Triveni Turbine Limited

Q2 & H1 FY 17 Conference Call Transcript
November 15, 2016

Moderator Good day, ladies and gentlemen, and welcome to Triveni Turbine Limited Q2 & H1 FY 17 Earnings Conference Call. 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 this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gavin Desa of CDR India. Thank you and over to you, Mr. Desa.

Gavin Desa Thank you. Good day, everyone. And a warm welcome to all of you participating in the Q2 & H1 FY17 earnings call for Triveni Turbine Limited. We have with us on the call today, Mr. Nikhil Sawhney - Vice Chairman & Managing Director, Mr. Arun Mote – Executive Director, Mr. Deepak Sen – CFO, along with other members of the Senior Management Team.

We would like to mention, before we begin, that some statements made in today's discussion may be forward-looking in nature, and a statement to this effect has been included in the conference call invite which was emailed to you earlier. I would also emphasize that while this call is opened to all invitees, it may not be broadcasted or reproduced in any form or manner.

We would like to start this call with the opening remarks from the Management, followed by an interactive Q&A session, wherein you can discuss your points and views. I now invite Mr. Nikhil Sawhney to share some perspective with you with regards to the operations and results over the quarter and half year gone by. Over to you, Nikhil.

Nikhil Sawhney Thank you very much, Gavin. Good evening, everybody. Thank you for joining our conference call in what is quite a tumultuous day I believe for many of you. But to take you through the results, the second quarter and half year has shown a very good performance in line with our expectation.

The total income from operations for the quarter stood at ₹ 2.02 billion as against ₹ 1.79 billion in the corresponding period of last year, which is an increase of 13% year-on-year. And for the half year we had an increase of over 20%.

EBITDA at ₹ 525 million with a margin of 26% in the second quarter FY 17 was higher by 17% as compared to Q2 FY 16 which had an EBITDA of ₹ 449 million. This compared to an increase on a half yearly basis of over 22% for the half year.

PBT stood at ₹ 491 million with a margin of 24.3% in Q2 FY 17 as against ₹ 410 million in Q2 FY 16, an increase of 20%. While on a half year basis that increase was 26%.

Profit After Tax at ₹ 343 million with a margin of 17% in Q2 FY 17, which was an increase of about 36% as against Q2 FY 16 profit after tax figure of ₹ 253 million. The half year increase was 34%.

The EPS for the quarter is ₹ 1.04 per share. And for the half year stands at ₹ 1.85 per share.

The order book for the Company stands at ₹ 6.12 billion and our enquiry pipeline is strong.

The results for the Company are on a consolidated basis and follow IND AS. And as we reported last quarter, we will be publishing and analyzing our results on a consolidated basis which includes the results of our two 100% subsidiaries as well as share of profits of our joint venture, GETL.

To take you through the product performance. During the quarter under review, products sales showed growth of 14% and during Q2 FY 17 the total consolidated product order intake has been ₹ 1.08 billion. The aftermarket revenues grew by 9% in the quarter under review and are now 21% of sales as against 22% in the corresponding period last year. During Q2 FY 17, the aftermarket order intake has been ₹ 470 million.

In exports, we are currently present in about 70 countries and have enquiries from many more. Our strategy of concentrating globally on sectors such as sugar and process co-generation, combined cycle, waste-to-energy and biomass has helped us in smoothing the variations of demand from particular segments and geographies. The consolidated export turnover has gone up by 72% in Q2 FY 17 to ₹ 1.13 billion and the proportion to total sales have also gone up from 37% in Q2 FY 16 to 56% in Q2 FY 17.

On the market front, in H1 the market showed a decline of 15% in the domestic market when compared to H1 FY 16. Though the situation has shown an improvement in Q2 when compared to Q1, we believe that in the full year we should see a similar amount of market, or similar absolute market in the domestic scenario as we did see in the previous year. This is slightly lower than our expected growth of about 10% in a domestic market for the current year.

On the export front, in some markets order finalizations have taken longer than our estimation. In fact, in our order book for this current quarter we have approximately ₹ 80 crore plus of orders which have not been included as part of our order book because they are pending advance which we will be accounting for in Q3 as a course of our normal business practice. And very frankly, this is based on volatility in terms of decision making which is lumpy and cannot be certain at any given point in time. We are optimistic of course in our export strategy, not only on a product basis but also for the aftermarket where we are relying on established offices to bring in a greater visibility and penetration into geographies for both product sales as well as aftermarket.

The Company, as it strives to move away from being known as a domestic company but more to a global engineering rotating equipment manufacturer, we believe that the current sales at 56% of turnover comes from the export market, provides us a very consistent and solid base to be able to stand on this statement that we are a global engineering company.

While we are seeing certain slowdown in certain markets and Brexit continues to have an implication on the UK market in particular, and in Europe, we have had to work very hard in terms of establishing new jurisdictions., New product lines to be able to counteract the slowdown not only in the domestic market but in the export markets as well.

GETL, which is a joint venture that Triveni has with General Electric, recorded sales of ₹ 843 million in this current half year with a profitability of Rs. ₹ 109 million for the half year. As you know, in the previous quarter the joint venture did not get any orders but in this current quarter it was able to secure two orders, one from the international market and one from the domestic market with a total consideration of ₹ 474 million. As we get to this current Q3, we are optimistic on securing four to five orders within this quarter and the next year which will leave us with a very healthy order book for GETL and that subsequently along with the focus that we are putting on the standalone entity of below 30 megawatts will leave us with a good order book at the end of the year.

We are very optimistic on the sales going forward for the next couple of quarters. As you would see from our balance sheet, we have finished goods inventory which is in transit largely for the export market which could not be billed within this quarter and we are optimistic that this will lead to good sales realizations in the next quarter. And given that Q4 has historically been a good quarter for us, we anticipate it to be contributing very well to our bottom-line.

The overall enquiry generation in certain geographies has become quite stagnant, but I have to say that our total enquiry book in excess of 6 gigawatts is something that gives us enough lee way to dip into, and even though we are not seeing a great growth in the enquiry book, we believe that this is a temporary phenomenon due to a great amount of global uncertainty which currently prevails.

The marketing team is of course confident in terms of meeting its target of growth that has been set out for this financial year as well as for the year to come. The change in the sales percentage of aftermarket as well as export will auger well for our margins which may come under some pressure in the domestic market, given the intense competition that exists in a declining or a stagnant market.

Of course, the majority of our sales are still going into the renewable energy segment and with newer avenues opening up with our product development, we are hopeful of securing more orders in this space in the coming future. The outlook in the sugar market which has historically been a good source of demand for Triveni Turbines products continues to have a buoyant outlook. We are optimistic that in the coming year we would still see a good demand from this segment given the high liquidity that the sector currently has as well is predicted, or we forecast for it to continue to have in the coming year.

The Company has established service centers in certain geographies such as Europe, Middle East, Southeast Asia and as well as SADC - South African Development council region and we expect things to contribute more significantly in the years to come.

With that, I would be happy to take any questions. Thank you.

Moderator Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Monica Joshi from Hornbill Capital. Please go ahead.

Monica Joshi I just wanted to understand what would have led to this severe drop in gross margins? I see that your revenue contribution has shifted by about 5% points in favor of the domestic market actually, very strangely actually in this quarter. Would you attribute the 5% points decline basically on a QoQ basis in gross margins solely to this change in your mix?

Nikhil Sawhney Monica, I do not know where you are looking at our gross margins, are you looking at our consolidated results?

Monica Joshi Yes, so I am essentially doing your material cost as a percentage of sales and that is how I am calculating this. And I am looking at the consolidated numbers.

Nikhil Sawhney Material cost as a percentage of sales, in fact I am looking at the numbers and they look actually far better than the margins, gross margins have increased in that manner. But I really welcome this, we will just work out these numbers and get back to you. But let me give you an indication on the order book. You are very right, we had said that the domestic market has contributed more to our order book in this current quarter, this is due to a movement of finalization from Q1 to Q2 which is still at a depressed level. But having said that, our order intake for this current quarter does not include approximately ₹ 84 crore of order book which are pending advance. And as you know, we only count orders that have received advance into our order book. And out of the ₹ 84 crore over ₹ 70 crore is from the export market which would get the proportion back to what has historically existed.

Suresh Taneja If you take into consideration the increase in WIP and finished goods then the material cost would really balance out. It is approximately 1% higher than the corresponding period of last year.

Monica Joshi Yes, so I am taking the increase and decrease in material cost and the raw material cost, so what I am computing is a total material cost in Q1 of about ₹ 83 crore on a regular book which is your revised numbers of about ₹ 165 crore in the consolidated and that against Q2 is ₹ 116 crore on a revenue of ₹ 206 crore. So as a percentage of sales, your Q1 material cost is 50% and that is about 55.9% in Q2.

Nikhil Sawhney I would like you to be a little bit more specific on the sales number, we also do have finished goods inventory of approximately ₹ 27 crore which you have considered.

Suresh Taneja For six months' period which I have calculated right now, the percentage becomes 54% for the current six months. If you take the previous six months, it becomes about 53%. So there is a 1% increase in the cost.

Monica Joshi No, I understand that, that is on H1

Nikhil Sawhney These are accounting explanations, to give you an operating explanation, I do not think we see any reason for the gross margin to decline, in fact we are quite confident and comfortable with maintaining EBITDA levels in excess of 25% and I think that is the visibility that we can give.

Monica Joshi So from the current level, Nikhil, of 20.5% or say 21% EBITDA, you are saying that you expect to close the year with about 25% margin?

Nikhil Sawhney Well, actually with our current calculation we are currently at an EBITDA margin of about 25% - 26%.

Monica Joshi I will take this offline because I am not getting. Thanks.

Moderator Thank you. We have the next question from the line of Pawan Kumar from Unify Capital. Please go ahead.

Pawan Kumar Sir, the other income is very much high this quarter, so this whole pertains to our normal hedging income that we saw every quarter?

Nikhil Sawhney Yes, so you should look at it from a half year perspective, you will see that there will be an aberration in other income as well as other factors on quarterly basis as based on the sales mix. But if you look at on a half year basis it evens out.

Pawan Kumar But there is nothing extraordinary in that, right?

Nikhil Sawhney No, these are all regular operating profitability and income.

Pawan Kumar And secondly sir, if we look at it in the past, as you mentioned there is a bit of slowdown in the order book. And in past we used to do revenues of around ₹ 600 crore nearly with an order book of a similar size. But now since our revenue base is growing higher would we maintain a similar growth for our order book

Nikhil Sawhney So we are optimistic on growing our order book to the same extent by the end of the year to reflect the increased potential for turnover for the following year, which is FY 18.

Pawan Kumar As of now what is our growth visibility sir, on the revenue front this year?

Nikhil Sawhney I see we had given some visibility last year saying that we aim to grow at about 25% CAGR for the next several years. We have not given a guidance for this year but to be very frank, I think this year's profitability growth will be better than last year.

Pawan Kumar But we are confident that in FY 18 again the order book will pickup and we can do some ₹ 800 crore nearly, or maybe somewhere around ₹ 900 crore?

Nikhil Sawhney I am not going to give specifically a number, it may be lower, higher, whatever it may be. But I think we are very optimistic on our growth, let us be frank about that. And at the same time you have to understand that order book is based on a delivery cycle of between eight to ten months. And so we do take Q1 of any particular year into the order book of that current year itself. We also have a significant amount of book and bill from our aftermarket within the year itself. The dispatch of the turbines and the way that order book would actually be utilized within a current financial year or give visibility is also based to a certain extent on the off-take by the customer.

Pawan Kumar Nikhil, can I put it this way, in the sense, if you compare our execution as compared to previous year versus this year, has there been any kind of pickup in the execution versus the shortening of the whole execution cycle?

Nikhil Sawhney Broadly it is about the same, the fact that we manufacture approximately 100 plus turbines per year and so very frankly they all average out. But Arun, if you want to comment on that?

Arun Mote It is like this, if you ask generally, the execution time is same but we do take some short delivery orders, depending on the type of inventory we have and depending on the type of requirement and are able to deliver some short-delivery orders. And we get a substantially good premium over that. But I would say, generally the cycle is same because it is highly optimized cycle, if there is an improvement it could be in terms of a couple of weeks, that is all, it cannot be more than that.

Pawan Kumar Nikhil, I was just trying to ask you this question, because as you said right now we are at around ₹ 6.12 billion of order book, adding some another ₹ 80 crore or say ₹ 100 crore order to the order book, still we end up somewhere around ₹ 7.2 billion. So until the executions starts and the cycle picks up, next year growth will be difficult. Is my understanding right?

Arun Mote No.

Pawan Kumar So how should this be understood, if you can just give us a bit of idea on this?

Arun Mote See, it is like this. The execution cycle you should assume it as practically same, it will be eight to ten months depending on the type of the turbine. There would be some short delivery orders. And as our Vice Chairman, Mr. Nikhil Sawhney has said, there is going to be a good pickup of order in Q3 and Q4 and we are expecting growth in the current year as we have said and even in the next year we expect things to be alright.

Nikhil Sawhney I think what Arun is saying, what we are trying to give you visibility and a little bit more confidence on without getting specifics on the number is that we believe that the order booking for the next couple of quarters will be healthy enough to exhibit the growth that we expect for FY 18.

Moderator Thank you. We have the next question from the line of Ashutosh Adsare from Sharekhan. Please go ahead.

Ashutosh Adsare Sir, during the quarter our export sales market has grown significantly, while the order inflow has declined. So can you throw some light on that?

Nikhil Sawhney Yes, that is what we were talking about. Actually the fact is that we have a lot of pending orders in excess of ₹ 70 crore out of ₹ 84 crore which at 30th September were pending advance, so those could not be included as part of our order book, but they have already been converted, plus more. So we are optimistic in the order booking for this current quarter and the next quarter. The turnover, of course is a reflection of the order book which is eight months prior to that. So the visibility that we provided in the previous couple of conference calls is that increasingly you will see our sales efforts towards the export market which in turn will have your turnover actually being more skewed towards exports once those get realized and manufactured.

Ashutosh Adsare Sir, in the press release you mentioned that you have some large size orders expected to be commissioned. So could you tell the size, the total cost of the project and time to executing that project?

Nikhil Sawhney No, I think what you have to take in commissioning is different from your accounting /billing. You see these already have been accounted for. The commissioning means in terms of readiness of the plant in itself from the clients' end. So yes, there will be certain amount of sales value which would be attributed to it, but those would be from erection, commission and services and not so much from the product sale. But this gives confidence to our customers to further buy turbines from us. And in fact, we are already seeing a reflection of this in GETL where we have again increased customer confidence on our execution and on the project. And that is why the visibility that we have over the next couple of quarters, specifically in certain segments of renewable as well as combined cycle, we are quite optimistic in terms of picking up some orders. And actually there are some orders that may have already been picked up in this current quarter.

Ashutosh Adsare Sir, can you tell me the number of closing orders of GETL, which is not mentioned?

Nikhil Sawhney We said that ₹ 474 million was the order booking this quarter.

Ashutosh Adsare Sir, can you throw some light on the order inflow in domestic as well as in the export market, which sector you are looking out, which sector to grow?

Nikhil Sawhney It is very diverse, but I have to tell you very frankly, the point is that as we said the domestic market in the half year versus half year last year has seen a decrease of 15% and very frankly you cannot say there is one sector that is to blame, every sector has actually declined. Q1 this year versus Q1 last year was a 50% decline, as a half year we are 15% down and we anticipate for the full year that we will be at about the same level as last year. In general, because one order would make it very lumpy, it is very difficult to say which sectors are doing better than others, you can just say that there is a general slowdown everywhere, we see an increased tendency for people to place orders from more renewable based applications, be it sugar or biomass, this applies to India as well as internationally. And few are from segments which have a more industrial focus. Though, we believe in the coming quarter you will see some demand pickup in small steel, in cement, in parts of paper and rubber.

Moderator Thank you. We have the next question from the line of Khadija Mantri from Dalal & Broacha. Please go ahead.

Khadija Mantri I would like to know the order book for JV currently.

Nikhil Sawhney I do not think we have that number, we have not given it. So you have the visibility what you have in front of you at this point in time.

Khadija Mantri Sir, and one more question. If I look at the profit trend of the JV in the last four quarters, so first quarter of FY 16 it was ₹ 3 crore and it was the same in Q1 FY 17 also. But in the second quarter both the years it had dipped, so it is ₹ 1 crore in Q2 FY 17 and it was negative in Q2 FY 16. So is it some seasonality or is it that some of the orders have been pushed forward

Nikhil Sawhney We dispatch as and when we can, so we do not wait for any accounting cycle before we can send a turbine. Now, of course the fact is we have differences in terms of if it is built in India or if it is built internationally, because very frankly we have different accounting treatments as to how you would account for those. But very frankly, there are no seasonality factors that you can tell from Triveni Turbine's standalone results also. What it will depend on is when the order came in and where the order book looks. For FY 17 itself, the joint venture will perform pretty much at the same if not slightly better levels than it did in FY 16, though in FY 18 we are very optimistic on it to show very good growth. That coupled with TTL showing very good performance, the standalone entity showing very good performance in this current year will lead to a nice and a healthy mix going forward, that one supports the other and then you are catering to the entire market in its entirety.

Khadija Mantri And sir what are your margins like in the JV, if I may ask? I do not want a specific number, but would it be like 20% - 21%, the same that you are making at standalone levels?

Nikhil Sawhney It all depends on order to order, it is nothing that is just uniform. These products are customized and it really is something that is different. Of course it is profitable, we are a very competitive manufacturer, but to talk about the exact profitability level will be a little difficult. To give you visibility on what we have achieved in terms of PAT level, which has been given to you, I think that is something that we can maintain in this business.

Khadija Mantri One more question, you said that the outlook on the sugar sector looks optimistic as far as the domestic market is concerned. What I would like to know is, do you have any orders currently in the order book from the sugar sector?

Nikhil Sawhney Yes several.

Khadija Mantri Could you share the percentage for the same?

Nikhil Sawhney It will be a significant percentage, but it will be somewhere in the range of 25% - 30%.

Moderator Thank you. We have the next question from the line of Manish Goyal from Enam Holding. Please go ahead.

Manish Goyal Just coming back on the gross margin front, just little curious because on one side we are seeing that aftermarket sales have been very strong, and also the exports have been quite strong in the first half. So just wondering that if the revenue mix have been on a better side how is that the margins are looking subdued?

Nikhil Sawhney Every order is unique, it is very difficult to get into a explanation without talking about every specific order. These orders may be in different jurisdictions at a margin that have been lowered, you may have had better reporting of certain export orders in the past. But in general, the visibility that we provided to our investors in these calls is that we have a very stable profitability mix and you should not see it declining, if anything, there will be some positive surprises maybe on the upside. But should also be seen as maybe a trend rather than an absolute number that we would be able to achieve.

Manish Goyal So basically as a year as a whole we should be on a comfortable side that margins would definitely come back and look better?

Nikhil Sawhney Yes, the margins will be better than last year but it would be significantly better.

Manish Goyal And you also mentioned in your initial remarks that we are expecting four to five orders under GETL, so is it basically also included in when you said ₹ 84 crore worth of orders which have been received

Nikhil Sawhney No, that is a standalone entity. This is where it becomes difficult, it is not standalone, it does not include the 30 MW to 100 MW segment, it does not include the joint venture. So we have two 100% subsidiaries which does include in it.

Manish Goyal So just wanted to get a sense that, no doubt your presentation talks about the areas but specifically which are the areas which we are probably seeing very strong enquiries coming up, like combined cycle are we getting more orders and is it from other sectors?

Nikhil Sawhney No, combined cycle is a very large segment and is very profitable segment and something that we are focusing greatly on. But it is a segment that happens on a larger turbine and so therefore it is something that GETL will pay much more focus to. And for Triveni Turbine itself, both domestically and internationally the sectors that it continues to see visibility is what we would say renewable generation which could be either waste heat, it would be agriculture waste, both municipal as well as agriculture. And some process co-generation in segments such as food which has always been historically very strong, and chemicals has been quite strong. You have paper which is doing quite well.

Manish Goyal And on order inflow side, in aftermarket we have seen a subdued trend in the first half, so how do we see going forward, sir?

Nikhil Sawhney No, what you see on a year-on-year basis is maybe about a 20% plus increase

Manish Goyal Specifically talking about aftermarket where order inflow is quite muted at 4% growth in first half at ₹ 94 crore, so just quite curious in terms of how this will progress

Nikhil Sawhney No, this will even out by the year end, I do not think it is a cause of worry. The fact is that a lot of orders in certain sectors come up in the later part of the year.

Moderator Thank you. We have the next question from the line of Devam Modi from Equirus Securities. Please go ahead.

Devam Modi Sir, basically firstly wanted to understand that from what you have stated does it really mean that this ₹ 70 crore to ₹ 80 crore of this pending order that you are talking of, that should basically come into the order book by the end of December end, probably it could be booked and billed this year itself?

Nikhil Sawhney No, none of it will be book and bill.'

Devam Modi But is it something which is a spill over in terms of order inflow from current quarter, otherwise the order inflow would have been around like ₹ 220 crore - ₹ 230 crore this quarter?

Nikhil Sawhney Exactly, that is the point I was trying to make. But what you should remember is there may be some spare aftermarket orders in there which would get converted but those will not be significant and they may be ₹ 3 crore, ₹ 4 crore, ₹ 5 crore.

Devam Modi And this quarter, I mean the other income was quite strong, I understand that it is a part of our core EBITDA and the way we price it. Just wanted to know which currency or geography it relates to in terms of because of which we made that huge hedging gain?

Nikhil Sawhney Well, you see our hedging is based on a fully hedge strategy, so we hedge an order as soon as we receive the advance. And so with that, the principle currencies are of course the US dollar, Euro and British Pound, so British Pound has become a smaller component of our hedging strategy because we are not seeing much activity, neither are we quoting on that currency even in places like Africa, etc. So it is US dollar, so we have seen gains there.

Devam Modi Basically you are saying with regards to the US dollar itself?

Nikhil Sawhney Yes, but these are not open ended hedging gains

Devam Modi I understand it is linked to that order and basically you are protecting the margin of the order through hedging.

Nikhil Sawhney Yes, it is a forward cover, the forward cover is what gives us 5.5% - 6% depending what the market can give and that is what is reflected.

Devam Modi And finally sir, I mean, I understand the domestic market is pretty weak, but what kind of prospect do you see at least from a nine months to 12 months perspective? And given this recent move which is happening, do you see money being allocated more towards efficiency CAPEX over the coming three to four quarters, especially in industries where utilizations are picking up?

Nikhil Sawhney We were quite looking forward to a pickup in Q3, Q4 from the domestic market, that is why we have given an indication of a certain amount of growth in this market by about 10% and have given a little visibility that FY 18 maybe even better than that. Unfortunately Q1 and Q2 of this year have been very disappointing as far as the domestic market goes, so it is very difficult for this year to pick up to grow to that extent. But yes, we are finding certain industries which are reaching capacity utilization levels where they would start taking their enquiries forward. You have seen some of that in metal already, which is a segment which you would not assume to be actually spending at this point in time, but they are.

Devam Modi And what would be your feel, I mean, with regards to sugar you have been bullish in the commentary itself but what is your view with regards to cement?

Nikhil Sawhney Cement is patchy, depends on location.

Devam Modi So basically you are saying you are seeing some momentum from the material front in terms of CAPEX?

Nikhil Sawhney Yes.

Moderator Thank you. We have the next question from the line of Pawan Parakh from HDFC Securities. Please go ahead.

Pawan Parakh Sir, my question is again on that gross margin thing which was asked earlier also. So, if you look at your sales net of excise and IND AS excise has been shown separately in the cost item. So if you net that business with the revenue and after considering the WIP thing also it comes to about 57% which in the just quarter previous to it, Q1 FY 17 it was about 50%. So there is certainly a sharp increase in gross margin?

Nikhil Sawhney Let me tell you from a perspective of business where we are seeing margins actually expand, so this is a little contrary to the way that we look into business. I think it may be best for us to actually look at this in terms of how it has been represented on accounting basis .

Arun Mote There have not been any decrease in the booking margins anywhere, neither in order book which we had in the previous quarters and the current quarter and we do not expect it to happen in next quarter also. So from the business angle there is no decline in the gross margins. As Mr. Nikhil Sawhney has said, the only negative part in this is the domestic market, anyway we are not depending on the domestic market. There is increased thrust on the international market, we have already opened our offices and they are getting well-staffed. So we will be focusing on the international markets, so I do not think one should have issues of growth related to the current year and next year.

Pawan Parakh Sir second, in the previous call we had mentioned about this opportunities in the international market where we were opening service center and we are doing third party service income. So any update, any further color on that?

Nikhil Sawhney Yes, just to tell you, we have already received a major order from our Dubai office and we have received some refurbishing order from our Jakarta office. So they are on a positive trend.

Nikhil Sawhney These are in good segments, these are new segments that we were not present in earlier, and it is very, very lucrative as well.

Arun Mote And this is the first year of operation, so considering that they have just started six to eight months back, I think the performance is quite good and encouraging.

Pawan Parakh So sir, these orders of Jakarta and the Dubai one are in the order inflow numbers reported in the presentation, right?

Nikhil Sawhney No.

Pawan Parakh So they are in the subsidiaries essentially?

Nikhil Sawhney Some of them are pending advance.

Pawan Parakh But technically whenever you get that order it will be in the order inflow number that you represent?

Arun Mote Yes, both these orders will come into the order inflow

Nikhil Sawhney We try to reflect the order book to the extent that it will give you visibility on our turnover. So for example, GE Triveni's order book was not included as part of our order book because it will not be reflected in our turnover.

Moderator Thank you. We have the next question from the line of Tanvir S who is an Investor. Please go ahead.

Tanvir S Sir my question is mainly regarding all the macroeconomic changes that are going around, especially in the domestic as well as the international market. Since you cater to the cement sector and given the demonetization effect do you see any effect of that on orders to Triveni Turbines?

Nikhil Sawhney Well, we have not seen any orders from cement ourselves, we have seen some enquires, so it has not impacted anyway. But I do not think that we are really subject to the demonetization because from our perspective and what we are supplying to, maybe about in the domestic market which is now a decreased percentage of our entire order book, I would say about 20% - 25% of the demand is from consumer facing industries which is for process co-generation such as chemicals or fertilizers, etc. And very frankly, the rest of it is based on power production which has a different set of issues such as the liquidity in the state electricity boards and their finances, etc. But we are not directly impacted by this demonetization. And our business practices do not actually work that way, and very frankly, neither do our suppliers. So we have no direct impact either short-term or medium-term. Long-term of course things are positive.

Tanvir S Yes, absolutely. Because all of the cement companies and everyone is like Q2 and Q3 numbers might get affected, so I just wanted to know if that would have any impact on Triveni Turbine, but I am pretty sure I do not think it will.

Nikhil Sawhney We have been for a long duration in capital goods, so the fact is, our planning that goes into the manufacturing of product is a longer process and something that is not dependent on something so short-term.

Moderator Thank you. We have the next question from the line of Kamlesh Kotak from Asian Markets. Please go ahead.

Kamlesh Kotak Sir, wanted to just check about the recent uptick in some of the metal prices, so are we going to have any impact on that or how are we seeing that is going to pan out in our financial performance or the margins per say?

Nikhil Sawhney Kamlesh, as I was just saying in this call, we are actually not seeing growth in the market in India, so please do not assume that anything is suddenly booming. Because by the time we get the order, by the time it is finally executed it is actually in the segments like metal there could be a 2.5 years later, in terms of capacity. So yes, there is no movement as such.

Kamlesh Kotak No sir, I am talking from the raw material cost point of view?

Nikhil Sawhney No, our costs are quite well preserved. We did not see much of a decline in cost when the metal prices went down, we do not see much of an impact on the other end as well. Our usage of metals is mainly all alloy steel which is already value added in terms of not only the metallurgical content of the component but also the manufacture, fabrication etc., of it. So there net impact of any material price movement could be up or down by 1% or 2%, which net-net gets taken care of by other efficiencies in the system. So it is not something that is of great concern to us. We continuously look for a better, cheaper supply both in India as well as globally. And so our supply chain is completely global in its outlook. So we are quite confident in terms of being able to maintain cost where they are. In fact, drive out cost, our continuous effort is on a completely cost and material basis that we would be driving our costs out.

Kamlesh Kotak Secondly sir, what is the status of our expansion plan, is it going to be commissioning by this year end?

Nikhil Sawhney Very good question, something that I forgot to mention. So our plant is up and running, first turbine would be dispatched by end of this month, if not, by the first week of December. So I am very happy about that. The first two bays are completely ready. This facility has gone for a system of complete industry 4.0 and automation, it would be truly world-class, state of the art and it will have multi-model facilities, so it will have capabilities to handle all types of products at Triveni Turbine that we are manufacturing. What you would also see in this current quarter is that we have had a CAPEX in Q2 of approximately Rs. 40 crore which pretty much ends this phase of expansion and CAPEX in that facility.

Kamlesh Kotak So sir, which of the production you will be shifting to that plant and which would be at the adjacent plant?

Nikhil Sawhney That is very difficult to say right now because it all depends on the order mix and it is something that we really should be taking the workers into confidence first before I actually disclose it on this call.

Kamlesh Kotak Thirdly sir, this is other expense item has got a big spot of 24% in terms of cost YoY, ₹ 232 million to ₹. 287 million, so is there anything extra-ordinary item?

Nikhil Sawhney You see, our exports have gone up by a considerable amount, I think 72% quarter-on-quarter. And these are freight forwarding charges that are reflected in this number.

Kamlesh Kotak And last point, anything on the competitive intensity globally?

Nikhil Sawhney It is a competitive market out there and I think that we will live in this market and we will thrive in it. In fact, actually we are achieving a profit after tax growth of over 34% or 36% in this quarter is something of a great achievement for the business, we are very happy that we have been able to achieve this as well as to get visibility on the entire year as well as going forward. This is despite intense competition from local manufacturers and global manufacturers. We see the competitive intensity actually declining because we had indication that a couple of local manufacturers may be going out of business, but that is something that really did not impact us greatly. What we really do look forward to is the growth in the domestic market rather than any competitive intensity.

Kamlesh Kotak And sir, how many installations do we have now for GETL globally, have you already commissioned some of the installations for GETL turbines?

Arun Mote They are in process of being commissioned and I think that theere should be at least 10 - 11 in the field.

Kamlesh Kotak Already commissioned you said?

Arun Mote No, four are commissioned. And balance about six to seven are already in the field, we have already dispatched them.

Moderator Thank you. We have the next question from the line of Swarnim Maheshwariá from Edelweiss Securities. Please go ahead.

Swarnim Maheshwariá Sir, I have got a couple of questions. The first one is like, I think probably you mentioned for the first time that we are witnessing some delays from the Brexit and the other global uncertainties. So, what is your assessment over there and do we see a downward risk from there due to Brexit and all?

Nikhil Sawhney You see these are longer term policy decisions, the fact is if someone is going to set up a plant and get financial closure for it, like we said we cannot drive demand as a company, unfortunately that is one of the problems that we have. But at the same time the planning cycle that comes into things, especially in developed countries is far longer than any issue like a Brexit may impact. Because regardless of these movements they are principally based on local markets, so international currency movements, etc, we believe that companies do financial closure, they hedge out their purchasing decisions. Going forward, yes it will have an impact. We believe that UK will go into some element of de-growth, deflation, whatever it may be. And so there will be muted growth from that particular geography. But it is something that will be made up by other geographies in Europe. While Europe as a whole may not be growing, we see that the waste-to-energy segment in certain parts of central and eastern Europe is picking up. And these are regulatory based decisions and we are quite confident that the visibility on this will continue.

Swarnim Maheshwari Sir, my second question is, you mentioned that the domestic market in Q2 actually there was some sort of growth in domestic market, although on H1 basis it was still a decline of 15%. I mean, what was the exact growth in Q2 market? And if you can give me, what was the absolute market size in Q2 in domestic market?

Nikhil Sawhney No, I think it is easier to just take away from those exact numbers, you will read too much into it. Just believe us, it is very low.

Swarnim Maheshwari But sir, I think overall you indicated that FY 17 to be somewhere around FY16 level, which is I think somewhere around 700 megawatt - 800 megawatt I believe, the overall market size?

Nikhil Sawhney Yes, 650 megawatt - 700 megawatt, somewhere there.

Swarnim Maheshwari Sir my third question is, you mentioned that you are favorably placed in four to five contracts in JV. Now if you can just give us break-up

Nikhil Sawhney I do not want to go into that because that is still in the current quarter, the fact is we may have got these already, there is no reason to speak about them. Actually, this is something that we are confident of actually getting in the next two quarters.

Swarnim Maheshwari No, sir I just wanted to understand what is the order size, just a ballpark number over there.

Nikhil Sawhney I think let us come to the end of these quarters then we will be able to get you those numbers. They are big orders.

Moderator Thank you. We have the next question from the line of Arpit Agarwal from Nomura Investment. Please go ahead.

Arpit Agarwal This is Arpit Agarwal. I have two questions. Regarding your export business, you have really built up a credible business over last few years on the export side. The last interaction we had with your team is basically one input which you got is that now you have reference point in many countries and that will help you to actually increase the export business by a much faster pace. So if you can give us some color on where do you see the export business growth over next three to five years?

And my second question is on your services revenue, that obviously is growing much faster. So how is your point of presence increasing, you have given in your note that you have increased your point of presence. So how has that panned out and where do you see as a percentage that moving over next three to five years?

Nikhil Sawhney So we already have four point of presence in our aftermarket currently and we are hopeful of getting another two to three before this financial year end. And the coming year we aim to be adding another two to three points of presence, maybe four even, depending on how the markets turnout. These not only help in terms of getting you visibility into the local market and jurisdictions but of course it drives aftermarket sales for not only our established product ranges and installed base, but also third party installed base.

Now to come to your first question which is on exports, the fact is that because we see the domestic market not achieving its high of market size which you saw even as early as 2010-2011 which was the last peak in the business cycle that we saw in India, for at least another couple of years we have to increasingly rely on the export market to drive our growth, which has actually been something of a boon for us. Because not only does that market allow us a growth but it also affords us better margins.

On your specific question as to how our installed base will drive further sales is very difficult to give you exact growth numbers how this will happen. But an indication of where this stands is we had given visibility for a couple of years, well maybe about four, five conference calls ago where the chairman had given visibility of growing our export order book by 50% year-on-year and therefore sales by that much at least in the next several years.

Arpit Agarwal So do you think those kind of growth numbers even on a higher base are achievable at least for next few years?

Nikhil Sawhney Well, you see our enquiry book right now is about 6 gigawatts and we have a conversion of less than 5% of that. So while of course the enquiry book is something that is not completely converted every year, and even though the growth of the enquiry book has slowed down. We still believe that there is enough out there for us to go and attack and get.

Arpit Agarwal And sir lastly, how is the margin profile, obviously it is much higher but if you can give us some color on the margin profile of the aftersales service business in the export side.

Nikhil Sawhney These are both very profitable, the fact is that the nature and the cost of this service that is incurred in the global market is significantly higher than what is incurred in India. And so net-net, at the end of the day it does give us slightly better margins but our aftermarket margins as a whole, so 40% is very healthy anyway. And the international markets would fall or something, depending on which segment we are in. But on a whole, somewhere better than that.

Moderator Thank you. We have the next question from the line of Rabindranath Nayak from Dolat Capital. Please go ahead.

Rabindranath Nayak Sir, we come to know that the Indonesian market have given 19 sugar licenses recently and one of the player has got a big order for boilers. So are you seeing any opportunity over there for the turbines in that market particularly?

Nikhil Sawhney Yes, you are very right, that is a big order but no orders have been placed yet, or the tenders have not even closed. But we are following it very actively.

Rabindranath Nayak What would be the opportunity over there in next one to two years' time in that market, particularly?

Nikhil Sawhney Indonesia as a whole has a lot of CAPEX going on under the current regime. For us in particular, under the government spending program, this sugar is the only thing that actually comes under it, the rest is going to be private sector spending.

Rabindranath Nayak Can you give some idea that in next one to two years what would be the opportunity for sugar in terms of order book or some sort of order finalization in that particular market?

Nikhil Sawhney Very difficult to say.

Moderator Thank you. We have the next question from the line of Pawan Kumar from Unify Capital. Please go ahead.

Pawan Kumar I just had a book keeping question, I just wanted to know non-current assets, other non-current assets, what are they in the balance sheet, it showed some ₹ 10 crore to Rs. ₹ 20 crore increase.

Suresh Taneja The increase in the other non-current asset is due to regrouping of VAT recoverable from current which in March 2016 was ₹ 13 crore to non-current assets, the total VAT recoverable is ₹ 26 crore which we expect to recover ₹ 10 crore by March 2017.

Pawan Kumar The whole working capital cycle is relatively stable, right sir?

Nikhil Sawhney Yes, we have a healthy working capital, we have no problem. In fact we have seen a decline in working capital in the current quarter, despite the fact that we have seen an increase in our finished inventory.

Moderator Thank you. We have the next question from the line of Manish Goyal from Enam Holding. Please go ahead.

Manish Goyal Just had one book keeping question, on other income which has gone up from ₹ 3 crore to Rs. ₹ 10 crore, so what is it pertaining to?

Suresh Taneja These are indeed to do with foreign currency forward contracts which have been entered into by the Company. It stands at about Rs. ₹ 10.11 crore compared to ₹ 3.15 crore. But if you look at it on a year-on-year basis, it is Rs. ₹ 14.63 crore versus ₹ 13.03 crore. But I think these get evened out during the course of the year. You will obviously see higher other income for this current year because we will have a higher export turnover.

Manish Goyal So, other income will be basically FOREX hedging related gains, right? And export incentives would get captured in other operational income?

Nikhil Sawhney Exactly.

Moderator Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to the management for their closing comments.

Nikhil Sawhney Thank you very much, ladies and gentlemen, for participating in the Q2 & H1 FY 17 conference call for Triveni Turbines. We are very happy to have reported a growth in our profitability of 24% in the half year. We aim to maintain this type of growth, not only for the current quarter but for the coming years as well. Thank you very much.

Moderator Thank you very much, Members of the Management. Ladies and gentlemen, on behalf of Triveni Turbine Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.