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November 5, 2024

The Corporate Service Department
BSE Limited
P J Towers, Dalal Street
Mumbai - 400 001
Scrip Code: **533553**

The Listing Department
The National Stock Exchange of India Ltd.
Exchange Plaza, Bandra- Kurla Complex
Bandra (East)
Mumbai - 400 051
Symbol: **TDPOWERSYS**

Dear Sir/Madam,

SUB: TRANSCRIPT OF EARNING CONFERENCE CALL – QUARTER ENDED SEPTEMBER 30, 2024.

In furtherance of our letter dated October 18, 2024, regarding intimation of earnings conference call, the transcript of Q2FY2025 earning conference call held on October 30,2024, is enclosed and same has been uploaded on the website of the Company at www.tdps.co.in.

Kindly take the above on record.

Yours faithfully,
For TD Power Systems Limited

BHARAT RAJWANI Digitally signed by BHARAT RAJWANI Date: 2024.11.05 10:04:31 +05'30'

Bharat Rajwani
Company Secretary & Compliance Officer

Encl: A/a

"TD Power Systems Ltd. Q2FY25 Earnings Conference Call"

October 30, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 30th October 2024 will prevail.

MANAGEMENT: MR. NIKHIL KUMAR – MANAGING DIRECTOR, TD POWER SYSTEMS LIMITED
MR. VINAY HEGDE – TD POWER SYSTEMS LIMITED
MS. M.N. VARALAKSHMI – TD POWER SYSTEMS LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to the TD Power Systems Limited Q2 FY'25 Earnings Conference Call.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as of the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants' 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 call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nikhil Kumar – Managing Director for TD Power Systems Limited. Thank you and over to you sir.

Nikhil Kumar: Good morning, everybody. Thanks for joining us today on our Earnings Call. I trust all of you would have received our "Results" and "Investor Presentation."

I would now like to discuss with you the TDPS's Financial Performance for Six Months ended September 30th, 2024. We've had an exceptional half year with the highest ever revenue, highest EBITDA margins, highest ever PAT and highest ever order inflow.

On a consol basis, our total income was Rs. 5.89 billion versus Rs. 5 billion, an increase of 18%. Profit after tax and other comprehensive income for six months is Rs. 764 million versus Rs. 584 million, an increase of 31%. We continue to maintain a strong cash position of Rs. 2.35 billion.

Our total income on a standalone basis for H1 was Rs. 5.77 billion versus Rs. 4.94 billion over the same period the previous year, an increase of 17%. EBITDA for six months is 18.41% versus 17.44% previous period, including other operational income but excluding exceptional and treasury income. Profit after tax and comprehensive income for the six months is Rs. 720 million versus the profit of Rs. 600 million over the same period in the previous year, an increase of 20%.

“Order Book”: The order book for manufacturing segment is Rs. 12.34 billion, regular manufacturing business is Rs. 8.33 billion, Rs. 3.7 billion in the railway business, spares and aftermarket is Rs. 0.14 billion and Rs. 0.17 billion in the Turkey business. Export and deemed export constitutes about 71% of the order book excluding the railways.

“Order Inflow”: The order inflow for the quarter is INR 3.6 billion. This is the highest ever order booking in the history of the company. Order inflow has increased 41% on a Q2 to Q2 comparison basis and 33% over H1-to-H1 comparison basis. The H1 order inflow total for the current year is INR 6.58 billion versus the previous year INR 4.93 billion. Strong order inflow momentum continues to drive our top line.

Now, I will talk about the “Order Book Market Situation and Guidance.” The order inflow continues to be very strong from export in our generator and motor businesses. We expect the order inflow in Q3 to exceed the number in Q2, leading to a new record order book for the company.

We are pleased to revise our top-line guidance for this financial year from INR 1,200 crores to INR 1,250-1,275 crores which will result in an overall growth of 25% to 27.5% compared to the previous year. Margins will grow faster than sales due to operational leverage. Margin growth will be around 2% to 3% more than the sales growth.

“Market Scenario.” The domestic market has been flat in terms of order inflow from a Q2 to Q2 basis. This has reversed the shrinkage that has taken place in Q1. Effectively, if you look at H1-to-H1, the drop in the domestic order inflow can be attributed solely to Q1.

Steel and cement are still ordering large power plants up to sizes of around 100 MW, and we expect the market to be driven by these two sectors. Ethanol, sugar, chemical is showing no growth, but there's still a base level demand.

Overall, we are factoring 3% to 4% growth on domestic market for the next year, that is FY'26. We are expecting new tenders, four railways and we are certain to see two large tenders in the upcoming months. However, business for these railways tenders will be realized only in FY'27.

"International Market." We have extremely strong growth in the order book in export businesses from gas turbines, gas engines and motors. Order inflow from direct and deemed exports for the first half is INR 4.78 billion compared to INR 2.36 billion in the previous year, which is more than double. Exports and deemed exports order inflow is 73% of the total order inflow.

This shows the overall strength of the company in all geographies all over the world, presence in multiple sectors like gas, hydro, traction, clean energy, like biomass, heat recovery, etc., More importantly, we are cutting deeper into the market and winning greater market share due to greater acceptance of our products.

And coming to the "Specifics," we are seeing a big increase in business in gas engines and gas turbine generators. There's a huge growth taking place in fracking, data centers, AI server farms, grid stabilization and to a smaller extent, the demand coming from Ukraine. Due to this overall demand, we are seeing a huge increase in orders, and we are completely booked out for this financial year.

Our factory is running seven days a week, three full shifts and we are completely full and customers have asked us to be ready for further growth next year and we have had detailed discussions with them on allocation of capacity and load plans.

Geothermal plants is another area of huge growth potential. We have received an order this year for 3x43 MW for a large geothermal power plant in the US for phase-I. Now, the same company is in the market for 1,000 MW in phase-II. We have signed PPAs with major IT companies and have indicated a 1,000 MW a year demand. Since we are in the pilot project, we do have a good chance to win these orders in the future.

"Traction." As announced, TDPS has signed a five-year contract for the supply of traction motors to a major international company. There's another such contract under negotiation in which TDPS is very well placed and we hope to announce this order early by the end of this quarter, Q3 or definitely in Q4.

"Hydro." The order inflow continues to be strong. All hydro orders are export.

In general, the export business is a key driver for our growth for generators with big orders coming in from gas, hydro and traction. In the US, the demand is due to an increase of consumption of electricity and Europe is due to the change in energy mix, leading to more demand for gas engines, gas turbine and hydro generators.

In the motor business, we are on track to achieve the numbers that we have indicated earlier. We have a plan of INR 80 crores this year and INR 160 crores next year. Once again, the markets are mainly exports and we see a big pipeline of orders from the Middle East and India.

TDPS also has won a small order for supply of motors to Indian Railways for the last stage of qualification. We expect full qualification sometime next year and ramp up of volumes in FY'27.

"Turkey." We are going to receive some large orders from Turkey after a long pause in the market. All generators are to be delivered next year. We will keep the market informed. However, it is certain that the Turkish plant will deliver good numbers in next financial year.

In conclusion, we are poised for another round of growth. We have exciting opportunities in front of us and we are gearing up to meet the demand with our new and existing factories. We have just a small fraction of the overall world market share and the growth potential is huge. On top of this, we are still bullish in the domestic market, and we strongly believe that we have strong growth coming after a short pause. India is still a power deficit country, and the macro situation of power has not changed. All large industry needs captive power plants. When the domestic market booms again, our new capacities will fill up very quickly. We are not refusing any order that comes our way, and we will exceed the guidance that we have given for FY'25 as well as FY'26. This brings me to the end of my initial remarks. I will now be happy to address any questions that you may have.

Moderator: We will now begin the question-and-answer session. The first question is from Mahesh Bendre from LIC Mutual Fund. Please go ahead.

Mahesh Bendre: Sir, you spoke about the demand from international markets given the gas and projects that are coming up. So, is it possible to just quantify it in terms of what kind of opportunity we see over the next three years?

Nikhil Kumar: It would be difficult for us to give you such a large long-term view guidance on the market, Mahesh. What we are seeing is that we are seeing the expansion of the business taking place in the gas turbine and gas engine business and our OEMs have asked us to ramp up the capacities based on the next year's demand, which is significantly higher than which we are going to be doing this year, and they are also projecting that something for '26. So, I think we will not be able to give you exact numbers right now, but definitely it's -

Mahesh Bendre: No, no, sir, I was not looking for the number or guidance. I was just asking if we like the last five years compared to that, over the next three years, how many power plants might be coming up in Europe or any capacity addition you see in terms of captive power plants that are going to come up in international market?

Nikhil Kumar: I don't have that number of power plants, Mahesh.

Mahesh Bendre: But that will be a substantial number, sir?.

Nikhil Kumar: Yes, it's a substantial number because it's being reflected in our growth. So, what we are seeing from our OEMs is that we are seeing one is that we are moving towards the core of their businesses, earlier, we could have been a little bit more on the fringe side, now we are moving completely to the core of their business. So, we are really getting into projects where earlier we may not have got the customer approval or our name may not have been on the approved vendor list, now we are getting more and more acceptance, and we are cutting deeper into the market. One part is that we are seeing that we are getting more into the core of the business. Second is that there's also a big increase in the demand from the OEM side. So, both these factors are driving the big volume growth that we are seeing for our business. I can't give you an exact number of how many power plants.

Moderator: Next question is from Ganeshram Rajagopalan from Unifi Capital. Please go ahead.

G Rajagopalan: I just had a few bookkeeping questions. The first one is on the other operational income. So, what sort of driving the growth, if you could just explain where that Rs. 3 crores of income is coming from? And then the second one is just on the new plant, right. When it does get commissioned sometime next year, what sort of impact should we assume on margins like will we have to hire a completely new workforce for that plant, if you could walk us through what you're thinking in terms of commissioning that new capacity?

Nikhil Kumar: The first question will be answered by Varalakshmi. I will answer the second question.

M.N. Varalakshmi: The other operational income includes the foreign exchange gains for the forward bookings that we have done, mainly that amount.

G Rajagopalan: And to what extent would that deal?

M.N. Varalakshmi: Almost fully.

Nikhil Kumar: Coming to the second plant, the second plant will be operational in stages. So, we will start ramping up the capacity in stages. We have three big buildings and once the first building is ready, we will commission that. Second, third, we will have to hire new people, but the hiring process will start in Q4 itself because they will have to be trained. So, we will start training them in our existing plants and then once the new plants are ready, they'll be shifted over there. Of course, there's some experienced people also will be shifted over there. So, there's going to be a mix of new people and experienced people in the new factory. There could be a temporary increase in cost, but since many people are coming in at entry level trainees, the impact may not be so high in relation to the increase in the top line. We will give more detailed numbers about this during the February earnings call. But as I said, because the people are coming in at entry level positions, the impact may not be so large.

Moderator: Next question is from Jainam Jain from ICICI Securities. Please go ahead.

Jainam Jain: The question I had is what would be the top line, bottom line and CAPEX guidance for FY'25 and '26?

Nikhil Kumar: Yes, FY'25, we have given a top line guidance of INR 1,250 to 1,275 crores. We have done INR 76 crores net profit in H1. But we have done something like only 46%, 47% of the total sales. So, with 53% of the sales taking place, 52% of sales taking place in H2, we will see more margin coming in, in H2 compared to INR 76 crores what we did in H1. And the CAPEX that we will spend this year would be INR 80 crores.

Jainam Jain: And FY'26?

Nikhil Kumar: FY'26, we have not yet given the initial guidance. We will give the guidance in February, but tentatively in earlier calls we have given 17% to 18% top line growth as being the compounded growth. I think we will definitely exceed that. So, we will give you firm guidance in the February quarter, but it's definitely going to be higher than what we have earlier guided.

Moderator: Next question is from Himanshu Upadhyay from BugleRock PMS. Please go ahead.

Himanshu Upadhyay: My first question was what is the increase in labor wages, and have we settled with labor union, and for how many years that settlement has happened?

Nikhil Kumar: No, we have not settled this matter with the labor unions, Himanshu. The matter has been referred to the labor court. And these things take a lot of time once it goes to the courts. So, it could take a year maybe or more to settle this issue. And regarding the increase in the labor cost, I will just ask Varalakshmi to talk.

M.N. Varalakshmi: Yes, we have made a provision for 8% increase, which we have offered to them initially. So, that has been taken care in the wage cost.

Himanshu Upadhyay: One thing, in this Turkey where we talked that good growth is possible in next financial year ahead. If I look at the order book is that INR 17.4 crores and last quarter it was INR 16.6 crores. So, are we expecting new orders win there and hence good growth in future years?

Nikhil Kumar: Yes, we are negotiating, and these are going to be coming in Q3 or definitely early Q4, but they are sure. We have completed the negotiation. We are only waiting for the documentation to come through before we can announce the orders for the market, but it will come for next year.

Himanshu Upadhyay: Is the product segment remains the same what we were earlier making in Turkey, or the product segment itself is new?

Nikhil Kumar: These will be generally primarily geothermal generators and there will be a few hydro projects. I can say it could be to the tune of € 3 to € 4 million for next year.

Himanshu Upadhyay: We have seen gross margins improvement to 36% and the highest EBITDA margins. Can you give some idea on what is leading to this improvement -- are we seeing raw material price change or the product mix change itself is also happening or what could be the drivers? And how sustainable are these numbers and what would be our future expectations on gross margins, if you can think if you can give some idea?

Nikhil Kumar: We always give a guidance of around 33% to be the gross margins and we do better than that. So, we are still going to say that. That is you can take 33%, 34% as being the gross margins and the company will try to do better than that. This has been driven by product mix, this has been driven by more export orders, larger machines and also we are getting better prices because the factory is also full. So, we are able to negotiate better prices and overall this is leading to a better, better gross contribution.

Moderator: Next question is from Deepesh Agarwal from UTI AMC. Please go ahead.

Deepesh Agarwal: One question I have is on the traction motors. I think last week you put up press release on the order win on export side injection motor. Can you help us understand how is the scale up expected and is it with the existing customer only?

Nikhil Kumar: No, this is not with the existing customer, this is a new customer. It's a large multinational company, it's a large power company based out of CIS region. We need to deliver the first set of motors. We have mentioned INR 18 crores as the first trial order in April or May next year, and then they'll be sent for qualification and then we'll ramp up to start somewhere around Q2 or even Q3 next year and we are looking at something like INR 60-70 crores per year business for around five years. We should see some numbers coming in. Definitely maybe INR 18 crores first we have the order on hand for next year, maybe another INR 20 crores will come for FY'26 and then FY'27 onwards, INR 60 crores per year will come.

Deepesh Agarwal: And are we looking at a similar such opportunity in international market?

Nikhil Kumar: Yes. So, I have mentioned in the earnings call speeches, there's one more opportunity that we are very close to announcing. Of course, the contract signing may not happen this quarter, but it will happen next quarter, and that is with an existing customer and this is again for the export market. This is taking a little bit more time because we are negotiating with multiple entities across the world, and it's not always possible to get the right time, and the negotiations are taking a little bit longer for the contract, but we are the chosen party. But until the contract is signed, we really can't announce it. We hope that we should be able to do this. Target is to finish this quarter before the Christmas holidays. If we don't do it, then I think it will be done in Jan.

Deepesh Agarwal: I think you were also positive on the domestic traction motor ordering. Anything happening out there now?

Nikhil Kumar: Yes, so we have heard from very reliable sources that the current factory where our customer is currently building the 12,000 horsepower locomotive, is also 26% owned by the Government of India by Indian Railways. They have to do something to that facility after FY'28. So, we have got very reliable information that there are two more tenders coming up for freight locomotives and we should be hearing about this I think in the next month or so.

Deepesh Agarwal: In the remarks, you also mentioned 43 MW of geothermal order now you are executing and there is a possibility of 1,000 MW geothermal order is also in the market. I want to understand how is our capability to cater to such large orders of say 1,000 MW?

Nikhil Kumar: There will be multiple units leading to a total of 1,000 MW. So, it will be multiple units of 40 MW or multiple units of 80 MW. It will be either 80 into 12 or it will be 40 into 24.

Deepesh Agarwal: And usually the realization in geothermal would be comparable to your hydro business?

Nikhil Kumar: No, we make much better margins in geothermal. It's a very special machine.

Deepesh Agarwal: Would it be possible for you to quantify roughly per MW kind of a thumb rule??

Nikhil Kumar: No, because it's too it's too customer-specific and it's confidential information for the company, so we don't want to give this number out.

Moderator: Next question is from Khush Nahar from Electrum Portfolio Management. Please go ahead.

Khush Nahar: I have one question. The new plant that we are planning to establish, what would be the revenue potential at peak utilization from this plant?

Nikhil Kumar: We are putting in an investment of about INR 120 crores and the investment ratio is 1:3.5. So, we should get another around INR 400 crores of turnover from this plant.

Khush Nahar: Sir, any guidance over the next 3-4 years what kind of growth you're targeting assuming towards 20% EBITDA margins, what type of top line growth?

Nikhil Kumar: Earlier, we have given conservative guidance of around 17% to 18% top line growth, but we are definitely in a situation where we are going to revise that, because this year itself we have already given a revised guidance of 25% to 27.5% and we will give a revised guidance for next year. So, I have already said it will be better than 17%, 18%. But the shift to higher guidance for a little bit longer period, I will do that when we talk in February. We do want to give a fairly accurate picture of where we are in the market, obviously, the numbers are much better, the company is doing a lot better, we are in a better position worldwide for getting better orders, obviously, we would like to communicate this to you. It's going in that direction very positively is all I can say. Exact numbers or more accurate numbers will be given when we talk next quarter.

Moderator: Next question is from Manoj Dua from Geometric. Please go ahead.

Manoj Dua: My question is on Turkey. The potential was there in Turkey in the past itself, but there were some problems due to some reason this quarter was not coming, and we have to stop it down. What are the fundamental changes has happened in an overall market in Turkey or is it the customer-specific order that it went? So, I want to understand what change has happened in the Turkey market.

Nikhil Kumar: The Turkish market is a power deficit country. So, there is a requirement for more power plants. It's also one of the largest geothermal markets in the world because they have a lot of sites where geothermal power plants can be set up. They have those reservoirs. It's a gift of nature. They could not put up those power plants, mainly because they had very high inflation in the country and they had very highly depreciating currency. So, when they had to borrow in euros or dollars to put up these power plants and get paid for the electricity in Turkish Lira, the depreciation of the currency was so rapid and so large that it was not financially feasible for them to repay any debt which was in euros or dollars. That situation is now changing because inflation is stabilized, and the currency is stabilized to some extent. So, the market is reviving once again.

Manoj Dua: What is the size of the order and is it from one customer or more customers?

Nikhil Kumar: No, these are multiple customers, and I have given an indication that initially we are looking at something like € 3 to € 4 million next year top line.

Moderator: Next question is from Kiran from Table Tree Capital. Please go ahead.

Kiran: I have two questions, one strategic, one operational. So, the strategy question, Nikhil, is I mean I am getting a sense of Déjà vu being an investor for a longer period of time. In 2011-12 we put up a new capacity of 50 to 200 MW and then the cycle kind of peaked out, right. So, in this scenario, I hope it doesn't. But in terms of your conversations, again, I am not looking for any number per se, but more on a strategy perspective. In your conversations with your clients, OEMs and other customers, we've gone from single product, single geography, single segment in the last 12, 13 years to multi-product, multi-segment, multi-geography kind of a company which is fantastic, right. Because we are putting up the new capex, so if you can just tell me, are you seeing a sense of peaking out in the next year or so in terms of orders and in terms of the cycle kind of peaking out or the client that you're talking to, are basically saying that this is going to continue for three to five years, numbers, just on the conversation basis?

Nikhil Kumar: This is a good question. I think that this is something that obviously we asked this question 100 times within our factory before we put up new capacities because we have been influenced by the past. But you're right. But one thing is we are a multi-product company, multi-geographies, multi-verticals and we are working with different OEMs across the world. So, what we see is that especially in the gas turbine, gas engine business is that this is more of a structural kind of demand which is coming driven by artificial intelligence data farms where different kinds of numbers have been thrown around, but wherever you read, wherever you see, talk about demand for electricity from this sector alone, we come across huge numbers like 200 to 400 to 500 GW of power required just for this segment. And this cannot be met by large, let's say, gas turbine power plants in the region of say 200 to 400 MW because there are only a few companies making them, they are all booked out for the next three to four years. The large part of this demand is going to come, be met by the smaller sizes between 20 and 50 MW, and that's what we see, that's what our customers are also saying, our customers, meaning our OEM customers. So, we feel that this cycle in this particular segment itself is going to be a big driver for growth. Then, of course, there is oil and gas, there’s fracking. The replacement for Russian gas is still a continuing issue in Europe. So, America is going to be a major supplier to Europe for gas. So, there's going to be more exploration taking place. That is also driving demand for these smaller sized gas units. Then there is the grid stabilization units. So, these are the structural demand is coming from these things. We believe that this is not the peak, this is actually probably the start or middle of a cycle where we are seeing this demand playing out for many, many years going forward. On top of that, the renewable push, hydro, is always going to be there and the domestic market while today it could be a little bit subdued, I don't think by any standard it has gone. Probably there is some backlog from the elections that took place earlier this year, but the market is strong, it's going to come back, India is a big economy, we plan to double our GDP in the next five to seven years. So, we are going to need electricity. And this demand for electricity in India is going to continue for some more time. Then we have a motor business where we are just starting to grow and it's a much larger business compared to much larger business compared to the generator business. So, we have a lot of scope to grow over there. I believe that we are in the very unique situation where we have multiple areas to grow, and I think that we have multiple areas to keep sustainable growth for a longer period of time. By no standard I believe that we are in the middle of a bubble.

Kiran: A question, Nikhil, then is, because when you talk of data centers, you guys keeps talking about nuclear, you guys keeps talking about solar, using winds. Are these opportunities or all these variations like especially nuclear, is it a variation of a steam turbine for us, how it translates to us?

Nikhil Kumar: Whatever people are talking about nuclear, right, so yes, there's an order being given for nuclear 500 MW. That's what we know. And that's going to be delivered somewhere around '28, '29, '30. It's far away. The technology has not yet been established. What's really happening is if you see that there's such a huge demand for electricity, we are talking about, as I said, 300, 400 GW of power that these large companies who are driving this demand, they are trying everything. They said, they are signing PPA with geothermal. This big geothermal opportunity I talked about. The PPAs are being signed by guys like Google, Microsoft, Meta and so on and so forth. So, they are putting their fingers in geothermal. They are putting their fingers in small nuclear there. But today their requirement is being met by gas. And so they are talking about changing the mix in the future. But these technologies and scaling up to the level that they want is going to take some time. They want everything to be done in the next five years or seven years, right? So, I don't see things like small nuclear and everything really affecting the medium-term demand from our point of view even if it does become a success and I hope it does become a success, because they are talking about unit sizes of 75 to 80 MW. TDPS can make these generators. So, if this technology does become widespread, that small nuclear becomes a commercially viable thing. Then it's a huge new sector of demand for TDPS because we are right there in this 80 MW range and we will deliver those machines then for the next, I don't know, 20 years.

Moderator: Next question is from Rahil Shah, who's an individual investor. Please go ahead.

Rahil Shah: My question is regarding while the EBITDA for the first half is impressive, the cash flow from operation have been weaker due to increase in inventories and receivables. Can you please explain why the inventories are so high? Also, whether inventory is largely in raw material or in finished goods?

Nikhil Kumar: The ramp up in production is taking place. We are ramping up our production to a very high level. So, we had to secure the raw materials because the factory is running so full that we cannot afford any disruption of time due to logistics issues or getting raw materials. So, we have booked up raw materials. Second is that as far as electrical steel is concerned, which is a major part of our total buying, we are buying from outside India and there are indications that the imports of steel may be restricted next year, there are strong indications that we have and domestic steel is far more expensive compared to the steel that we are buying from outside India. So, in order to avoid a situation where we are stuck with buying expensive steel which will definitely affect our margins we took a decision to buy a lot of steel even for next year, not only to cover the demand for the next two quarters, but also to cover a large part of the demand for next year just to protect our margins and also to protect our supply situation. Now, this has eaten up a lot of cash. So, the ratio of the increase in inventory, about 58% is in raw materials and 42% is work-in progress, there's hardly any increase in inventory due to finished goods.

Rahil Shah: My second question is we understand that the motors business segment is growing at a robust pace. Where are we getting these orders from and how sustainable is it? What's the growth outlook for next three to five years on this segment?

Nikhil Kumar: We are getting the motor business in exports and domestic and we are focusing on the larger sizes. Export, we are focusing on oil and gas, compression, hydrogen and things like that where we see very good scope for growth, the market is simply huge, could be $ 10 billion or even more. So, our share is miniscule. Any growth that we show, although may be impressive for us, is still a drop in the ocean as far as the overall market is concerned. Plus, we have domestic, then we also have the synchronous motors which from time-to-time, we get some there are some big orders in the market. So, all these put together is driving the growth for our motors. So, we said INR 80 going to INR 160 for next year and. I don't want to give a guidance for FY'27, but it's going to be another big increase for FY'27. There's a lot that we are doing to establish ourselves in various parts of the market. This motor business will grow for TDPS. It can be as large as the generator business and that's what we are trying to make it.

Rahil Shah: My last question is, are we still investing in robotics and automation as we did over last three to four years?

Nikhil Kumar: Oh, yes. In fact, the new plant will have more of it. When you put up a new plant, you have a chance to design it exactly the way that you want without having any constraints of disrupting production and putting in new processes and things like that. So, the new plant is going to be just as much as automation as possible. We are going to have more robotics, more automation, more efficiency, and we are going to use all our knowledge, all our experience to put up the most modern and most beautiful factory that we can think of.

Moderator: Next question is from Nikhil from SIMPL. Please go ahead.

Nikhil: My understanding could be a little bit off, but just one thing, if we go back two years, when the commodity inflation was very high, at that time we had repriced our contracts in such a way that commodity was a pass-through for us, so that our margins could sustain around 30%, 32%. Now today when we see the steel prices are low, is the realization also fallen for us because initially in one of the questions you said, our pricing today is like we are getting better prices. Have the prices become independent of the commodity prices now?

Nikhil Kumar: I don't see a big correction taking place in electrical steel prices or copper or other special forging steels and things that we use compared to post-COVID. We see the prices more or less flat or in some cases like copper, it is maybe even higher. So, we are arguing with anyone who talks to us on these lines, saying that, no, please show us the proof and there's no reduction no relief for us in terms of raw material prices. Our gross contribution expansion is taking place due to better product mix. Export has always been more profitable for us compared to domestic. So, more better product mix. And also doing more aftermarket work and things like that is also leading to better margins for us.

Nikhil: So, in one of the previous questions you said we are getting better prices because our plants are running full -

Nikhil Kumar: In some cases, definitely. When we are bidding for new jobs, sometimes we are not so desperate to take this order. In some cases we are getting. See, the better gross contribution is a summation of a number of small things, there's no one or two big things. It's 2.2% for this reason, #1, 0.3% for reason #2, 0.3% for reason #3. So, it's a number of smaller reasons, which overall accumulates in getting say 1.5% better.

Moderator: Next question is from. Alisha from Envision. Please go ahead.

Alisha: Just a clarification. The new capacity you said will come in phases. Is the phase-I of first building expected in H1 of '26 or H2?

Nikhil Kumar: Around May, June for the first, July for the second, August for the third.

Alisha: The new plant should be operational by H1? Great. So, the next question was Turkey plant has been shut since the last more than one year. Will it require any investments because we are witnessing an uptick in orders again and I believe that we were almost like to liquidate that plant?

Nikhil Kumar: No, no, we had taken a factory on rent and we had just basically lock the door, we just shut everything, now we open the door, we clean everything and start. That's basically what it is.

Alisha: So, no incremental investments will be required to ramp up the operations?

Nikhil Kumar: No.

Alisha: Sorry, I must have missed this, but any update on the brush order that we had won a couple of quarters ago?

Nikhil Kumar: Vinay, do you want to talk about the brush business, especially the generators that we are supplying with our own design?

Vinay Hegde: Yes. Brush business is going good and we had the top management visit last week and they have given some good indication for next year and the first order we have already tested and dispatched and we have a couple of more orders under execution and we are expecting 3-4 orders in this Q3 and so far it is going very well and for next year business they have given a good indication of business with TDPS design machines.

Alisha: So, in light of everything that we've been seeing, the brush orders expected in Q3, the Turkey orders expected in Q3, the incremental gas engine orders expected in Q3, we are expecting very strong inflow in H2?

Nikhil Kumar: Yes, I already gave indication in my opening remarks that we had INR 360 crores order inflow which is the highest ever for the company in Q2. I have already said they are going to exceed that in Q3.

Moderator: Next question is from Rohit from iThought PMS. Please go ahead.

Rohit: Just two questions. On the traction motor side, we got this order of INR 300 crores over five years. You mentioned two things. One, there is a similar order that you may eventually get and also in terms of the Indian railways order, which is sort of getting over in the next couple of years, there also you may get something. So, will we have enough capacity, or will the new plant then probably take care of that so in case all these things get fructified? And then also I think in your presentation you mentioned that you started to win something from the Indian railways as well. So, if you could maybe explain that a bit? I am not very clear if the capacity will be enough, if you can just maybe explain that?

Nikhil Kumar: Once the qualification is complete for these jobs, we may need to have a separate facility for traction business… completely separate facility, meaning a separate building only for the traction business. It's in our planning and we will execute on that as soon as these qualifications are completed and we have passed this test and then putting up that additional shop is not a problem, we will do it… we will have to do it. These traction motors tend to be small machines, so we don't need a big building with a very heavy crane capability, and it can be put up very quickly in say three to four months' time. It's in our plan and we are just waiting for some milestones to be crossed. And once we are 100% sure that business is going to come, we'll make the investments.

Rohit: That you think is like 2-3 quarters away or more than that?

Nikhil Kumar: Maximum two quarters away. I mean definitely we will have the investment decisions taken by Q1 next year. Look, I think the way things are going, Rohit, is that we have the lineup, right, we have the business, we sign the contracts, we have to make the prototypes. And once the prototypes are cleared, then the volume production will start. So, just be a little conservative, we are waiting for the prototypes to be cleared before we take the decision to put the factory. But, after the prototypes are cleared, we will have some six months time to ramp up and so we will do it that way. But we are not going to let go, we have the prototype orders, we are not going to let this go, we will make it successful.

Rohit: The second question was geothermal. So, you mentioned that you've done some orders in the US. I think 3-4 years back you talked about getting some strategic customers like you got in gas engine. I mean just wanted to get a sense on that. Is that something that is happening, I mean earlier in the call you mentioned that like the entire space is sort of going crazy in terms of demand, whether it is this energy, whether it is geothermal, everything. So, I am just trying to understand, are you also trying to get some strategic customers so that you have like a steady stream of business in those verticals as well or is it just a bit too early to think about those things?

Nikhil Kumar: Our OEMs who are bidding for these larger geothermal plants in the US are the same ones that we have developed and working with us for the past four or five years. Because the generator is coupled, it is sold with the turbine by these OEMs to the end user. But these larger size geothermal facilities what we are talking about, these are based on a different method of drilling, which is they are using the same techniques as fracking, horizontal drilling to exploit the wells and get more heat out of these wells and better utilization of the geothermal wells and power. It's a very interesting technology. I can name the end user also, there's a company called Fervo, that's the end user and it's very well known in the US right now what they are trying to do, you can check on the internet and it's all available. TDPS is the generator vendor for their phase-I prototype power plant and they have signed the PPAs with a number of large, as I said IT companies. There will be others who will do the same thing down the line. So, it's not this technology is not rocket science, but they are the first to do with this. So, I think this geothermal market in the US has a lot of potential.

Rohit: I think a few quarters like you talked about winning an order from a startup which is backed by a global oil major on the carbon capture. I think you supplied motor to them. How is that ramping up, anything that you want to share on that?

Nikhil Kumar: It's going to get commissioned this month or next month and then they will start ordering some more.

Moderator: Next question is from V.P. Rajesh from Banyan Capital Advisors. Please go ahead.

V.P. Rajesh: Just on this traction motor that you're talking about, the capex you're planning, is that part of INR 150 crores CAPEX or that would be separate?

Nikhil Kumar: No, no, we will need the new capex for next year if we have to do these things, we will have to have incremental capex over the INR 120 crores that we have talked about.

V.P. Rajesh: And then you talked about getting some orders from Japan for waste to energy. So, is that similar to what you had gotten from Germany a couple of years back, and if you can just give a little more color around these two opportunities?

Vinay Hegde: These are the same waste to energy power plants. Basically, now we have got one order from Singapore for a waste to energy plant. This is also mainly for a data center which is being put up by Google. There are many such power plants are going to come in the market because everybody is moving towards carbon net zero and these countries like Japan and Singapore they also have the limited land available. So, they have to use the waste and generate the power by using that. There are many projects coming up like this and Japan is the main market for us as of now and we are getting good amount of orders from Japan and this Singapore one is mainly for the data center from Google. These are mainly coming for cloud computing, artificial intelligence and digitalization. These data centers require huge power and they also have to have carbon reduction demand they have to meet. So, this serves both purposes. So, it has good potential.

V.P. Rajesh: So, one question is that we are getting opportunities from data center coming up in the export market, but data centers are coming up in India also. So, is there any specific reason why we are not getting those orders or are we getting those orders? I just wanted to check that.

Vinay Hegde: See, there is a data center coming up from Reliance, but the problem is in India this waste to energy this market is not matured. There are a few plants commissioned in India and there are many in the pipeline. That is one issue.

And there is no gas available in India for putting up the gas power plants. So, these data centers in India still they depend on either the grid and as a backup they go for huge diesel power plant. So, we also have got some good enquiries from data centers for the backup power plants which they use diesel power plants, for example, Reliance is coming up with a very big data center, we have those enquiries. But these things are going to take time and they can't go for these kind of renewable energy in India, either they had to go for solar or wind that is again connected to the national grid and they get the power from the grid.

Nikhil Kumar: But you will not have guaranteed power with solar and wind. So, what we are seeing in India is still diesel and diesel means it is 1-2 MW size. That is not the core area of business for TDPS.

Moderator: The next question is from Manav Singhal, who's an individual investor. Please go ahead.

Manav Singhal: So, I wanted to understand what the market size for hydro generators as well as the gas engine generators? And since we are going at these segments in the rapid phase for the last 3-4 years, are the market for these segments also growing at a rapid pace globally?

Nikhil Kumar: Yes, it is difficult to get exact number on this growing market, but definitely both the hydro market and the gas engine business world market is growing at more than 10% per year. And we have estimated the gas engine business market, I don't have the exact number, but it could be around a billion dollars in our sizes itself, and hydro could have been something like $ 500-$ 600 million market and growing very rapidly. So, there's a lot of scope for us to grow within these spaces.

Manav Singhal: My other question was that we have been installing these generators from 2000 onwards and it's been 25 years for us since then. So, other than that, are we also seeing traction in the aftermarket segment? And also would there be a replacement demand coming soon in the future?

Vinay Hegde: You are very right. But we started in 2001, and the volume started picking up from 2008, 2009 for our own machines. But we are not focusing on our own machines which are not quite old and these machines what we produce are very robust machines, but there is a potential for machines supplied by others like BHEL and other our competitors and Chinese machines which have been supplied in India, there are good potential of machines. If you see, our aftermarket business is also growing at 20% to 25% and recently we have got some very good orders outside India for replacing our competitors machines that we do on regular basis and there are very good number of enquiries, we have already participated in the tenders, there are some government jobs, one big hydro project we are now executing, there are three machines in that project. So, we are seriously focusing and since last three years we have started looking at this market and it is yielding results. So, there is a good market for not only our machine for replacing and upgrading and refurbishing our competitors machines as well.

Moderator: Due to time constraints, we'll have to take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Nikhil Kumar: Thank you very much, everybody for joining this call. We have answered a lot of questions today and it was a very active conference. We thank all for your time. I wish you all a very, very Happy Diwali and your families and we look forward to meeting all of you in some upcoming investor conference face-to-face in the next couple of months. Thank you very much and see you next quarter.

Moderator: On behalf of TD Power Systems Limited, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.