TD Power Systems Limited
(CIN -L31103KA1999PLC025071)

REGISTERED OFFICE & FACTORY:
27, 28 and 29, KIADB Industrial Area
Dabaspet, Nelamangala Taluk
Bengaluru Rural District
Bengaluru – 562 111 India

Tel +91 80 229 95700 / 6633 7700
Fax +91 80 7734439 / 2299 5718
Mail tdps@tdps.co.in

www.tdps.co.in

May 29, 2024

The Corporate Service Department
BSE Limited
P J Towers, Dalal Street
Mumbai – 400 001

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

Sirs,

Sub: Transcript of Earning Conference Call – Q4 and Year Ended March 31, 2024

In furtherance of our letter dated May 8, 2024 regarding intimation of earnings conference call, the transcript of Q4FY2024 earning conference call held on May 24, 2024 is enclosed and has also been uploaded on the website of the Company at https://www.tdps.co.in/investor-relations/financial-results

Kindly take the above on record.

Thanking You,
For **TD Power Systems Limited**

BHARAT RAJWANI
Digitally signed by BHARAT RAJWANI
Date: 2024.05.29 16:03:30 +05'30'

Bharat Rajwani
Company Secretary & Compliance Officer

Encl: A/a

"TD Power Systems Limited Q4 & FY '24 Earnings Conference Call"

May 24, 2024

TD Power Systems Limited - Management:

Mr. Nikhil Kumar – Managing Director
Ms. M N Varalakshmi – Chief Financial Officer,
Mr. Vinay Hegde – Global Sales and Marketing Head

Moderator Ladies and gentlemen, good day, and welcome to the TD Power Systems Limited Q4 and FY '24 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 on 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 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 touchtone phone. Please note that this conference is being recorded. Now I hand the conference over to Mr. Nikhil Kumar, Managing Director for TD Power. Thank you and over to you, sir.

Nikhil Kumar: Thank you, and good morning, everybody. Thank you once again for joining us today on our earnings call. I trust all of you would have received our results and investor presentation. Now I will discuss with you TDPS's financial performance for the year ended 31st March 2024. First standalone, our full year total income on a standalone basis was INR10.07 billion versus INR8.43 billion over the same period previous year increase to 19%. EBITDA for the full year is 17.66% including other income, but excluding exceptional and treasury income versus 16.18% over the same period in the previous year.

The company has spent INR32 million towards a one-time VRS scheme during the quarter INR20 million towards backlog, gratuity payments to contract and temporary workmen as required by the new labor code and provided INR17 million towards royalty payments on account of sale of two full generators under the license agreement, all of these resulting in a drop in EBITDA margins during Q4.

Profit after tax and comprehensive income was INR1,223 million versus a profit of INR884 million in the same period of the previous year an increase of 38%. Order book for manufacturing segment is INR11.89 billion out of which INR7.4 billion in the regular manufacturing business, INR4.18 billion in the railways business and now the spare and aftermarket business the project business is now INR0.15 billion. The Turkey business is INR0.17 billion.

Exports and deemed exports of the generator and motor business excluding railways orders is 64%. Order inflow statistics. Order inflow has increased by 24% over the previous year as follows. Strong order inflow momentum continues in this quarter on both domestic and international markets the order inflow from direct and deemed export is INR5.9 billion compared to INR4.44 billion in previous years; export and deemed exports order inflow is 57% of the total orders.

Consolidated

Our total console income was INR10.17 billion versus INR8.93 billion an increase of 14%. Profit after tax and other comprehensive income for the year is INR11.56 million versus a profit of INR99.5 million an increase of 22%. We continue to maintain a strong cash position of INR2.22 billion.

Now I will come to the order book market situation and guidance. Overall, the order inflow continues to be very strong from both domestic and export and our generator and motor business. The rate of order inflow will support the sales guidance that we have given for this present year FY '25. We continue to hold our guidance -- initial guidance with minimum 17% growth with an upside potential of 3% to 5% on top of 17%.

Most likely, we expect the number to be around INR1,200 crores console for FY '25. Margins will grow faster than sales due to operational leverage. Margin growth will be 3% to 4% more than the sales growth due to operational leverage. As has been the trend this year we expect about 46% to 47% of the revenues to be achieved in H1 and about 53% to 54% in H2 based on delivery patterns of our customers in this year and larger machines in H2. H2 will be stronger than H1.

For Q1 we expect the sales of INR2.5 billion to INR2.6 billion console and for Q2 we expect the sales to be INR2.9 billion to INR3 billion console. Market scenario. The market in all segments except railways is very strong both internationally as well as domestically. The domestic market is limited to mainly steam turbines and motors, but in both segments we are seeing strong order inflow in Q4 – sorry in Q1 and a strong pipeline for orders of the rest of the year. The sector is driving the growth domestically are cement, steel, paper and sugar.

In the international market, the order book is driven by bumper orders in the segment of hydro gas turbines and gas engines. The gas turbine and gas engine business are strongly driven by demand in oil and gas, data centers for artificial intelligence and grid stabilization power plants. We are seeing huge increases in orders received in these three segments and the pipeline is very strong for this year as well as for next year.

In addition, all these three have big potential for sustained business in upcoming quarters and years. Hydro in Southeast Asia, Nepal and parts of Europe continues to be booming with a strong pipeline of orders and inquiries. In the motor business, we continue to grow the business at a healthy rate. And this year, we hope to cross the INR1 billion target for order inflows. We are also getting a number of export orders from Middle East and is providing great references to build our business for the future. We're compensating on oil and gas, water utilities, lift irrigation, nuclear power plants and large motors required for fans, pumps and compressors.

Lastly, the sector that disappointed us so far is the railways business with almost no action, almost no, I would say potential for closing any deals in the next quarter also. Perhaps things will change after the election. This brings me to the end of my initial remarks. I'll now be happy to answer your questions that you may have. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Viraj from SiMPL. Please go ahead.

Viraj: So, the question is largely if I look at the console minus standalone the subsidiaries. I think there's a swing of almost INR10 crores in this particular quarter. So, were there any one-offs in there?

Nikhil Kumar: Yes, Varalakshmi, can you please take this question?

M. N. Varalakshmi: So, we had a dividend income from a subsidiary Turkey office and when we are showing the console numbers we will have to eliminate this. So that was around INR42 million. So that is one of the numbers mainly that is the reason.

Viraj: Okay. The difference is almost INR10 crores so were there any one off expenses or currency related provision.

M. N. Varalakshmi: There was also a INR40 million loss basically on account of depreciation of Turkish lira from INR4.3 to INR2.58. These 2 are the main reasons and attributing to almost INR9 crores.

Nikhil Kumar: Yes. The Turkish subsidiary continues to suffer from the problem of rapidly depreciating Turkish lira. And when we translate -- even though we're having operational profit from that subsidiary when we translate the currency back into Indian rupees due to 40%, 50% drop in the value of the Turkish lira compared to Indian rupee within the quarter then we have to suffer the translation loss.

And this has been going on for now quarter after quarter because the Turkish currency is also depreciating at rate of about 70% per year. And we have no choice but to report it as per the accounting standards even though we actually have operational profits from the Turkish subsidiary.

Viraj: Hello so this is more of a notional loss rather than a cash loss, right?

Nikhil Kumar: Yes, it's a notional loss. Yes, it's only a translation loss.

Viraj: Okay. Fine. And in terms of the capex you give the guidance for the growth and margins, but in terms of capex, I think you were looking at the new facility. So, given the kind of inflows you're now seeing, is there any revision in terms of the capex which we'll be looking for '25 and '26?

Nikhil Kumar: No, we are sticking to the plan. So, we are putting up a third unit. Construction we are going to start very quickly and we will spend -- as we have mentioned earlier, we are going to spend INR120 crores for that plant. We have other capex for the existing two factories which will -- which is approximately equal to depreciation every year. That will also continue.

And we will spend this investment over 2 years this financial year and next financial year. We don't have -- we will not be short of capacity. And we will make sure that we will deliver every single order that we receive.

Viraj: Okay. And just last question. In terms of the announcement we had made in Q3 regarding the tie-up with BRUSH, so by when do we expect us to kind of start commencing the orders?

Nikhil Kumar: No, we have got good orders from them already. We're delivering some machines this year. And the pipeline is building up. I have no doubt that this will be a good relationship for TDPS. I'm not going to disclose the numbers, but it is going well.

Viraj: Okay. I will come back in queue. Thank you.

Moderator: Thank you. The next question is from the line of Pramod Dangi from Unifi Investment Management LLP. Please go ahead.

Pramod Dangi: Thanks and hi Nikhil ji. Sir my question is on the quarter -- quarter 4 see if I look at the volume of the generator supplied it actually went down year-on-year. And for full year also it went down for both export as well as domestic. Sir, anything which -- is there any order which got postponed to or delayed to the quarter 1 this year? Because I'm comparing this with the numbers of the Triveni turbine which had a very good quarter as well as full year. So is there any context?

Nikhil Kumar: Volume should not be the benchmark, Pramod. We had, in Q4 -- we had produced 4 machines, large two pole generators these 90 megawatts and 60-megawatt machines. Those are very high value, but the number is much lower. So I feel that it is -- and in other segments also, for example, in hydro, they have been producing a large number of bigger megawatts generators. So that will lead to a higher value but lower volume. I feel that volume is not a good measure of what kind of mix that they're getting.

Pramod Dangi: Okay. So just a follow-up. Is there any shift happening in terms of the megawatt or in terms of the -- so that this trend can continue and we should ignore if this happens in the future as well?

Nikhil Kumar: Yes. I would recommend to ignore it because we don't measure of our internal -- when we do internal reviews in the company we don't look at volume. We look at the value, we look at megawatts into a number of poles. That's something that we look at internally. But we are confident that when we have larger generators, our margins also tend to be better, because we get better pricing for larger machines.

So we are seeing the -- this year, in this financial year, we will not have so many 2-pole generators as we did last year. But next year, again, we are seeing a big buildup of orders for 2-pole generators already in the pipeline. We have a good healthy order book forming for 2-pole next year. So it's difficult for me to say that every year is going to be the same.

This year, we will have more smaller ratings compared to larger ratings compared than last year. Next year, we're going to have more larger ratings and hopefully, we'll have larger ratings and smaller ratings next year which can be a boom. But year-on-year, we -- it's different. And I think that is one of the strengths that we have in the sense that we are in different markets with different products with a very highly diversified product range. So when something goes up and if something goes down, we are able to balance out the numbers by being present in different parts of the market.

Pramod Dangi: Sure. Got it. And lastly, in a competition sense, in this year and last year, did we lost market share, did you gain market share compared to the overall industry growth in India specifically?

Nikhil Kumar: India, we have maintained market share for sure. No doubt. And internationally, we are gaining market share. We are growing, and our international business is growing much faster than the growth in the international market. And particularly, I can say that in the gas turbine and gas engine segment, the outgrowth is extraordinarily high.

What we're seeing this year compared to in the previous year. Also, in hydro to be honest with you. In these 3 segments, all our businesses export -- 100% export in hydro, gas engine and gas turbine. Growth has been extraordinary and coming from different regions. And the gas business is coming from I would say good stabilization in power plants which is when countries move for more and more renewables.

They need to have this stabilization in power plants where they start up the gas engines, whenever there's a drop of production of solar or wind, then you need hundreds of megawatts to come on to the grid instantaneously to support the grid and to stabilize the grid. Those can only come from gas engines or gas turbines. So, we're seeing one big part of the market coming in that.

Data centers for artificial intelligence, there's explosion of demand coming in this area. Some of them require hundreds of megawatts from backup power. This is a big provider, once again, when you have gas turbines and gas engines. And then, of course, hydro, one of the reasons for our increased sales is that earlier, we were restricted by our relationship with voith, where we were selling our machine only through one big German OEM, but now we are free from that relationship since '21.

And now we are really seeing the effect of that freedom where we're able to address different parts of the market all over the world and getting orders from different parts of the world. So, hydro has also grown tremendously for us last year to this year, and the pipeline and the forecast for next year is also extremely strong. Very upbeat about this -- about the international business for TDPS.

Pramod Dangi: Yes. Thanks helpful. All the best for the next year.

Moderator: Thank you. The next question is from the line of Mythili Balakrishnan from Alchemy Capital Management Private Limited.

Mythili Balakrishnan: I just had a couple of questions. One, you mentioned that some royalty had increased, and therefore, that had also impacted margins. It would be useful if you could sort of elaborate on the same of why has it sort of increased. And on an ongoing basis, what will be the outlook on this front?

Nikhil Kumar: Yes. These large generators, what we call above 60 megawatts, we have a license agreement with Siemens. And as I mentioned earlier in my response to Pramod that we produced more 2-pole generators in Q4. And that's why we have to pay -- we have to pay royalty to Siemens for our 2-pole generators and where we produced them.

I also mentioned a little bit earlier, we don't have many -- we have only one machine, only one 2-pole generator for this financial year. But next year, again, it's building up -- the volume is building up for much larger numbers. So this year, we won't see a big royalty outflow.

Mythili Balakrishnan: Which is FY '25, you do not expect...

Nikhil Kumar: Yes, FY '25. Yes, we have -- we have one big generator in Q2, and we don't have anything in Q3 and Q4.

Mythili Balakrishnan: Okay. So, in terms of margins, can we still maintain the 17.5%, 18% range in...

Nikhil Kumar: Yes. We will definitely maintain. In fact, we will do better than that this year because we will have operational leverage. We are still operating on -- we don't have a third plant up and running. So we're still operating out of two plants. We'll be able to produce 20% more from these two plants, and we're going to have better margins for sure.

Mythili Balakrishnan: Got it. I wanted to check with you on the railways orders. If you could just comment a little bit on both the direct orders as well as what is happening on the OEM contract that we have?

Nikhil Kumar: The OEM contract that we have is running. It's got a life until '28...

Mythili Balakrishnan: You have INR100 crores, INR110 crores run rate for that?

Nikhil Kumar: INR100 crores or INR100 crores plus for about 4 years, so it's running. But other than that, there's nothing happening in the Asian market for the railway business, and that is the biggest disappointment for us. We expect and we hope that things will pick up after the elections.

Mythili Balakrishnan: Got it. But I just wanted to check with you that we were in the process of getting our products approved by the Railways, right? And...

Nikhil Kumar: Yes. That is -- that, I have given a guidance of about INR15 crores to INR20 crores this year, and that we'll do.

Mythili Balakrishnan: Okay. On that, there is no...

Nikhil Kumar: Yes, it's not material on a INR1,200 crores sale. But yes, that we will do.

Mythili Balakrishnan: That will happen?

Nikhil Kumar: And then let us see how it -- yes, that will happen. But in this segment also, we are finding that there is a lot of pricing pressure coming in. And people have dropped prices dramatically in this particular segment, which is direct business with the Indian Railways. So we are hesitating to take on a larger volume because it does not make any sense for us to do so and to grow in our margins. So we are also just doing that minimum amount to be alive in the business, not going aggressively full into this business because the pricing is very, very tight at the moment. And we have no idea about that.

Mythili Balakrishnan: Right. And in terms of capex for FY '25, we are still looking at an INR80 crores number just for this year?

Nikhil Kumar: Between INR80 crores and INR90 crores will be the outflow for capex this year.

Mythili Balakrishnan: Got it. I will come back in the line for more questions. Thanks a lot.

Moderator: Thank you. The next question is from the line of Niteen S Dharmawat from Aurum Capital. Please go ahead.

Niteen S. Dharmawat: Most of my questions have been answered, so just one more additional question that I had is about the raw material price trends. Where do you see this now? Is it stable or is there any change which would impact the next couple of quarters for us?

Nikhil Kumar: Yes, a good question. We have seen a dramatic increase in the prices of copper in the past 2 or 3 weeks. It is now around USD11,000 level. But thanks to our hedging strategy, we have copper booked until about Q3 this year. And we are already talking to our customers for price increases. If prices of copper hold on like this, we will demand price increases so that we don't have any margin impact coming in from Q4.

How these copper prices, whether it's a speculative bubble or whether it's a sustained price level, we don't know. But yes, at the moment, copper is a big red flag for us. Other than that, other materials are pretty benign.

Niteen S. Dharmawat: Thank you and wishing you the best.

Nikhil Kumar: Yes. Thank you.

Moderator: Thank you. The next question is from the line of Himanshu Upadhyay from Buglerock Pms. Please go ahead.

Himanshu Upadhyay: My first -- my question was on the third plant what we are going to do. So what will be the capacity utilization required to breakeven? And is there any worry that what happened with -- when we started a new plant in FY '11, '12, and the capacity utilization was low, we felt -- it became difficult to utilize the plant and profitability took hit, how difficult it will be. What is your thoughts on that?

Nikhil Kumar: Himanshu, thank you. Really good question. So, I think that the lessons of the past have definitely influenced the decisions of the present. There's no doubt about it that we are not going to -- we're going to do our very best not to be in the same situation that we were 10 years ago or 12 years ago.

But of course, the company is also in a very, very different position in the market compared to where we were in 2010, '11. Back then, we were only a domestic player, largely domestic player. We did not have these different segments, different products, different reaches and different references all over the world. Now TDPS is a very different organization with a large variety of products, different markets, different OEMs and presence and branding all over the world.

We are seeing -- we are putting up the capacity in two phases. We're putting in an investment this year, we're putting in another investment next year. So even to that extent, we are hedging that to see that, okay, we put first phase, then the second phase will go through once we see the sustained demand taking place.

So, as I said, the lessons of the past influence the decisions today -- of today. Obviously, we don't want to get into the same situation that we were in 2011. But at the same time, it is very important to realize that we're not a same company today as we were back then. We're a totally different organization. And I think this will be the biggest-- this is the biggest change in how the outcome will happen in the future.

Himanshu Upadhyay: Glad to hear that. And one more question on the motors business. See, in this business of generators, we have tied up with many OEMs, okay? And last time, you stated that oil and gas, we are seeing a lot of capex in Middle East in many places. And some of our OEMs are -- who are into the gas engine and buyers for generators, they are also into the compression segments, okay?

So, are we also thinking of getting those OEMs or empanelment with those OEMs for their motor usage? Or motors would like to independently build? And how difficult is to get into those OEMs for motors or being a motor supplier to those OEMs -- large OEMs globally?

Nikhil Kumar: We are building our business in motors, I would say, fairly rapidly. So, as I said in the call, in my earnings call speech, we will be in line may be this year to reach an order booking level of about INR1 billion. So, business is coming from different segments, it's coming from an oil and gas business, it's coming from Middle -- maybe from the Middle East, it's coming from water supply schemes, it is coming from lift irrigation screens, so the synchronous motors.

It is also coming from induction motors for large application, industrial use, may be fans, compressor pumps. So, we are setting ourselves in different segments of the market. We're still very much at the stage where we're building references and building credibility. And I think -- but the growth has been extremely good and extremely positive. And we will keep growing our business incrementally in all these sectors.

So, to answer your question, is it difficult? It is difficult. But TDPS has the capability to make these larger machines and TDPS has the references and large generators across the world, so it's not difficult to convince a technical buyer that, having made a 30-megawatt or a 40-megawatt generator, that we can make a 10 or 20-megawatt motor. It's not difficult to convince a technical buyer or a technical end user. That -- this is the capability of the organization.

That way, we are, Himanshu, we are -- as I said, we are growing the business incrementally and we will have good results on this segment for sure. This will be a key part of our -- the motor business will be a key part of our growth -- is a key part of our growth plan and will play an increasing role in the product mix of the company in the future.

Himanshu Upadhyay: Okay. Thank you from my side and I wish to see INR1,800 crores sales in 3 years or the full capacity utilization of the third plant.

Moderator: Thank you. The next question is from the line of Shyam M. from Aditya Birla Mutual Funds.

Shyam M: Congratulations on a good set of numbers. Just had a couple of questions. Firstly, on the order inflows, while they have grown very strongly over FY '24 numbers, domestic inflows for this quarter are down about 15%. So, I wanted to just kind of sense check from you, is there some sort of a slowdown you are visiting in the domestic market? Or is it largely been finalizing the orders has been slower and probably the inquiry pipeline is there? So just a little bit of understanding around that.

Nikhil Kumar: Vinay, can you take this question?

Vinay Hegde: Yes. And you are very right. The inquiry pipeline is very, very strong and it is only a matter of other finalizations, which are getting a little bit postponed by a couple of months, mainly this is -- the election, which is going on and the last two phases are there, and this is I think going on for the last 2 months. So that is why you are seeing a little bit lower order booking for this quarter. But definitely, there's a pile up of active inquiries. I think all of them are going to get finalized in Q1 or early Q2.

Shyam M: Understood. Understood. And my second question was on the newer segments that we are targeting, the newer products such as the synchronous and the submersible motors, while you are guiding that we'll probably look to get about INR100-odd crores of inflows in this financial year. I wanted to understand, which particular product is going to drive that trend, is there any particular product that you see getting higher acceptance in the market from the new products that you have released?

Nikhil Kumar: This year, it will be more induction motors in terms of order inflow compared to synchronous motor because synchronous motors is mainly used in large irrigation projects, which are State government funded. So those are patchy. They come and then -- one large order will come and then there could be a large gap of time and then the next order will come.

And that's how this particular market functions. The -- so it's inconsistent and lumpy. It's better to have. So, we are focusing a lot on the other parts of the industrial side of the market, oil and gas, where the demand is more consistent and so this year, we are focusing in order inflows mainly on the induction motor side.

And we're once again focusing on large induction motors, more complicated products. Nuclear Power Corporation also has a large number of tenders out there. So the INR100 crores business the inflow for this year will be in areas, which are not related to lift irrigation scheme for other areas.

Shyam M: Understood. And just get a sense check how much was this inflow for FY '24, the motor business?

Nikhil Kumar: 30 -- 30 or 40.

Shyam M: Thank you. Those are my questions. All the best sir for the upcoming year.

Nikhil Kumar: Thank you.

Moderator: Thank you. The next question is from the line of Deepesh Agarwal from UTI AMC. Please go ahead.

Deepesh Agarwal: My first question is on margin. Sorry, I joined late, if this is repetitive. Your other expenses and employee costs both are up. I believe your royalties increased, but why the employee cost would be up significantly in this quarter?

Nikhil Kumar: Yes, Varalakshmi, please answer this question?

M. N. Varalakshmi: Okay, sir. We had a VRS scheme for workman and which resulted in INR32 million of cash outflow. And we also had an INR20 million of cash outflow on account of the backlog gratuity payment, the contract and temporary work as required under the new labor laws. So, these are two reasons, and these are onetime payment only.

Deepesh Agarwal: Understood. Understood. Sir, then how much capacity with the third plant will add to us. So, I guess you highlighted we typically are put in INR1,400 crores, INR1,500 crores of a capacity in terms of revenue potential. When you add the third plant, what should we think about the capacity addition in terms of revenue potential?

Nikhil Kumar: So we are -- you should think -- we are looking at something like INR1,700 or INR1,800 crores total capacity potential once the third plant is up and running full stream. So, the third plant, as I've probably mentioned in earlier earnings calls or maybe an individual one-to-one meetings with all of you, that it's going to be mainly a component plant.

So, it's going to be supplying components, subassembly to the main plant and the main plant, which is currently producing those components and subassemblies that activity will be shifted to the new plant. In addition, we'll be adding more capacity for components and subassemblies in the new plants freeing up space and capacity in the main plant for more final assemblies testing and so on and so forth.

That's the general structure of how they're going to be setting up our manufacturing in the next 2 years. But overall, the capacity will go up to around INR1,800 crores. And we're keeping it extremely flexible so that it can -- depending whether it's motor, generator, large sizes, lower sizes, whichever way the market moves, we should have the ability to respond, and we should be able to produce whatever the market wants.

Deepesh Agarwal: Sure. And what is the status on ramp up of that oil and gas orders execution and LM250 gas generator?

Nikhil Kumar: LM250, we -- so we have to produce one generator for LM2500 for a customer and in the US based customer that will be delivered by the end of this year or early next year.

Deepesh Agarwal: Okay. And oil and gas?

Nikhil Kumar: Oil and gas business is -- for us, the gas turbine business is booming for the another US based gas turbine OEMs. We are producing, I don't know, now it's going to be -- it's a big business this year. We also added through our relationship with -- even though we signed a relationship with the company called Baker Hughes last year, that's also adding on to gas turbine business in the oil and gas segment.

So, overall, gas turbine business in the oil and gas segment is really, as I mentioned earlier, in my earnings call speech, dramatic increase is taking place for us in the increase in the gas turbine business and is sustainable because we are -- it's a new market for us, and we are --

and the opportunities are really huge in this segment for TDPS. So growth will take place.

Deepesh Agarwal: Sure. And lastly so it seems there could be some ordering in the nuclear. So, in terms of our PQs and all we are completely qualified in most of our segments or we are still having the kind of a gestation period in the PQs for the nuclear?

Nikhil Kumar: Nuclear, we are still not qualified for inside dome. We are still working on -- we are only qualified for outside the dome. So, we are working on the PQs for getting qualified inside dome as far as nuclear is concerned. In other parts of the market also, I can say that we are still in the process of building references and building capability.

We may have a prequalification, but prequalification only then allows you to bid but still customers who want to do make machines, they should run, they should work, and they should have the satisfaction. So, we are still in the process, I would say, not PQs, but establishing credibility and trust with the customer. It will take time but we are building up the business step by step, and I'm happy with the progress so far and I'm also excited about the potential for the future.

Deepesh Agarwal: Fair to say in next 2 years, 3 years, possibly we can get the complete PQs out there even inside dome for the nuclear?

Nikhil Kumar: That's the goal but we need to first put these outside dome motor and we need to run, the customer needs to be satisfied than they'll give a chance to go inside dome. The supply from our side can take place to Nuclear Power Cooperation, but things don't move so fast over there. So, I can't commit to you that we'll have everything done. We'll deliver but then they have to use it. And then once they use it and once they're happy with it, I'm sure we will get opportunities inside dome.

Deepesh Agarwal: Sure. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Ashish Aggarwal from Sundaram AMC. Please go ahead.

Ashish Aggarwal: Sir, just most of my questions have been answered. Just one thing. In other expenses, excluding the royalties in royalty fees, still the other expenses seem to have increased substantially on a Q-on-Q basis. And even on an average basis for last few quarters, it has been hovering around INR15 crores, INR16 crores a quarter. So if you can just explain what is the reason for this increase? And secondly, on the gross margin front, gross margin seems to have increased substantially. Is it just the product mix, which has helped us?

Nikhil Kumar: Varalakshmi, you will take the questions for the expenses and then I will explain -- I will take the question for the gross margin. First, you can go, Varalakshmi.

M. N. Varalakshmi: Sure. Yes. So apart from the royalty payment, there has been increase in the sales, which has also related in some variable selling expenses and travelling consultation charges increase. A couple of expenses all put together are leading to this volume increase.

Ashish Aggarwal: Okay. There were no one-off apart from the royalty?

M. N. Varalakshmi: No, there are no one off.

Ashish Aggarwal: Okay. Got it. And on the gross margin, sir?

Nikhil Kumar: Gross margin, we are getting into more profitable parts of the market, and that is reflecting -- that is reflecting in the pricing and also these large 2 pole generators that we produced last year, making the complete generator in-house, the rotor has also been extremely profitable for the company.

In general, with more and more business coming from oil and gas and export. We are very confident that we're going to be able to hold on to these gains in the gross contribution and also increasing service business, increasing the aftermarket business and service business also helped the cause to increase the gross contribution. So earlier, what we need to hold on to 32%, now is 33%, 34% is the reality.

And the company needs for to constantly keep kind of go in 35%. So, the goal to keep the increase in gross contribution incrementally will be major thrust for management incrementally.

Ashish Aggarwal: So next year what we have indicated it's a combination of both gross margin improvement as well as the operating leverage am I right?

Nikhil Kumar: Yes.

Ashish Aggarwal: Got it. Thanks sir.

Nikhil Kumar: Thank you.

Moderator: Thank you. The next question is from the line of Nilesh Doshi from ProsperoTree. Please go ahead.

Dhruvesh: Dhruvesh here. Hi, Nikhil ji. Just wanted to broadly understand that 1 year back probably around May we had a meeting where you had broadly indicated that you're probably gearing up towards a much larger goal rather than the intermittent 15% and 20% growth now. So can we say that now the structure is in place to probably achieve INR1,800 crores to INR2,000 crores range over the next 3 to 4 years. Of course, plant and capacity will match but ultimately, the structure has to support us considering the kind of markets that we are in today?

Nikhil Kumar: And that's a very difficult question to answer. Of course, we are putting in the infrastructure to grow at a much higher rate. And we're also entering into different segments in the market and different products, and we hope that we can grow. What we're committing is something 17% to 18% plus every year. And this was the committing. The goal is to do better. But if talking about commitment, that's the commitment.

Dhruvesh: Got it. Sure. And second, when and if the railway orders to your customers come? How large can this opportunity become, let's say, once it stabilizes in terms of the recurring revenues that can happen from this area? Is it like INR100 crores, INR200 crores thing or no, over time, it can be much larger?

Nikhil Kumar: Generally, if we do enter into such kind of contract, it could be -- it will not be a 10-year contract but it could be between INR70 crores to INR100 crores business per year for 3-year period to 4-year period, each of those contracts?

Dhruvesh: Okay. And there can be more than 4, 5 such or no I mean, just to understand the signs of...

Nikhil Kumar: Yes, there can be but we don't see. There was a hope that we would see that kind of thing where we would see multiple railway contracts coming in for freight locomotive. We were all talking about another 9,000 horsepower, then we're all talking another 12,000, then we're all talking about another the 6,000 and nothing has materialized.

So, then we were -- so which way is the freight locomotive market going to move, which is the rating, who are the players, we don't know as it stands. Even with high speed trains Vande Bharat everything we were expecting more tenders to come in the market, but I think everything has come to a halt. So, we were at one point time looking at multiple revenue streams from all these new initiatives, but nothing is happening at the moment. So, it is all that 0.

Dhruvesh: Right. And last small one, when it comes to pumped hydro because there is a lot of talk and chatter about it. Is this real in India in terms of a possibility of much larger...

Nikhil Kumar: Pumped hydro is real, but right now, all the action is in the very large sizes in the 300, 400, 500-megawatt size power plant. Those are machines which are much beyond the capacity of TDPS. Eventually, they should come down to smaller sizes when it comes to the level that we have power plants to, let's say, 40, 50-megawatt, 60-megawatt type of machines, single unit, then we will definitely be a part of that action. But right now, the market is not come down the those size of pumped hydro is mainly taking place in the large -- very large size power plants.

Dhruvesh: Okay. Thank you sir.

Nikhil Kumar: Thank you.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: So, my first question is, it seems that last 4 years, 5 years, we have travelled this journey from a single product -- single geography focused company to multi-product, multi-geography company. So earlier steam turbine used to form the base of the business contributing INR300 crores, INR350 crores kind of revenue. So now that we have into multiple products, synchronous motor, induction motors and many more segments. Sir, do you see 3 or 4 segments contributing a base business of INR200 crores, INR300 crores? And if so, if you can name some of those segments?

Nikhil Kumar: Steam turbine business continues to be a very, very critical part of our future business. It is still a, I would say, an indispensable part of our business. India is a big driving factor. And with India, with more investment taking place in India, and we expect in the next once the election is over in the next cycle of capex investments to further accelerate, this product will continue to be a very vital part of TDPS.

But at the same time, we need to have other products, which are going to be equally large. I see the gas business as gas turbine, gas engines would be equally large. Hydro is already approaching the size of the steam turbine business for TDPS. And then I think the motor business is the next business where we also wanted to come to this level of size where we're talking INR200 crores, INR300 crores. So, we have a way to go. We have a road to travel on.

So it's not that we have already done all these things, but we're definitely on a road where these numbers are achievable. And everything will happen incrementally step by step, step. And but the potential is there, the market is there, and TDPS right now is in a good position to achieve these numbers. It's all I can say, the potential for us to take each segment to that size is 100%, it is there.

Dhwanil Desai: Sure. Very useful. And so, any new products other than the synchronous and induction motors, any new thing, which...

Nikhil Kumar: We have new products but we're not going to -- we're not in a position to be disclose to the market at this point in time. We are definitely working on new things, and we will -- as and when they are at the point where we can announce it to you and then answer all the subsequent questions that normally come with that announcement, then we will definitely answer.

Dhwanil Desai: Sure. Understood. And second question, I think one change that we are witnessing is...

Moderator: Sorry to interrupt, Mr. Desai, may we request to use your handset, please?

Dhwanil Desai: Yes. So, my second question is you mentioned in your commentary and even overall environment, we have seen that the larger megawatt capacity and turbine is coming back because of the way the power environment is kind of that, we are moving from surplus to shortages. So, we had built that capability of future for larger megawatt and far than 50, 60 megawatts. So, are we seeing any uptick in that segment? Are we re-orienting cater to that demand because that also is a reasonably large demand? Any thoughts on that?

Nikhil Kumar: Vinay, you can take this question since you are in the market.

Vinay Hegde: Can you just once again repeat that question?

Dhwanil Desai: So, I was saying that overall environment...

Nikhil Kumar: Do we see -- do we see the large above 60-megawatt market, given the power shortages during the situation in the country and outside the country, how does the market look for these large sizes and where do we fit into this?

Vinay Hegde: Yes. Larger size inquiries are not much if you're talking about anything above 60-megawatt to 200 megawatts. There are very few inquiries but the numbers are increasing below 60 megawatts.

Dhwanil Desai: Okay. So 30 to 60 is the traction.

Vinay Hegde: Yes, 25 to 50-megawatt the numbers are more. But between 60 to 200 megawatts, that could be 4, 5 machines per year.

Nikhil Kumar: Okay. The international market for the larger generators above 60-megawatt is a big market dominated by just a few players.

Dhwanil Desai: Right. Because the context to this question is the oil and gas.

Nikhil Kumar: We have licensed product -- we have licensed products, so we are not free to sell these machines all over the world. So, there are restrictions for us to go into this market in a very big way because we don't have our own product. And so, I think we will always have our hands tied because of this particular reason. I want to look at this large two-pole market outside India. That's the problem of having licensed product.

Dhwanil Desai: Okay, okay. But you are not thinking along the line of developing some of your own products for oil and gas rigs, which are much larger megawatt requirement?

Nikhil Kumar: I mean, we -- above 250, no. I mean that's not -- if at all, we -- right now, we are in this agreement with Siemens, anything that changes we will keep the market informed about it if there is any change in direction as far as the large two-pole market is concerned.

At the moment, where we are the limitation that we have, as Vinay said, the market in India could be 4 to 5 machines per year. And that's where we are. So, we are focusing our activities on our own products, our own technology where we have completely to do what they have to do. It makes no sense for us to concentrate on products where we have our hands tied behind our backs.

Dhwanil Desai: Understood. Thanks. Very useful. That's it and all the best.

Moderator: Thank you. The next question is from the line of Mahesh Bendre from LIC Mutual Fund. Please go ahead.

Mahesh Bendre: Sir, at a broader level, is it possible to share what -- I mean, out of the total revenue, how much came from generator how was from the motor? Broad...

Nikhil Kumar: We will share this, Mahesh, on the motor business record a significant part of the revenues. Once it starts increasing, then we will share this number with you. I think we should be able to do it this year. But let it grow to a size where it's meaningful then I'll share it. I already shared earlier on this call a little bit about the order inflow and I've shared about how the order inflow is growing. I think that can give a direction as to when the revenues also then become real.

It gives a sense of direction how the revenue growth is also going to take place for the motor business for us. And then once it reaches that level, then we will surely be happy to report it.

Mahesh Bendre: And on, sir, order book side, the contribution from railway has -- I mean, probably from INR800 crores to now it has come down to INR400 crores. So will this remain -- I mean how the contrition of railway...

Nikhil Kumar: Yes, we -- of course, we are searching for another INR100 crores per year business from railway because we just had a life only for another 4 years. Of course, we have time. We have another 4 years. But this INR400 crores become INR300 crores, become INR200 crores, INR100 crores and 0. So we need to find another INR100 crores contract.

So we are -- one is to look at India and another part if you look at outside India. We're looking at all the options, looking at different opportunities outside India also. But the pressure is on us to find another fine answer that we need to have to replace this INR100 crores business per year with some other INR100 crores business per year. We have 3 years, but time is running fast.

Mahesh Bendre: Sure. Thank you so much sir

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I would now like to hand the conference over to management for closing comments.

Nikhil Kumar: Yes. Thank you, everybody for joining us on this call. We are always available for any further questions. So please feel free to get in touch with us. We look forward to interacting with you once again at the end of the quarter. I look forward to meeting many of you individually in some investor conference. Thank you very much.

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