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07 June 2022

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

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

Symbol: **GEPIL**

Scrip Code: **532309**

Sub.: Transcript of Earnings conference call held on 31 May 2022

Dear Sir/Madam,

Further to our letter dated 31 May 2022, please find enclosed a copy of the transcript of Earnings conference call held on 31 May 2022.

Thanking you,
Yours truly,

For GE Power India Limited

KAMNA TIWARI

Digitally signed by KAMNA TIWARI
DN: cn=KAMNA TIWARI c=IN
o=Personal
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Date: 2022-06-07 17:22+05:30

Kamna Tiwari
Company Secretary & Compliance Officer

"GE Power India Limited Q4 FY22 Earnings Conference Call"

May 31, 2022

MANAGEMENT: **MR. PRASHANT JAIN - MANAGING DIRECTOR, GE POWER INDIA LIMITED**
MR. BRIAN SELBY – ASEAN REGION SALES EXECUTIVE, HYDRO
MR. YOGESH GUPTA – WHOLE TIME DIRECTOR & CHIEF FINANCIAL OFFICER, GE POWER INDIA LIMITED
MR. VINIT PANT – SALES EXECUTIVE- COMMERCIAL, GE POWER INDIA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to GE Power India Limited Earnings Conference Call for the fourth quarter and year ended 31st March 2022. As a reminder, all participant lines will be in the listen-only mode. 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 "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prashant Jain, Managing Director, GE Power India Ltd. Thank you and over to you, sir.

Prashant Jain: Very good afternoon, everyone. Welcome to the Q4 results call for GE Power India Limited and I welcome my team as well who is joining with me to address the presentation, what happened in the quarter and what happened in the last financial year and the next action titles. We have shared the deck online at the stock exchange. I will refer to the page number as we go through the presentation. We will cover a safety update on page 2. The executive summary on the quarter and the financial year and then we go through the financials and we come to the summary followed by question and answers.

Moving to page 3, as is the custom, we always start with Safety and we are very committed to safety at GE Power India Limited. We are proud to share that your Company with 25 million hours has had zero fatalities and had a very good safe track record with several sites. We have also celebrated the 51st National Safety Day across all sites and we are also now engaging with employees, their families, which you see on the right to engage into the right safety culture. The safety culture of your Company is also reflected in prestigious awards, for example from CII and Global Safety Summit Award, the National Award across all heavy construction companies where all the projects of GE Steam Power India have been recognized as the best in class in heavy equipment when it comes to safety.

Moving to page 4, I will talk here about briefly the fourth quarter. In the fourth quarter, the steam services order intake was higher by 36%. We see robust demand on steam services. The strategy is on track while the new equipment project orders have been delayed primarily in the fourth quarter due to inflationary pressures, the customers are waiting for some of the communities to cool down to be able to make their decision on the projects, but we have a robust pipeline. On the steam service, the revenue was sustained at the same levels as the same quarter last year partly because the outages were postponed because of the heavy demand the customers started seeing. In projects business, we have seen a substantial lower revenue and this is driven by supply chain disruptions, which started due to the third wave of COVID that quarter and majority of the revenue now in the projects is coming from site works and supplies, they are coming into the tail end of the project. The Company has also reported negative profitability. This is primarily driven by lower project volume. The volume, the revenue was lower on the new projects. There was also a pressure on factors like inflation, cumulative customer delays and additional impact that we see in the fourth quarter is due to the right sizing of Durgapur factory and the execution challenges when I mentioned that it is specifically about manpower shortage on sites and the supply chain disruption partly that we saw in some of the sites. So, that had an impact you will see in the coming slides on the numbers.

Moving to page 5 where we talk about the full year. One thing, which I want to confirm for the quarter, for the year, steam services business continues to grow as per the expectations. The revenue grew by 17% in the full year and the order intake in the current year was stable with better margins despite COVID where we had lost a quarter, but despite that the full year, we were able to maintain stable order intake with better margins. The project business was where we saw slower order intake largely due to government regulations and lack of finalization of large deals. On the revenue in the new projects, we continue to run down the boiler backlog and the impact on volume that we see largely in the Company in the last financial year is due to lower volume, lower project order intake and that we see the impact in the financial year. The negative profitability for the full year, the reasons are largely similar. There was a large part of factory impairment in the fourth quarter. We will talk about that as we move forward in the current slide. The Company managed cash better in the financial year with borrowings reduced by about 190 million. So, that is in essence, the year on the key aspects of the year in 2021-22.

Moving to page 6, your Company has been talking to you for the past couple of years on a strategy to de-risk the portfolio by a better mix of order intake and we are now reporting this every quarter, the progress on cumulative order for the last full year. So, the services we see a growth and the growth is intact and we see a better mix of better service margin in the order intake. We have also started taking orders, which are not largely EPC, but non-EPC with reduced risk, so that is what we also continue to see moving in the right direction. And the third area that we're focusing consciously to make a better business mix is moving towards more private customer participation as compared to government, which was heavily in the past and we are getting more and more private customer orders. So, from the market mix, cash mix, risk profile of the business, the Company continues to make efforts to de-risk the business by improving the mix and I would say that the direction is in the right direction for the order intake.

Now, with this, I would handover to Vinit to go to page 8 and explain what happened on the financials in order intake. Vinit, over to you.

Vinit Pant: Thank you Prashant and good afternoon everyone. I am going to take you through the slide #8 on orders. On the left hand side of this slide, we have the quarter 4 numbers comparison between 2021 and 2021-22 and on the right side we have for the full year. So, to take up from what Prashant had said, 2021 order intake was low because in the initial part of the year we had the issue of COVID and then there were certain restrictions on imports and also there was some ambiguity on the categorization of the plants, which affected the FGD ordering. So, these were the reasons, but then going forward quarter 4, I would say things were really improving. These three factors were no longer affecting, but then we had this issue about the sudden surge in the commodity pricing, which customers were ready to place orders, but then because of the surge in pricing, cost, there was a delay, but having said that, we really feel things are getting better now. We are already seeing improved ordering from quarter 1 this year.

Also, if you look at the Hydro portfolio, there has been a drop, but that's mainly because we had a single large order of almost Rs. 209 crores, which was booked in 2020-21, so that affected ordering. As Prashant mentioned, steam services order intake has been quite stable if we compare with last year and one more point is that we have this year improved profitability. This is an important part, orders, we have booked with better margins. That's all from my side and I would now hand over to Yogesh to carry this forward. Over to you, Yogesh.

Yogesh Gupta: Thank you, Vinit. Good afternoon everyone. I will take you through the Revenue slide, which is slide #9. If we see on the left side of the slide, it is Q4 revenue numbers compared with the Q4 revenue numbers of the last year. From Rs. 9.3 billion revenue in 2021 quarter 4, we have come down by Rs. 3.6 billion to Rs. 5.9 billion in the current year Q4. The primary reason for this is as explained by Prashant like the COVID challenges, labor availability at site and the supplier delays, and another factor that had contributed to the lower revenue has been the lower order intake in the last 2 years. The FGD contribution, which used to be in the range of about 50%+ has come down to around 40% in current year. So, these are the main reasons for our revenue in this quarter going down. And if we look at on the right side, the revenue for the full year 2021-22, has come down by Rs. 7.2 billion, which is almost 22%. The prime reasons are same as we have seen for the quarter 4 and they have been COVID, labor availability at site due to certain challenges and supply delays. Despite all these challenges that we have seen, the steam service revenue has been progressing very well and we had 17% growth for the full year on the steam service revenue, whereas the project revenue has gone down because of our lower order intake, etc.

Moving to the next slide, which is slide #10, is on profit before tax and if we look at the left side, we have a substantial dip in the quarterly profit to Rs. 1.45 billion against a profit of the same quarter last year Rs. 241 million. Here, the operating profit has fallen from Rs. 330 million profit to Rs. 705 million loss and the prime reasons contributing to this reduction have been the volume impact, the impact on account of the material cost, which has increased by 3% vis-à-vis last year. The commodity inflation that we have been facing has been the contribution for the material cost increase, the customer delays and the execution challenges plus there have been certain cost elements that have impacted us like employee cost has gone up, cost on account of interest that we are paying on borrowing has gone up and there have been some provision requirements, which led to this increase of loss to Rs. 705 million.

Moving on to the exceptional items for the Q4, we have incurred an expense of Rs. 750 million for rightsizing the Durgapur factory. We have written down the machines and plant, which we are closely looking at, which we would not be using in the near future. This way, we have taken the hit in the current year so as to ensure that in the future we don't have any such impact of impairment or write down of our machines and plant.

Moving on to the full year, we moved from Rs. 951 million profit last year for the full year to a loss of Rs. 2.9 billion for the full year 2021-22 and the prime reasons for this as explained for Q4 were same that we had a lower volume, which contributed to the substantial portion of reduction in our margin plus we had higher material cost impact on us. There were some provisions required for gratuity and leave encashment and the borrowing cost was higher. So, these contributed to the challenge on the profitability side and there has been the Subansiri project wherein we had updated the cost in the first quarter itself, had an impact of Rs. 826 million plus the different projects, which have been significantly impacted because of inflation, customer delays, etc. contributed to almost Rs. 870 million on the project cost front and there was some good amount of entries on the profitability side coming from our service business. So, all in all, this is the picture on the profit side from operations.

Moving to the exceptional items for the full year, we had written down of the Plant & Machines for Shahabad in the third quarter to the extent of Rs. 123 million and Rs.749 million for Durgapur, which was done to ensure that what machines we are not using, we are writing down fully.-There was an impact of restructuring cost at Durgapur to the extent of Rs. 363million last year and this year we have restructuring cost of Rs. 579 million. So, all in all, this is the total impact Rs. 1.452 billion emanating from the exceptional items. Total loss incurred in 2021-22 is Rs. 2.9 billion against the profit of Rs. 951 million in 2020-21, wherein the exceptional items are contributing to 50% in the current year of Rs. 1.45 billion, which was only Rs. 363 million last year for the restructuring of our manpower at Durgapur.

This is it from my side. I would now request Brian to take us through the execution challenges that we are facing.

Brian Selby: Thank you and good afternoon. Very quickly on Subansiri, as we all know, this project was restarted back in January 2021 after not literally being ground to a halt since 2011. So, over 10 years of non-activity, a substantial amount of work requiring deep inventory of equipment was still in working condition and what needed to be replaced and then of course, shortly a couple of months after restart, COVID hit, put a major impact on availability of labor and resources and the team has been just very focused on ensuring that we are trying to minimize the additional costs that are required to complete the project while managing through and dealing with the customers' expectations on the schedule. So, we have been pursuing multiple avenues and work streams in order to try to ensure that we are minimizing the cost impact, dealing with the replacement material inflation and cost of labor availability at the site, all trying to minimize the impact on the margin while at the same time having discussions with our customers and trying to get our claims recognized and paid for. As a backdrop, we have this project being monitored every 2 weeks, both at a regional headquarters level, as well as at a global level to ensure that we can maintain a very focused process and try again to minimize further losses on the project. With that, I will turn this over to our FGD business.

Raj Raman: Thanks, Brian. On the FGD execution, GEPIL continues to be the frontrunner on the milestones. Now, this is something very critical for our customers as you would imagine. These are requirements on the SOx emissions where there is the norms, which we need to meet and NTPC, one of our primary customers, is racing against time there. So, your Company continues to be leading in terms of the milestone completion. However, let me not dilute the fact that the multiple COVID waves and the unprecedented monsoon, which we saw last year did impact the supply chain and also the workforce availability at various sites. The team continues to work with various options and work through to mitigate this and wrap up and deliver on the milestones. This was further compounded by the inflationary impact, which we have seen in the later part of the year in 2021. Coming back, what we are doing, we definitely have created a lot of rigor around our claims towards customers and typically all these contracts, they have to undergo what we call it as extension of time formally, which happens around when it is getting completed, when the final stage of the project is there and that we pursue with our customers, as well as we are seeing that what we can drive with our suppliers in terms of the delays and the claims around that. Added with that, obviously our lean approach, which continues to be there and this has made a lot of progress for us in terms of mitigating some of the delays. We saw the first FGD of the GEtechnology being completed in the NTPC's portfolio and which was your Company, which did that at Unchahar. We continue to leverage on this in our approach on the delays mitigation. With that, I will hand over to Prashant.

Prashant Jain: So, what I would summarize is that yes, it was a tough year with COVID and inflationary pressure and the challenge was due to the lower volume. We continue to be robust on the services year-on-year growth as we have been transitioning towards a better business mix and this part of the strategy is on track. The execution challenges are a reflection of the external environment and there is an improvement action and claims towards the end of the project and as we transition from a large boiler portfolio towards an emission and services portfolio, we are continuing to right size the Company to meet to the changing market dynamics. What we are for sure facing is the lower order volume and for that, there is a robust pipeline where we have Rs. 4,000 crores worth of projects in the pipeline and services of about Rs. 1,500 crores worth of opportunity that the team and the Company is attempting to close into order intake shortly so that we are back on track with the volume and revenue. So, that is the attempt that I would like to share with you all.

Moving on to the next page #14, I wanted to give you assurance that Company, GE Power India Limited, is very relevant for the market. India is a large coal economy and the globe is transitioning towards a phase-down and not a phase-out of coal and GEPIL is one of the top emission player, top technology with 50% of power in the country that is going through GEPIL's equipment and software, that is huge. GEPIL technology and GE Technology drives efficiency in the installed base and will enable renewable integration as we move forward and the team has dedicated industry experience, engineering and very strong project execution with an excellent safety track record.

Last, but not the least, we are driving towards a better margin mix and a business mix to navigate the transition and the Company would like to partner with India's promise to reach the net zero by 2070. So, yes, what we do at GEPIL matters and is relevant for the market that is going through a transition itself for the country.

So, with that, we would like to rest the presentation and we will move towards Q&A.

Moderator: Thank you. The first question is from the line of Narendra Mhalsekar from IIFL Securities. Please go ahead.

Narendra Mhalsekar: My first question is on the gross margins, again, we continue to witness pressure and hover around 20%. What part of the order book continues to see margin pressure and how do you see the margins going from here on considering services have now seen 84% of the in-flows mix?

Yogesh Gupta: We have order backlog in the range of about Rs. 38 to Rs. 39 million and the profit margins on these different businesses have, like on steam it is in the range of about 10% to 11%, services is around 25% to 26% and hydro is in the range of 11% to 12%. So, this is the percentage of margins that we have on our backlog and as has been shared in the presentation, we have acquired business, especially in stream services, on even improved margin. So, as we proceed, we would be further improving upon our service margin profitability and we are targeting or aiming to execute the remaining order backlog at the margins that they are presently at.

Narendra Mhalsekar: And on the overall FGD tendering seems to have improved like what are the prospects out there for GEPIL and what sort of competitive environment are you seeing and if could also, give what are the areas that your pipeline of Rs. 4,000 crores of projects…..

Vinit Pant: So, on FGD, we have a healthy pipeline as we mentioned and this is a mix we have, but it is mostly from the private customers. As you are aware, NTPC has already completed ordering, NTPC as well as most of the central utilities. So, what we are left with is state and private players. So, I would say it's a mix of private and state, but it's going to be predominantly private and here also we have a strategy. We have a strategy, at some cases we are going to bid full EPC, some cases we are going to bid only on EP score. So, this is how it is, but these are all active projects. What we are talking about Rs. 4,000 crores, these are all active projects and we really think now with the clarity in the categorization of the plants, already we see the ordering has improved this quarter. So, things are definitely looking up for FGD.

Narendra Mhalsekar: And on the competitive environment, how is it for FGD?

Vinit Pant: So, as far as competition is concerned, we are, as I mentioned, we are not bidding for all projects right now. We have certain projects, which we have identified and we think already we are executing about 13 GW and as Raj mentioned, we are well versed with execution. So, we are taking all that feedback and we are competitive as far as cost is concerned.

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

Danesh Mistry: I have a couple of question. The first one was that if you see our P&L, the consolidated fee, our other expenses have gone up, so if you could run us through what drove that? Second is that if you could help us understand now that we have taken this decision on Durgapur, what is the kind of cost savings that we can see in the business going forward, as in how much does it bring down our fixed cost base price, so in that sense mitigate some kind of our order flows and third is in terms of the promoter GE group itself, they have talked about transfer of assets and other IP's to the Company, so where are we on that journey?

Prashant Jain: So let me start with the third question and in the meanwhile, we will come back to you on the first and the second question. On the IP transfer, technology transfer, development of local know-how in the Company, on the FGD we have achieved close to 98% to 99% local competence in the Company. The entire bidding competence is 100% where there is the entire DJU bonds qualification criteria are all addressed locally by the Company. The execution competence, now we have executed the milestone, as Raj confirmed, on the FGD's by ourselves in the Country, which is Unchahar, Jhajjar, etc., and pretty much the entire 98% to 99% is now local. Now the technology and competence is local, I think for India for sure is available. In regards to the geographical expansion and the additional areas that GEPIL would like to participate, for that the discussion is ongoing with GE and that we will update you as we make progress, but as regards the participation in the India market is concerned, for that participation especially in FGD, which is the most promising opportunity in the near term and the services in the near term, the Company is self-sufficient. Hydro, of course, is a global network of business that continues with support from the team from Brian in Asia and the global network, but as regards team is concerned where GE has announced exit, in that area, the IP, the competence, is all fully developed now in the country. So that is around the third question. Coming to the first and the second question, if I may want to recap, you said the Durgapur has been impaired and the other expenses, I would pass that to Yogesh. Yogesh, over to you.

Yogesh Gupta: On account of other expenses, if we see the consolidated financials, the FY21-22 number is almost same as of FY20-21. There is an increase in the quarterly number and the increase in the quarter 4 of the current year is on account of certain provisions that we had to create for taxation etc. and there were some travel expenses which were also booked now. So, total other expenses are similar to expenses as of last year, but they were booked in the fourth quarter. So, that's the reason why you see there is an increase in other expenses in the fourth quarter whereas the annual number for FY21-22 is same as of last year 2020-21.

Danesh Mistry: And the savings, now that we have impaired Durgapur, so do we see any savings in our fixed cost structure and if you can either quantify or give a qualitative assessment on that?

Vinit Pant: On the Durgapur, as I have been updating, we started with a capacity of 800,000 hours. We went down to about 500,000 hours and the additional adjustment on capacity, we still need to adjust up to 180,000 hours as we move towards the middle and the end of the year. So, there is still work to be done to optimize because this factory is being optimized to become a service setup. So far it's still executing the BHEL boiler backlog. So, that capacity optimization, underutilization of capacity, that pain we will still see for some time. As regards the impairment and depreciation is concerned, on that over to you, Yogesh.

Yogesh Gupta: So, clearly, the savings will come on account of 2-3 reasons here. The 2 reasons are basically the reduction of the depreciation that will be there. This is because we have written down the assets. So, the depreciations will be coming down substantially, which will be in the range of about Rs. 12 crores and then we are looking at the headcount reduction. This will also significantly contribute to our savings-in the range of about Rs. 5 to Rs. 7 crores.

Danesh Mistry: And just one clarification question, you said that your order book is $39 million or Rs. 39 billion?

Yogesh Gupta: I mentioned, it is Rs. 37.7 billion.

Moderator: Thank you. The next question is from the line of Simar Preet Singh from Green Portfolio Pvt. Ltd. Please go ahead.

Simar Preet Singh: I have 2 questions. First on the cost of material point of view, I can clearly see that the material cost is increasing, so are we able to pass it on and if yes, what is the lag time and the second question on the quality of debtors, the trade receivables are continuously increasing, even the revenue is falling, so what is the quality of the trade receivables?

Prashant Jain: On the gross margin, I will address that. What is changing is the business mix. The earlier revenue was largely coming from the portfolio combination of Durgapur, which is boilers and FGD and services. As we run down the boiler portfolio, the mix is moving towards more FGD and FGD is largely a project business with bought-out. So, that's one change in mix that is partly reflecting into the gross margin. The additional impact that you see in the gross margin is also coming from the cost of bids. In the project that was explained by Brian and Yogesh on the slides. So, that is the reason why you see the gross margin. There is a price variation clause in some projects and that price variation clause will be applied and some of the claims, the part of that will move, part of that will be claimed towards the end of the project and part of that is the change of mix in the revenue that we see in the current year. So, for the second part, I will forward to Yogesh.

Yogesh Gupta: We have an increase of about Rs. 1.8 billion on the receivables front and the proportion of this receivables between retention and our normal dues has been consistent in the range of about 79% to 80% and as you would recall our earlier discussions in the earlier investor calls, we have acquired FGD business with a very high degree of retention clauses. In the first phase of the ordering of the FGD, the retention was as high as 50%+ and this has clearly contributed to our receivables going up and as and when we do more revenue, our receivables increase and now the trend has started stabilizing and as Prashant mentioned that now we are in the execution of the tail end of the project. So, this has now stabilized and vis-à-vis the quality of our receivables, the majority of our receivables are from PSU's and PSU's also like NTPC and BHEL, which are I would say AAA-rated companies and we are pretty fine on the quality of receivables from these PSU's. There may be some delays, which will be dependent on the progress of completion, etc., on site for the retention especially and for the receivables. These customers have been paying on the due dates. There are some private customers and there have been some instances where there have been some delays, but we don't foresee or contemplate any challenges on the quality of our receivables~~.~~ As per our internal policy, if any outstanding or receivable is overdue for more than one year, we make a provision. We follow a conservative approach and if it all there is any further challenge we are seeing on any of the receivables, we provide on top of this policy that we follow.

Simar Preet Singh: One more question in the line sir, what is the guidance for the next year and when we can see our quarterly revenue of more than Rs. 1,000 crores/million?

Prashant Jain: We refrain from giving forward guidance and futuristic question is normally what we would avoid to address as per the Company policy.

Moderator: Thank you. The next question is a follow up from the line of Danesh Mistry from Investor First Advisors. Please go ahead.

Danesh Mistry: Just one clarification, you talked about the cost savings, the employee cost of roughly Rs. 7 crores and depreciation of Rs. 12 crores. So, these are annual savings or these are quarterly savings?

Yogesh Gupta: These will be annual savings.

Moderator: Thank you. As there are no further questions from the participants, I now hand the floor back to Mr. Prashant Jain for closing comments.

Prashant Jain: Thank you everyone for joining and attending the call. Wishing you all the best, have a good week ahead. Thank you, team.

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