -- depending on if you have an investor or not. If I can understand what would be like per megawatt rent that can -- that we will receive per month if we rented out. So, we would have some number in hand, right?

Padam Gupta: Yes. Generally, these data centres are rented out or leased out on per month per KVA basis as an application and rates are generally ranging depending on the type of consumer you have, whether it is an enterprise or it is hyperscaler and what sort of capacity he is taking from you or he is a colocation customer. So, it can range anywhere from $80 to $110, depending on the type of consumer.

Vignesh Iyer: And is this per KVA, right?

Padam Gupta: Yes, per KVA.

Vignesh Iyer: Okay. Because one of our competitor who is into this business, did give an

Padam Gupta: So please, these are rentals only. There is no power cost built in it. Power is extra. That is at actuals.

Vignesh Iyer: Yes. So, I'm talking on the rental side only. One of our competitors gave a number of somewhere around INR90 lakhs per megawatt per month as a rental. So, I just wanted to know if our number matches on the megawatt side somewhat nearby to what they are talking?

Padam Gupta: No, no. These are not -- you can calculate, I've never calculated like that. So, I cannot indicate that, but maybe closer to what we are talking.

Vignesh Iyer: Right. Got it. Sir, just one more question. What is our cost of setting up 1 megawatt of data centre?

Padam Gupta: About $5 million.

Vignesh Iyer: Okay. And this is $5 million assuming greenfield, right?

Padam Gupta: Yes, greenfield. Absolutely. It's always greenfield only. Presently, all data centres are happening as greenfield.

Vignesh Iyer: Greenfield, as in I went -- this includes the land cost entirely, right? I mean if...

Padam Gupta: Yes, yes. Everything, land to ready to use. Sometime, it may depend on location. If you go to Bombay, it might $6 million because land is pricy there, but when you go to Chennai or Kolkata, it maybe $5 million. So, land price is a big surprise you know.

Vignesh Iyer: That is true.

Padam Gupta: Yes, in Kolkata, Chennai, we get land still $1 million per acre. In Bombay, you may have to shell out no less than $4 million maybe per acre.

Moderator: Ladies and gentlemen, that was the last question of our question-and-answer session. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Padam Gupta: Yes, from the current quarter, I will only like to say that from the current quarter onwards can expect a top line of INR400 crores plus quarter-on-quarter in future. As I mentioned in my year close, year beginning statement, I will say the sunrise were happened on the sector and has just happened. And going forward, it seems to be good programs in place and at least one [XBT] three, four years with -- and also it is the first year when we are seeing energy growth or consumption growth in double digit as against 2%, 3% in the last four, five years.

So, all good is happening in the energy sector, power sector. All companies are moving whether it is a data or it is EPC or it is transmitter or it is distributor. All are making -- are being rewarded by this growth. And I wish India travel this journey. It is first time I'm happy to share with you the grid load have touched 250 gigawatts, which used to be no more than 170, 180-gigawatt just a year back on an average.

So, I would like to thank you all of you for joining the conference with us. And in case you still have any query related to our performance, please drop a mail to us as we'll be or you visit this side of India, please drop in our office, and we'll be happy to receive you, take you around the way we work. And with this, I would like to close the conference. And thank everybody for joining, and wish a very happy Diwali, a very happy festive season for all of you. Thank you very much.

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