GE Power India Limited
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16 November 2023

To,
The Manager Listing,
National Stock Exchange of India Ltd.
Exchange Plaza,
Plot No. C/1, G Block,
Bandra-Kurla Complex, Bandra (E),
Mumbai - 400 051

Symbol: **GEPIL**

To,
The Manager Listing,
BSE Ltd.
P.J. Towers, Dalal Street,
Mumbai - 400 001

Scrip Code: **532309**

Sub.: Transcript of Earnings conference call held on 09 November 2023

Dear Sir/Madam,

Further to our letter dated 09 November 2023, please find enclosed a copy of the transcript of Earnings conference call held on 09 November 2023.

Thanking you,
Yours truly,

For GE Power India Limited

KAMNA TIWARI

Digitally signed by KAMNA TIWARI
DN: cn=KAMNA TIWARI c=IN o=PERSONAL
Reason:
Location:
Date: 2023-11-16 16:11+05:30

Kamna Tiwari
Company Secretary & Compliance Officer

Enc.- As above

"GE Power India Limited
Q2 FY '24 Earnings Conference Call"
November 09, 2023

MANAGEMENT: **MR. PRASHANT JAIN -- MANAGING DIRECTOR -- GE POWER INDIA LIMITED**
MR. YOGESH GUPTA -- WHOLE TIME DIRECTOR AND CHIEF FINANCE OFFICER -- GE POWER INDIA LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Earnings Conference Call of GE Power India Limited. With respect to its financial results for the quarter ended on 30th September 2023. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Prashant Chiranjive Jain, Managing Director. Thank you, and over to you, sir.

Prashant Jain: Very good evening. A warm welcome to all of you for joining the Earnings Call. I have my team with me today to address the financial results for the quarter through first half of the financial year 2024. I would talk upon the global economy where the global energy sector is making significant strides towards receiving net-zero by 2050, despite an actual increase in power-related emissions in 2022.

As reported by our IEA, emissions were 1.3% higher in the previous year, retail 13.2 giga tons CO2 in the power sector. Moreover, with August 2023 recorded as the hottest globally. This year is expected to even exceed 2022 in terms of carbon emissions. Despite the substantial advance pace in clean energy technologies on a global scale, the adverse effects of climate changes are becoming more frequent, severe and disruptive.

The crude oil prices are progressing in the first half of current year, has started a cost trajectory again in the face of resilient energy demand and transnational dispute. IEA estimates an average growth of 3.2% in global electricity demand in 2025 as the energy crisis awaits.

By 2025, Asia is predicted to represent half of the world's total electricity consumption, marking the first time in history, this region will reach such a milestone. Additionally, one third of global electricity demand is expected to be attributed to China. Globally, the rapid advancement of electrifying transportation and heating persisted. Over 2.3 million electric cars were sold in first quarter, about 25% more than in same period last year. IEA expect sales of 14 million units by end of 2023, representing a 35% year-on-year increase, with new purchases accelerating in the second half of this year. Electric vehicles and heat pumps, taking center stage globally, will further accelerate the growing electricity demand

Coming to India, the energy sector faces a critical juncture. Efforts are towards deploying clean energy, yet the demand for electricity still strongly relies on traditional energy sources like coal and gas. The country's use of coal is actually on the rise, as adding renewable energy sources at scale and preparing the grid to handle their fluctuating nature does not happen overnight.

At the same time, India's energy demand continues to grow. Over the initial seven months of the financial year until October, coal production surged by 30%, reaching half a billion metric tons compared to about 448 billion metric tons in the same period previous year. Further coal dispatches have mirrored upward trajectory.

Up to October 23, the cumulative coal dispatch reached 541 million metric tons, in contrast to 483 metric million tons during the corresponding period in FY '22-'23, denoting an increase of 12%. The growth in power demand in India, as outlined by IEA, was evident during the first half, with consumption growing 7.8% to about 847 billion units. Most of the growth has come from surge in demand during July-September quarter, as opposed to April-June quarter, which is usually the hotter period.

Humid weather conditions and scanty rainfall in August and September led to surge in electricity demand, with peak demand touching 241 gigawatts during the quarter. The Central Electricity Authority has projected peak demand to touch 256 gigawatts in '24, '25. On the back of surging demand for coal-base power, the government has extended emergency clause under the Electricity Act 2003, mandating coal-base power plants during the full capacity in June 30, 2024.

During the recent quarter, government declared it has not started developing plans to phase out older coal-based power plants after 2030. This announcement is in line with the current power scenario in India, and this resonates with the primary focus of our company service offerings and presents a substantial opportunity for growth in the coming years.

How does this impact the performance for your company in first half 2024 for the Q2?. I will now share a few moments on that. During the second quarter of '23, '24, there has been no substantial shift in market conditions for our business. We are still seeing that FGD and hydro opportunities are converting slower other than anticipated. For FGD, we have received a letter of intent in the second quarter for the GSECL Sikka -- power station of INR444 crores, which has converted to an order last month, and it is the only FGD order we have been able to book in the current financial year.

I would also like to mention the letter of intent we received in the second quarter for manufacturing of pressure vessels in our factory in Durgapur. This is the first time we have received such a letter of intent, and when converted into an order, it will support the demand for the Durgapur factory. For the upgrades in services, we have seen that the pipeline has started to convert into orders, especially in the DeNOx segment. The orders are still small and will take a while to fulfill the gap that we have from the lower orders from FGD and new build. The segment that continues to grow quarter on quarter is core services, where we have 40% more orders quarter on quarter.

This once again confirms that our strategy to focus on services has been right move for your company at this time. Our revenue overall is down 17% versus Q2 of the previous year, primarily due to lower orders in the previous quarters as well as project delays.

Last topic that we mentioned regarding claims. We are continuing the efforts. The procedure remains long and time consuming, and it is taking longer to convert them into margins. So that's the overall summary on the operating performance of the company.

And I hand over now to our CFO, Yogesh Gupta, who will take you through the financial performance of the company for this quarter. Over to you, Yogesh.

Yogesh Gupta: Thank you, Prashant. Good evening, everyone. I'm pleased to welcome you all to share the financial and operational performance of the company for the second quarter of FY 23-24.

During the quarter, the company got orders worth INR 671 crores against INR 248 crores in Q2 FY 22-23. GSECL Sikka order of INR 444 crores was the major highlight of this quarter 23-24. As of September 30, 2023, we have order backlog of INR 3,699 crores, which represents active revenue opportunities in Hydro, FGD, Boilers and Services segment.

Lower than expected industry demand leading to lower order inflow in the last 2 years and Saundatti project suspension has resulted into lower revenue for the quarter. Revenue for the quarter Q2'24 stood at INR 354 crores down from INR 428 crores in the corresponding quarter of the last year and revenue in Q2'24 is also lower than the revenue of INR 424 crores in Q1'24.

Cost escalation due to project delays and execution challenges at sites and slower claim conversion have led to lower margin for the quarter under discussion. Loss before tax for Q2 '24 was INR 62 crores against loss before tax for Q2'23 of INR 113 crores. The reduced loss is primarily due to onetime provision impact of Solapur fire incident of INR 78 crores, which was booked in Q2 '23.

Further, the decrease in loss before tax for Q2'24 as compared to the loss before tax of Q1'24 of INR 136 crores is due to onetime provision impact of INR 69 crores for Sipat fire incident.

Summarizing, the focus areas for the company continues to be volume increase by fresh order intake, claims settlement and cash collections.

We now open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sanjay Koli from Gold Stone Capital.

Sanjay Koli: Good evening and thank you for the opportunity. If you can tell us a little bit about -- there's been a mention of de-promoterization of the parent. And obviously, this is having a bearing on our future plans, which areas this particular company is going to remain in, so connected to this, whether the enormous opportunity in Hydro will continue for our company, whether the company will continue to service GE subsidiaries, which are overseas throughout Asia, whether we'll be a hub. So what is the time line essentially for this de-promoterization.

And essentially, what does it really mean? Will the parent retain a certain amount of stake? Because our understanding is that GE Vernova is also now getting geared up to list in the United States, and they have informed stakeholders of their intention to come out of any fresh thermal, but of course, continue to service the existing thermal side. Thank you.

Prashant Jain: Thank you, Mr. Sanjay Koli. I think you have summarized the current situation of the company with the transition from the GE to GE Vernova, listing as a separate entity and also making the mandate clear in the areas of operations at GE Vernova would want to play.

Coming to the GE Power India Limited, in GE Power India Limited de-promoterization, the time line that was announced was 36 months. And at this point in time, there is no further update regarding the same. So the current mandate which fits, whether the global strategy, the Vernova mandate allows a focus on services of coal fired power plants.

The second area that you mentioned about hydro.

Sanjay Koli: Hydro and hydro pump storage?

Prashant Jain: We are evaluating the opportunities of what…

Sanjay Koli: Sir, your voice is little muffled.

Prashant Jain: So, the pump hydro storage and hydro, I mentioned earlier in the speech, is taking longer than we want to, to convert into orders. The order that we did last year, is also under suspension at this point in time. So, the orders are not converting as to what we anticipated in the order books. So, we are watching this very closely, and we'll provide an update to you as and when we have it.

Sanjay Koli: Okay. Thank you.

Moderator: Sir, does that answer your question?

Sanjay Koli: Investors are quite concerned about this whole situation and pertaining to and in the absence of any update. Obviously, there is a concern as to, what will be the way forward for our company. And this is in the light of sales de-growth, which has taken place. So that is the concern. But I'll come back in the queue. And if you have anything further to add to this, most welcome, that's it from my side for the time being.

Moderator: Thank you very much. The next question is from the line of Danish Mistry from Investor First Advisors. Please go ahead.

Danish Mistry: Sir, if you could just give us a little update on, what is the receivable situation this quarter? How much have we received from -- on basis our milestone payments, number one, on the receivables side from our debtors. Number two is the fact, sir, what is our net debt today? And how much do we think will be our net debt by the end of this financial year?

And third question and last question, sir, is that you mentioned about the vessels being produced at Durgapur, assuming that this LOI gets converted over a period of time, what would be the improvement in the capacity utilization at Durgapur? Because you have done a fair amount of optimization, so I recon, it would be pretty margin accretive for us. Thank you, sir.

Prashant Jain: Thank you, Mr. Danish.

Danish Mistry: And sir, just one more question, sir, if you can just talk a little louder because your voice is very muffled, sir, we can barely hear you, sir.

Prashant Jain: I will address the Durgapur question first and then I'll pass it over to Yogesh. On Durgapur, we have optimized the capacity in effective terms to somewhere between 2,80,000, 2,90,000 to 3,00,000 hours, depending upon the situation. This year, we have been able to reach largely from the service is about 1,50,000 hours, this year.

So, there is still -- that this was a significant progress from service from where we were two years ago. We see continued growth quarter-on-quarter. We do hope with this pressure vessel and oxygen lancers as the new products that we've developed. We should add more hours.

So, for example, the pressure vessels will add anywhere between 10,000 to 50,000 or 80,000 hours, or more as we get into the market. This the first project, we want to focus on the learnings, focus on good execution and then we will expand in that area.

So that is one promising area. The second area that we are going for is the oxygen lancer, where we have roughly about 20,000 to 30,000 hours, and we have similar opportunities that we are working with.

If we do see the conversion of these opportunities, we will see probably a ramp-up to reach the existing capacity in six quarters to eight quarters from now. So, there will be some under-utilization till then, but we are working hard to accelerate such products, which would help us to mitigate the requirement of the factory.

So over to you, Yogesh, for the finance related questions.

Yogesh Gupta: Thank you, Prashant, and thank you Mr. Mistry for your question. We start with the collection. We collected INR 496 crores approximately in Q1'24, and INR 403 crores approximately in Q2'24 So, for full year, we have collected INR 900 crores approximately from April'23 to September'23.

Danish Mistry: That was very good, sir.

Yogesh Gupta: Moving on to borrowing. Our borrowing as of 30th September 2023 was INR 380 crores as compared to 30th June 2023 borrowings of INR 473 crores. So, our borrowings have gone down by INR 93 crores compared with 30th June 2023. . And if you compare with the borrowings as at 31st March 2023, of INR 292 crores, borrowings have gone up by INR 88 crores.

Then moving on to how we are looking at future projections, we do not predict or currently give future guidance.

Danish Mistry: Got it, sir. So, sir, this is this borrowing you're saying is gross or net?

Yogesh Gupta: This is gross.

Danish Mistry: Gross. And net, sir, what would be our net borrowing as of September balance sheet, sir?

Yogesh Gupta: What do you mean by net or gross?

Danesh Mistry: Basically gross -- so let's say, we have gross of, let's say, INR100, and then we may have cash of, let's say, INR40. So, our net debt would be INR60, sir.

Yogesh Gupta: So, our net borrowings as of 30th September'23 was INR 228 crores.

Danesh Mistry: And sir, what would be our September ended receivables outstanding?

Yogesh Gupta: September ended receivables are INR1,950 crores approximately. This is also lower than the March receivables by about INR 40 crores.

Danesh Mistry: Got it. Okay, sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Danesh Mistry from Investors First Advisers. Please go ahead.

Danesh Mistry: Just a couple of more questions. One is that we've had -- as you've even touched upon in your introductory remarks, you had a couple of unfortunate incidents and fire incidents, including the one at Sipat last quarter. So, any sense on when we can get the insurance claims over there because we've already provided for all of them? But any sense when the insurance claims and receivables would start to come in for those particular projects?

Prashant Jain: This is very difficult to predict. Our previous experience has been a year plus or almost two years in recovery of such cases, these are complex and take time. So that is what I can say from the previous experiences.

Danesh Mistry: And sir, if I may just take a leap out of the previous caller's question on GE Vernova. So is it -- so do you have any sense on whether -- when we send the GE promoter wanted to exit. Does it mean that GE Vernova is the final owner of our company?

Prashant Jain: Simply put? So, we've clarified that in our notification eerier that the change from GE to GE Vernova is a global movement, which is having no bearing on the earlier announced de-promoterisation strategy of the company.

Danesh Mistry: Okay, okay, okay. So basically, that will continue, is the sense that is there as of today?

Prashant Jain: As of now, yes. As of today, that is what it is, yeah.

Danesh Mistry: Got it. Okay, thank you very much, sir.

Moderator: Thank you. The next question is from the line of Sanjay Koli from Gold Stone Capital. Please go ahead.

Sanjay Koli: So, sir, this current quarter's operating numbers, we're noticing the consumption, materials consumed as a percentage of revenues is in the region of 80%. Can we hope for visibility in the coming two quarters that this is a more improved number? And if you can give us a sense to what extent is management targeting to reduce this?

Prashant Jain: Yes, you can come again around the question on conversion. Are you saying what conversion do you mean?

Sanjay Koli: I'm talking about the consumption. The consumption, materials consumed as a percentage of your revenues is quite high, is very high. Still continues to be quite high, though it's reduced. There seems to have been some improvement. We've noticed an improvement from about 90% in the corresponding quarter for last year to 80%. But obviously, there would be a hope to improve further. Can management give us some king of definite visibility for the next half?

Prashant Jain: We do not predict or currently give future guidance. But what I can share with you is we have a mix in the portfolio of large duration hydro projects. The projects have been in the order book for more than eight, 10, or even more, 20 years plus. And they have a very long gestation period. And then you have suddenly a quarter of activity, and then it changes. So that's one, and which has a different material cost to revenue ratio.

The second aspect is the backlog from the boilers, which is again a different product. It's a product business from the factory. It has a different profitability or gross margin ratio. And the third one is the service upgrades and service scores and FGD. So, since the area that is stable is the service. And that portion, however, today is currently not significant. Therefore, the majority of the turnover comes from long-run projects of either hydro or FGD. And therefore, the fluctuation quarter-on-quarter based on the cost of this, because if in a long project, if you have a cost update in one quarter, then you will see a big variation.

And then if you have a claim that materializes within three quarters later, then that kind of significantly changes the impact. Therefore, considering the project nature of the business, what we have been proposing as a strategy is to continuously focus on the growth of services, where we have stability, we have clear guidance that we can provide in future. So, at this point in time, that is how we are trying to manage the mix of the portfolio. And therefore, it's hard to predict quarter-on-quarter, what would be the gross margin or cost to sales ratio.

Sanjay Koli: Thank you. Plus, I would like to add to the specific question of material, and here we have, when we look at the quarter ending June 23, we have 69 crores of setup, which is almost about 16% of.

Prashant Jain: Your voice is very faint. If you can just remove the handset, please.

Yogesh Gupta: The response to the specific question with regard to cost of material as a %age of revenue reducing from 92% in Q2'23 to 76% in Q2'24. In the quarter ended June 23, we had the provision of INR 69 crores for the fire incident of Sipat, which was considered in the cost of materials. This has also been mentioned in the financial results (Regulation 33- note number three)

Prashant Jain: That is largely, as I said, in large projects in cost update, it does impact and that's what is driving the situation?

Sanjay Koli: Yes. So as there's growth in services, this metric will get better and better.

Prashant Jain: Yes. As I said, today, the volume of service mix is less than 30% to be significant and appear in the balance sheet and make an impact, so it will get a while when we get there. The structural cost to be recovered, currently we need volume, and that will not be fulfilled by services alone at least for a few quarters ahead.

Sanjay Koli: And the pressure vessels opportunity, how big is this going to be?

Prashant Jain: I would say that currently, we want to be focused. It's a new area we've just entered. We are evaluating the margin attractiveness. It's a first test order. And we will come back with you once we are clear on the strategy. We want to test it out. How does it go? How does it bring in margin profitability? We will come back. It's a test. It's a pilot. We have got into the area. It's a largely fair opportunity. I would say it's an opportunity that can support Durgapur if we do it out well. So, we will come back to you with more. At this point, I would want to go ahead of where we are in the process.

Sanjay Koli: Right. Right. Thanks.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Prashant Jain, Managing Director, for the closing comments. Go ahead, sir.

Prashant Jain: Thank you. Thank you all for the questions. And thank you, team, for preparation and joining me on the call today. Have a good evening. Have a very good Diwali and have a very good celebration in the festivity season with your near and dear ones. Have a good time ahead. Thank you so much.

Moderator: On behalf of GE Power India Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.