Triveni Turbine Limited

Q3 & 9M FY 21 Conference Call Transcript
February 02, 2021

Moderator: Ladies and gentlemen, good day, and welcome to Triveni Turbine Limited Q3 and 9M FY 2021 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 the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you, sir.

Rishab Barar: Thank you. Good day, everyone. And a warm welcome to all of you participating in the Q3 and 9M FY 21 Conference Call for Triveni Turbine Limited. We have with us today on the call Mr. Nikhil Sawhney – Vice Chairman and Managing Director, Mr. Arun Mote – Executive Director, along with other members of the Senior Management Team.

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

We will start this call with opening remarks from the management, following which we will have an interactive question and answer session. I now invite Mr. Nikhil Sawhney to share some perspectives with you with regard to the operations and outlook for the business. Over to you, sir.

Nikhil Sawhney: Thank you very much, Rishab. A very good afternoon to all the participants. I hope that all of you and your loved ones are safe and well in these COVID times. Welcome to the Q3 & 9M earnings call for Triveni Turbines.

For the nine months, the income from operations of the company has been at ₹ 5.24 billion with the EBITDA of ₹ 1.38 billion, with a margin of 26.3%, and a PAT of ₹ 792 million, with a carry-forward order book as on 31st December of ₹ 6.52 billion.

As we approach nine months of COVID, this has obviously taken an impact on Triveni Turbine's performance, both from an order booking perspective as well as turnover. As you can see, the company has weathered this quite well. But of course, given its reach and its perspective of catering to the global market for steam turbines, we are of course impacted by lockdowns, travel restrictions, which our partner companies and countries imposed over the course of the last several months.

The global markets have shown very high volatility in these lockdowns, which has led to a shrinking of the global market in Q3 of this financial year 2021 by 54%, while the nine months decline has been at about 41% decline in the nine months period of this year versus the same period last year. However, the company has registered improved profitability margins due to cost reductions achieved during the financial year, with an EBITDA margin for nine months showing an improvement of almost 400 basis points and is expected to be maintained in the coming quarter as well.

The company's overall order booking has shown a decline of 25% during the current quarter in comparison with the same period of the previous year, with the domestic order booking showing a marginal growth of 3% while the export order booking declined by over 50% when compared to Q3 FY 2020. The product order booking position also reflected the overall market trend with a year-on-year decline of 33% in the Q3 product order booking. While the overall order booking for the nine months has been lower by 26% even though there has been lower order finalization, both in the domestic and international markets, Triveni could maintain its market share and leadership in both the Indian market as well as internationally. On the other hand, the enquiry generation, both in the domestic and international markets remains extremely robust, which is a positive sign as far as the outlook of order booking in the future is concerned.

I have been through some of the highlights of our operating performance, but I will summarize them again. There has been a decline in our income from operations by 21% in the nine months period compared to the same period the previous year. At the same time, there has been a decline of 8% in EBITDA, while profit before tax has been lower by 7%. We have also had an exceptional item of ₹ 185 million on account of manpower rationalization, which has led to a decline of 27% in profit after tax, which was majorly impacted by the one-time exceptional charge.

On the domestic order bookings situation, the overall order intake has been higher than last quarter with an increase of 9% in comparison with Q2 FY 21. But at the same time, this is lower by 23% in comparison to the same period of the previous year. The sector's which have been contributing to the order booking have been the process co-generation sector, which includes distilleries, paints, pharmaceuticals, food and beverage, as well as some demand from the waste heat recovery and steel sectors as well.

The enquiry generation of the domestic market has shown an increase of over 34% in a nine months' period of this year, while in the international market it is lower by 10% in comparison to the same period of the previous year. The overall enquiry generation for the company for the nine months period has been 3.6 gigawatts, which is a marginal growth of 3%.

In the export side, and I will go into this during the question and answers, we believe that while order booking has been lower due to deferment of finalization, as well as certain restrictions placed on travel, which have pushed order finalizations from quarter to quarter, there is a significant amount of pent-up demand, especially in the sectors in which we cater to, as well as our burgeoning sectors of API. We believe that all of these will show fruition in the coming quarters, and we are very optimistic for the export market.

In the aftermarket, as you can see, there has been an increase in order booking by 37% at ₹ 364 million in comparison with the corresponding period of the last year, on account of increased volumes of services and refurbishment. On account of the substantial order booking in Q3 FY21, the nine months order booking for the current year has also shown a growth of 7% at ₹ 1.2 billion over the corresponding period, which we believe is a significant achievement.

As I was speaking about the aftermarket and the current growth that we have had in the current quarter, I wish to give some confidence to all of you that we believe that this segment is a growth segment for Triveni Turbines. And we believe that the international market from both the spares, services as well as the refurbishment sector will open up gradually over the coming quarters. And we are very optimistic in securing some large orders in the space in the near future.

. The overall order booking in the aftermarket segment for the nine months period is almost at the same level at ₹ 1.6 billion. The aftermarket business in the total sales improved by 5% at 28%, during the nine months FY 21.

As you can see with the current quarter, despite the fact that we had lower sales, given that we had a better sales mix, we were able to preserve margins. In the longer term, we believe that our margin level would be at the nine months level as opposed to at the third quarter level. This has given a belief that we should be able to increase our turnover in the coming quarters. Of course, as we are currently in Q4, the restrictions on travel which existed in Q3 have also permeated into Q4, and therefore, turnover would be similarly impacted in Q4 as it was in Q3. But we believe that with travel starting already to East Asia and to other parts of Asia, as well as to certain other parts of the world from the middle of this month, we believe that a lot of our order booking hurdles will get overcome in the short-term.

The company continues to focus on design and development and technology upgradation, both in terms of rotating equipment expertise, but also specifically driven around steam turbine, flow path and computational fluid dynamics in terms of newer profiles of blades. The company has done significant achievements in terms of being able to upgrade its efficiencies through the course of the entire turbine through multiple modules of development. We will continue to focus on research and development and be a company that puts technology at the center of its product differentiation.

As far as the outlook goes, while the overall performance during the nine months is lower as compared to the nine months of last year, the company believes that the overall business growth for the year is expected to be lower. Even though the overall enquiry generation in the international market was marginally lower than the last year due to lower enquiry generation from certain markets such as Southeast Asia, Central and South American markets, while the generation from some markets such as Turkey, Europe, Africa and the Middle East has shown significant improvements.

We feel that the efforts put in by the company in adopting various digital platforms very early in the lockdown enabled the company to maintain a steady state enquiry flow. We believe a strong enquiry book will augur well for the order booking of the company in the coming quarters and we are extremely bullish on the order booking, specifically from sectors such as API in the coming next financial year, FY 22.

We believe a strong order book will augur well for the order booking in the coming quarters. The company continues to maintain its leadership position in the domestic market and has an over two-thirds market share of all orders placed. But also, as per an international report, we continue to maintain our leadership position as the second largest steam turbine manufacturer in the international market below 30 megawatts, as well as the largest manufacturer for renewable energy applications globally.

With the opening up of economic activities, we are extremely bullish on the coming year, while Q4 may get impacted by similar restrictions of travel, from a turnover perspective. We believe that the coming year will show a high amount of growth, both of the top line as well as bottom-line. While this year we may show a decline in turnover of about 12% to 15% or 10% to 15%, our EBITDA will be largely flat on a year-on-year perspective.

The performance of GE Triveni, our joint venture with General Electric, is still continuing to execute orders. The company has a petition which is filed with NCLT and the details are available with the stock exchanges. Matter is sub judice.

With that I would like to open the floor up to questions and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: My question is with respect to the order inflow potential from the PLI scheme, as a second derivative we will get orders from there, so if you can give a broad outlook as to which are the sectors which are showing prospects in terms of giving out orders? I mean, it's still early days, but if you can give a broad outlook on what you think might be the sectors which can drive demand for you in the domestic market, it would be great.

Nikhil Sawhney: Ravi, you bring up a very important question here, and I would like to split this into two. While you focus on PLI, which is obviously a domestic demand. As you would notice, for a company, our domestic orders carry a lower margin than our international orders. But having said that, the push that we have seen in the domestic market for orders in this current nine months has been about 27% lower than what it was for the previous nine months of the previous year, of FY 20. Having said that, I want to ask our President, Mr. S.N. Prasad to give you a little bit of an overview of what he sees as the product order books outlook from the domestic market as well as international.

S.N. Prasad: Thank you. See, product order book wise, from domestic market we are quite bullish. So basically, infrastructure expenditure, whatever in the Budget, the current Budget also laid down a roadmap for that. So, we are seeing a cement and steel going to be driving this market. Of course, in cement, again, our CAPEX expenditure as well as the efficiency improvement, that is a waste heat recovery option, these are the two segments where we have seen great opportunities for us. Distillery is another segment where we have a substantial enquiry base. And today we are talking of closer to around 600-plus distillery licenses issued across the country. This is another segment which is going to drive FY 22 order booking from our domestic market.

Coming to international markets, yes, we have some pockets of markets where our acceptability is quite well, and our market shares are over 80% in those markets. So we are seeing like biomass based and waste to energy markets and MSW based power plants. Apart from API segments, these are the driving markets for us in international market. Of course, API is a key focus segment. Today, we have been registered by almost all EPC OEMs in India and 70% of OEs and EPCs and the consultants approved us globally. So, that gives a good enquiry book for us. And as we know, oil and gas segment, order gestation periods are quite long compared to the same, so there is some time overlap there. But we are quite confident the way our offers are received and technically evaluated, we are quite confident there will be a substantial improvement of our acceptability, and we will be able to get those order bookings done through API segment as well.

So overall, we are seeing next year going to be a substantially higher booking year for us by seeing the enquiry pipeline and the way techno-commercial alignments happening in last four, five months' time. So, we are quite bullish for next year in terms of order bookings.

Ravi Swaminathan: And this year, what is the size of the domestic market? And next year what kind of growth do you expect in terms of the market size? Last year you got some 700-odd megawatts also, so if you could…

Nikhil Sawhney: No, this year has seen a decline in the overall market by about 40%. But they are still in probably nine months, we will still have to wait for this quarter to finish. But it would not be as bad as for the nine months. But having said that, our enquiry book suggests a significant amount of pent-up demand. This is not only in India but internationally, as there is a lot of liquidity and CAPEX will flow through. So I think that from a year-on-year perspective, as we may end with a similar order booking level or slightly higher order booking level as we entered nine months, we would expect next year to deliver a significantly higher order booking than we currently have, significantly.

Ravi Swaminathan: Got it, sir. And my second question is with respect to commodity prices. So basically, are we seeing some pressures?

Nikhil Sawhney: No, of course there are pressures. There are pressures on copper prices, which have increased substantially, which directly impacts some of our products, more so even with steel, steel is moderated from the peak. But the company follows a long-term pricing policy. And so very frankly, when prices crash, we don't squeeze our vendors. We work more from a perspective of volume to the extent that commodity price increases would impact us, we would pass that on to our customers. But largely, we would work in a balanced manner. And short-term price volatility on commodities will not impact us.

Ravi Swaminathan: Got it, sir. So far we wouldn't see margin pressure at a gross level because of the commodity price increase, is my understanding right?

Nikhil Sawhney: Largely because orders are taken back-to-back, so when we take an order, we already have the prices of all the components, the bought-out equipment are already registered to a large extent. But as prices increase and however marginal those increases may mean to our suppliers or to ourselves, we will pass those on to our customers. But largely, we are not seeing a significant increase, because there is a significant amount of value addition that goes in. The pure amount of copper or steel that is part of our products is not substantial to warrant more than a 1% or 2% price increase to cater to even these drastic price increases that have taken place in the market.

Moderator: Thank you. The next question is from the line of Ahmed from Unify Capital. Please go ahead.

Ahmed: A few questions. Firstly, could you quantify the quantum of shipment deferral which happened in quarter three?

Nikhil Sawhney: We can take that offline. It was three or four orders that were deferred, which has an impact, I think, to the extent of maybe ₹ 20 crore to ₹ 30 crore, which was direct, which will take place in Q4, but there may be some slippage from Q4 to Q1 also.

Ahmed: Is it because of the logistics challenges that we are seeing across sectors? Is that the same reason which lead to this difference?

Nikhil Sawhney: It is, but it's also driven by the readiness of clients.

Ahmed: Okay, sure. Second thing is, you highlighted your market share in the product market, could you help us understand what kind of market share we have in the aftermarket in the refurbishment segment, which will help us to appreciate opportunities that lie ahead of us.

Nikhil Sawhney: I don't think there is any data which actually puts together the entire services market for steam turbines for all manufacturers. But I would say that our entry right now is extremely low, in possibly maybe 1% or 2%, 3%, something like that. The potential is enormous if I could give you an idea. Of course, it's very difficult to gain by large market share here, but we believe that this this segment allows us to cater to gaps in the market where OEMs which are no longer in business cannot provide effective solutions to clients. And we think that this suits our balance sheet by being an asset-light business for us to provide a technology intensive solution to customers to upgrade their capabilities and efficiencies, while at the same time providing resilience and robustness and a solution.

Ahmed: On margin profile, now given that in our current order book the share of export is actually coming down. And as you highlighted, the margin profile in exports is much higher, would that be a risk on our overall operating margin in the next year, because the export order book is kind of declining a lot in the current period?

Nikhil Sawhney: No, you are right, but the decline in order book from the export market, as it currently stands, is made up by a higher percentage of aftermarket as a share of order book. But also from a perspective of execution, as you can see from Q3 where we had maybe 28% of our turnover coming from the aftermarket segment, even if that comes down a little bit by a couple of percentage points, once turnover of the product segment grows, the margin profile would almost remain the same because of the aftermarket contributing more towards turnover. But you are right that lower international order execution would lead to a lower product margin for the product business. Overall for the company, I think it will be managed within the range, quarter-to-quarter it will move, but I think visibility for a year's period we would be able to maintain a higher margin level as to what I have already suggested.

Moderator: Thank you. The next question is from the line of Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal: Sir, just a couple of questions. On distilleries, I believe we have been hearing an increasing opportunity. So as mentioned that there are 600 licenses issued, so if you can a bit dwell upon like in terms of value-wise what is the opportunity available? And also on the other side, a lot of these distilleries which are coming up with the support of the government with tripartite agreement, and a lot of these are coming at cooperative level. So how comfortable are we working for them? So like if you can just dissect our addressable opportunity and what would be the value terms?

Nikhil Sawhney: Okay. Well, distilleries, as with most of the process co-generation sector, operates in the, I am going to say in the 4-to-8-megawatt range. So they are small turbines, very small turbines. Which is where Triveni has an extremely appropriate solution and a very low-cost solution as well for this sector because it's a very price sensitive market. Out of the 600 licenses, I don't want to fathom a guess as to how many will actually come up. But the segment is lucrative not only from perspective of installed base, but because it gives reliable aftermarket revenue.

From a payment perspective, Triveni Turbines is very conservative, and we ensure that we get full payment on dispatch, or at worst, at LC. So the cooperative sector has been clients for us not only for the distillery side but also for their sugar co-generation and other segments. So, we have dealt with them in the past and we have had no problems in terms of our payment structure.

Manish Goyal: Sure. So, like, have we started seeing order inflows from these distilleries?

Nikhil Sawhney: Yes, of course. I mean, our group company, Triveni Engineering, is also in the sugar business and they are setting up ample distilleries.

Manish Goyal: No, Nikhil, I am just trying to understand that this has been talked for quite long and finally, I believe, things are taking shape. What I am not clear as to has the ordering momentum picked up from the distilleries, and can we expect this to sustain for next couple of years?

Nikhil Sawhney: I think that this won't be a big bang push, but it will be a sustained amount of demand from the sector.

Manish Goyal: Yes, because even government is now encouraging distilleries from grain based and other sources.

Nikhil Sawhney: Yes, so those other sources which also provide us demand, so it's not only the molasses sector.

Manish Goyal: Sure. And one more question on your guidance, which you have kind of maintained what you have given in Q2. So I was just trying to understand that because last year Q4 was a lower revenue and profit quarter. And on the low base also, then if I am just trying to do some math, on that low base also kind of we are not seeing good growth based on your guidance of 10% to 15%. So is it that we are taking a conservative stance at the moment?

Nikhil Sawhney: No, Q4 to Q4 we will do much better. You are right about that. In overall level, let Q4 happen. I think that what we were cautioning on is the fact that there are pressures for finalization of orders in the international market, which has impacted our order booking for the nine months and possibly for the year, and also equally from a dispatch perspective, so that is turnover. Because we account for turnover only on dispatch. And so these are things that we will have to wait and see. But I think, at this point in time, it's not a question for me to caution you but this is just the reality of where the situation lies for the year. But a lot of this will get eased in the coming quarters.

Manish Goyal: Sure appreciate it. Just last, again, like you mentioned that enquiry book is quite strong with a lot of pent-up demand, so is it that there is a possibility that we can see bunching up of order inflows probably in this quarter or early of the next quarter?

Nikhil Sawhney: But we are looking Q1, Q2 to be extremely good, both from an order booking as well as revenue and profitability perspective. So those will come about just driven by the dispatch schedule that we have, but also given the visibility that we have in terms of travel and the assurances that we have by some customers of finalization.

Moderator: Thank you. The next question is from the line of Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: My first question would be that, sir, I understand that we don't have much CAPEX requirement as of now, I mean, we have a couple of state-of-the-art manufacturing facilities and we have ample underutilized capacities. So, sir, now we have more than ₹ 300 crore of cash on our balance sheet, and we don't have much CAPEX requirements, so what we are planning to do with that? So sir, is that we would also venture into some adjacent categories like generators or maybe control panels etc.? So, is there any thought process towards that?

Nikhil Sawhney: It is a very good question. Currently, I have to say that the Board has not considered any proposal either to redistribute this money to shareholders or to put it into any inorganic opportunity or as well as organic expansion. We would, of course, try to use as much money as we can organically by pushing more money into R&D, into new product lines to shore up capabilities. But for speed and to look for growth, there may be opportunities that we may look at. But what is paramount is that we will keep our balance sheet in consideration. I think we are very happy that we have an asset-light balance sheet so we would look at businesses or adjacency businesses where the characteristics of the balance sheet are similar to what we look at for steam turbines. So I don't know if control panels or generators actually conform to that.

Harshit Patel: Sure, sir. And sir, my last question was a bookkeeping one. So I understand we have a ₹ 1.4 billion of order book in the aftermarket segment. So how much of that would be from exports?

Nikhil Sawhney: I think the data is with you. But as you bring up a very good point, because I would like our President, Sachin Parab, Aftermarket, to give you an idea of what he views the order booking, both from a domestic and international perspective for the aftermarket segment.

Sachin Parab: Good afternoon, everyone. This is Sachin Parab from Bengaluru. See, our share of domestic market for the full year is likely to go up to about 76% of overall customer care order bookings, and this would be higher than 67% share last year. So basically, because of the inability to travel overseas extensively, the restrictions are in place in many countries. So, we are able to travel only to limited countries. And so, the business that we have been able to get is more from the domestic market and therefore the share of domestic has gone up in this financial year. However, as we move forward, we are expecting ease of travel restrictions, and international travel will be much easier from quarter two onwards, that is our outlook as of now. And we expect that, in the next year, our share of order orders from the domestic market will come down to previous year's levels, in the mid 60%.

Nikhil Sawhney: This is despite the growth in overall order booking that we anticipate.

Sachin Parab: Yes, we are looking at a buoyant growth, next year we are projecting large double-digit growth in order booking for aftermarket business. Also, a lot of it to be driven by our refurbishment business, which has picked up very well in FY 21.

Moderator: Thank you. The next question is from the line of Rishith Shah from Dhanki Securities. Please go ahead.

Rishith Shah: Sir, two questions, first regarding basically the GE part. So in GETL, what are the kind of order inflows or the enquiry that we are seeing right now?

Nikhil Sawhney: The inquiries are there. The order booking is, I think, pending. So the joint venture is continuing with its normal operations as it currently stands. From a visibility perspective, right now there are enquiries and order chase-ups, but there is no finalization that has happened in the current quarter.

Rishith Shah: Okay, understood. And secondly, as you just mentioned, basically the refurbishment is seeing good traction along with an expectation of large double-digit growth in next year in the aftermarket segment. So for the next two, three years, do we see any change in the share of aftermarket or increase in share of the aftermarket in the overall revenue as well as order booking?

Nikhil Sawhney: Well, I think if you look at the history of Triveni Turbines, as our installed base has grown, so has our revenue from services and spares. The refurbishment segment was a new segment in aftermarket which propelled growth further. But if I look back four or five, six years ago, we started off with a mix of about 80:20, 80 from the product side, 20 from the aftermarket. And steadily, despite the growth in the product dispatches, we have been able to increase the share of aftermarket as a percentage of overall sales to, I think, this last quarter 28%, that may be an anomaly, but I would say 26% to 27% is something that we can target in the short-term. And then we are incrementally growing by 1% or 2% as a share over the medium-term. We do believe that there is growth in this segment for us.

Rishith Shah: Right. So, this in a way, this would also drive margins going forward?

Nikhil Sawhney: Yes. You are right about that. But the margins are very healthy in the aftermarket segment, in all three. But having said that, we as a product manufacturer also, and just through our own research, we believe that we are one of the only turbine manufacturers which are profitable on the product, because most companies actually end up selling their product at near loss so that they can capture the aftermarket.

Rishith Shah: Right. And secondly about basically the new developments, any technological new development or upgradation that we are working on right now or maybe seeing maybe in the coming year?

Nikhil Sawhney: We have already spoken about in the previous calls. I didn't want to reiterate the same points, but technology and our focus on technology is very much at the core of our value proposition. So, this stems not only from Value Engineering, which is to take cost out of the product, which is a continuous process, but also breakthrough technological development for new products as well as for new components in the system, which are all IP protected. So, IP basket and patent basket are also increasing continuously year-on-year.

Moderator: Thank you. The next question is from the line of Amit Mahavar from Edelweiss. Please go ahead.

Amit Mahavar: Hi, this is Amit from Edelweiss. Nikhil, I have two questions. First is, global oil and gas market is by far one of the largest segment. So what specifically are we trying to do to penetrate that market which is dominated by the global players? I know we have been, in last couple of years, deploying a lot of resources in that segment, but anything that you would like to share? That's number one.

And the second question is, for Parab I think specifically, how much of our total service portfolio in value terms broadly or in percentage, comes from non Triveni Turbines? Thank you.

Nikhil Sawhney: Okay. The first question is about API. And to give you an idea, the overall market in our estimation for drive turbines in the API segment, which could be for either API 611 or 612 applications, is somewhere in the region of between 1,000 to 1,500 turbines a year. Now, these could be for applications from blowers to fans to driving compressors, a variety of different applications. In fact, over the course of this just past quarter, we have had good success in the API market internationally. So we are already seeing some traction coming through. And a lot of these orders are lumpy because they'll order three four, five at the same time. And so we are anticipating good momentum from the API sector going forward, driven by greater cost consciousness in the oil and gas sector. I think no one is expecting oil and gas prices to be on the upward trend. And I think the refiners and other processers are also anticipating to be much more cost conscious on their CAPEX spend. And so therefore, it is easier for us to register. Because safety is one of the most paramount considerations here, while at the same time registration with these oil companies is an arduous task. So I think we are quite optimistic here. The market is large. We have seen some good traction already during this current year and we think in the short-term we would be able to show better traction here. This is of course, not a megawatt market, so we can't define it in terms of megawatts.

On the non-Triveni market, refurbishment is what we call it. Refurbishment constitutes, I am going to say, about 15% of our aftermarket business. Sachin, is that right?

Sachin Parab: Sir, it is slightly better, and the trend is of a growth in that area. To give you exact numbers, in terms of order booking of refurbishment business as a share of the total aftermarket business, for FY 20 we were at about 27%, we are projecting that for the current financial year FY 21 it will be about 31%. And going forward, we are projecting about 35% to 37% of our aftermarket business would come from refurbishment business, which is basically non-Triveni services.

Amit Mahavar: Okay, thanks very much Nikhil and Sachin, it was very helpful. One last question if I may, Nikhil, as a follow-up to the first question. Generally getting qualification with large players is toughest, as you rightly pointed out and you have been saying that. But any steps that you think we are taking, we should take, maybe allocation of more resources, manpower in that direction? Because that is one area which is the largest segment and we are doing excellent on biomass.

Nikhil Sawhney: Amit, so the thing is, actually Triveni Turbine is extremely good at entrepreneurial selling, which is getting in front of a customer and making a value proposition known to him. In the oil and gas sector the sale process is different, it is very bureaucratic. It is registration and tenders, regardless of who you are talking about. And so it follows a route which is very bureaucratic. And so we have to go through the process which is a little bit longer. But once we get through it, it is better. I think there were questions earlier about PLI and Aatma Nirbhar. And very frankly, over the course of the last year, we found it extremely easy, we found it simpler to get registration with Indian companies, which was far more difficult in the past.

Moderator: Thank you. The next question is from line of Karthik from Unify Capital. Please go ahead.

Karthik: Sir, on the export market, just wanted to check, because of travel restrictions we are not able to get orders there, is that market share been occupied by some other regional players in those markets? Or it will be easy for us to recapture the lost market over there?

Nikhil Sawhney: Let me correct that misperception. There has been a decline in order finalization from our perspective because we haven't been able to travel. It's not as if we are not getting any orders on a remote basis. We are getting orders on a remote basis, but they are not as many as we think that we could have gotten as if we were able to go and sit and talk to the customer. The overall result is that we have seen a decline in the global orders placed by over 50%. And this is also reflected in our order intake going down by that same amount. And so, actually, our market share, both domestically and internationally, has remained approximately the same as in the past.

Moderator: Thank you. The next question is from the line of Abhisar Jain from Monarch AIF. Please go ahead.

Abhisar Jain: Sir, just wanted to know from you that the capital allocation decision, which I think you had alluded to in the previous calls also, that company would be coming up with a plan which could have significant kind of clarity for the long-term next three to five years. So can we expect that decision from the Board by the end of this fiscal year?

Nikhil Sawhney: No. I don't think there is anything in front of the Board right now. I think that there is a lot of organic growth that we are focusing on, inorganically really we don't have. We need to make sure that it fits our capabilities and something that we can drive forward to success.

Abhisar Jain: Right, sir. I understand. And sir, in that sense, maybe you can correct me if I am wrong, but organically the CAPEX requirement would not be too high, right? Whereas our cash flow generation as well as our outstanding cash balance is going to be much more significant than what we will require organically, right?

Nikhil Sawhney: Very right. So we are generating between ₹. 150 crore to ₹ 160 crore of free cash. And that will get added into cash results. And I think this is post any routine CAPEX or replacement or maintenance CAPEX that we have.

Abhisar Jain: Right. So sir, effectively what I am trying to understand is that, in the past we have taken a route wherein if we don't have a large CAPEX for either organic or inorganic, and in this case organic may not take much, then we have chosen a way out to be able to pay back to the investors, be it a buyback or dividend, right? So those options will obviously remain forefront, is what I want to get from as a direction. I know the Board will take a call, but just as a direction.

Nikhil Sawhney: No, I think the options you have laid out are the options that will be put forward to the Board. All I can say is, right now there is nothing under consideration, because the alternate has really haven't been fleshed out. So I think that we probably have our quarterly Board meeting in May for the full year results and there may be some clarity then. But I would think that during the middle half of the year, we would have a great clarity as to where we think our capital allocation policy will lend towards, either deployment in business or return to shareholders.

Abhisar Jain: Okay, sir, understood. And sir, just one clarification on the export side of the revenues. I guess, we have been getting the MEIS duty benefit, so could you give us some clarity that will there be some impact of that or the contracts are such that

that was given when it was available? And now since it will not be available, so we will be able to bill it to the customer?

Nikhil Sawhney: No, there is a decline in MEIS and so that does impact our margins. But it has been made up because of a better product mix, as well as certain cost reductions that we have had. So you are not seeing it in the results, but MEIS has come down substantially, and that has impacted margins. But having said that, we have been filing but have not been accounting for any of the new incentive that we are putting through, which is the road test, whereby the Ministry of Commerce has not laid out the slabs by which we can actually apply for benefit. There are certain other export benefits such as packing credit which the company avails off, but all of this is I think a little bit less than the MEIS.

Abhisar Jain: Sure, understood. And sir, just one last question on the staff cost. So, with whatever rationalization we have done, we now are at the optimal run rate and we can assume that to be the run rate going forward or there can be any plus/minus?

Nikhil Sawhney: No, no. I mean, no, actually the VRS scheme that we did was for workers in our shop floor, so as to move them either to officer category and have a caliber of graduates on our shop floor, non-unionized. But we will need to enhance our capacity on the technological side, as well as sales and marketing for newer products, market segments as well as geographic needs. So we will see wage costs go up, but as a percentage of sales I would not see a change.

Moderator: Thank you. The next question is from the line of Dhiral Shah from Phillip Capital. Please go ahead.

Dhiral Shah: Sir, out of the overall order book which we have currently, can you segregate it on the sector-wise basis?

Nikhil Sawhney: No, I don't think we do that. But to the extent that the information is there, from the international and domestic front, you have that available. To give you a broad idea, our international market is dominated by renewable energy markets, which is from the waste to energy and allied sectors of biomass waste IPPs, such as palm oil or sugar, variety of different biomass. In the domestic market segment, we have good order booking from the distillery segment, process co-generation, which includes paints, pharmaceuticals and other process co-generation requirements, as well as waste heat recovery from the cement sector, which is an efficiency-based expenditure, not so much for greenfield operations. We have seen some orders from the steel sector as well. And so that's the visibility I can give you.

Dhiral Shah: Okay. And sir, from the domestic market, apart from steel, sugar and cement, which are the other sectors which gives you confidence that you will get incremental orders?

Nikhil Sawhney: You see, as Mr. Prasad had said earlier, we believe that the market is going to expand generally. So, every sector will give more orders firstly, and then there will be a greater focus from, what we believe is greenfield cement and steel. Distilleries will be a very important sector also in the domestic market.

Dhiral Shah: Okay. And sir, lastly on the aftermarket side, how frequently our products are consumed?

Nikhil Sawhney: Actually, we are very honest with our clients, and so very frankly, it is based on their usage. So every customer uses their turbines separately and so it depends on the rigor and maintenance by which they put into maintaining their turbines. But in general, you could say that each turbine over the life of its turbine would give you about twice its revenue in the aftermarket.

Dhiral Shah: What is the average life of the turbine?

Nikhil Sawhney: Say about 20 years.

Moderator: Thank you. The next question is from the line of Pooja from ICRA. Please go ahead.

Pooja: My question is more with regards to, firstly, any future additional revenue avenues that you are looking at in terms of diversification. And also, in terms of demand, are we looking more towards domestic given the current scenario and given the traction that we see in cement, sugar and steel, is there a focus more towards domestic for the next year as well?

Nikhil Sawhney: No, our push is to capture market everywhere, because as you would understand and as I answered the previous question, the revenue that comes from the aftermarket is based on your installed base. And so we would like to take install base wherever we find it. The fact that India actually saw greater growth in a relative perspective of order booking in the first nine months was based partly in the fact that we are here, and also the form of which the orders were placed were more conducive to us. So, very frankly, our focus is on the domestic market as well as the international market for every order.

On the newer areas of growth, we believe that our current expansion into API segments from the products will provide us short-term growth, on the longer-term basis there are product technological developments that we will be bringing to market in the near future in the next couple of years, which should give us some momentum. And the aftermarket side will continue to give growth not only for our own installed base through spares and service, but in our refurbishment segment, which will cater not only to the steam turbine market but to other rotating equipment. And we believe the market for other rotating equipment for the refurbishment side presents another great opportunity, which we will give more visibility on as we flesh out our ideas here.

Pooja: Okay. And sir, one more question as a follow-up. In terms of the geographical spread within India, would there be any certain areas, like if you could say in terms of north, south, east, west?

Nikhil Sawhney: A very good question actually. We have seen an expansion in enquiry book by about 36%, but all of that has been driven only by one geographical area, which is West India, which is Gujarat and Maharashtra for us. The rest has seen a marginal decline in enquiry.

Moderator: Thank you. The next question is from the line number of Bhavin Vithlani from SBI Capital Markets. Please go ahead.

Bhavin Vithlani: Sir, a couple of questions. One is, given the current situation, do you feel that the need for more feet on the ground and are you actually investing on the sales and BD front to have more presence internationally?

Nikhil Sawhney: So, actually we follow a hybrid model where we have agents as well as our own feet on the ground to supplement them. We found this to be a very successful model and actually it has allowed us to generate orders through this pandemic, where lockdown was instituted. So we think that the model that we have is appropriate for us, because otherwise the overhead of spending in one specific geography would be too much for a company of our size. So this is a more appropriate mechanism, but also it incentivizes people in the right manner. But this does not take away from the point that you bring up, which is, do we need more feet on the ground? And yes, we will always need more people to be able to help spread our visibility. Ultimately, what we suffer from, from the international market is visibility to orders. And we need to increase that. I don't know if the question is only feet on the ground, but it will be through variety of different strategies that we have to increase our visibility. Because as you would understand. Bhavin, we don't lose many orders in the international market. It's just we don't get the visibility to quote to them.

Bhavin Vithlani: Understood. The question was, as you are targeting a higher share of the refurbishment market, and that calls for seeing the customer visiting the facilities and expand on the benefits.

Nikhil Sawhney: No, no, on the aftermarket side there is a drastic need for enhancement of resources.

Bhavin Vithlani: Sure. The second question is, we saw L&T winning considerably large orders from Barmer refinery, and a couple of years' back he also got qualified with Engineers India. So the orders, are they placed? And if yes, have we lost it?

Nikhil Sawhney: Prasad, if you are there, could you comment on this?

S.N. Prasad: Yes. Still orders not have placed, but we are also in the fray, so technical negotiations going on. So, probably it may take another month to two months' time when it comes to commercial.

Bhavin Vithlani: And how large could be these opportunities?

S.N. Prasad: These are quite large; they are around five tags. So, all put together coming closer to 20 machines plus. But again, as you know that based on drive application and all these things, so the technical alignment meetings are getting prolonged.

Moderator: Thank you. The next question is from the line of Bimal Sampath, an individual investor. Please go ahead.

Bimal Sampath: My question was similar to what he had asked now. Since you are saying oil and gas is difficult to crack, are we aligning with somebody else, whether individually we are doing it or we are partnering with, say, L&T or somebody like that? And second question is on this supercritical turbine, can you please explain a bit more in detail?

Nikhil Sawhney: Okay. On the first segment, we don't partner in any manner. So it is not as if we have a particular route to market with any other integrator, it will depend on the form in which it comes up. And for example, if it's a blower manufacturer who has won the tender for the application, then we would quote to them, or we may have even had to pretend a tie-up. But essentially, we are not expanding our scope into the API market to include other ancillaries. Our scope of supply is only the drive turbine. So it would all depend on the form by which the order comes out or the RFQ comes out.

On the supercritical carbon dioxide market, we believe that the value proposition here of having higher efficiency and lower cost is weighed out. And ultimately, I would suggest that you look at some YouTube videos because the technicality is there for you to know. The progress and R&D here have been steady. We are still on track the way that we want to do it. And so we think that the value proposition here is essentially to reduce the cost of an installed system, while at the same time give higher efficiency, so a much better lifecycle value proposition. Also, you have applications here where you could go for a concentrated solar thermal application, which could come down to cost levels which would be similar to that of photovoltaic. So there are other non-industrial applications, which also make it quite lucrative.

Bimal Sampath: So, I mean, two years, three years down the line, will we see visibility from this sector, or it will take longer?

Nikhil Sawhney: I think the first timeframe we put is what we would like to see it also, but we will have to wait and see.

Moderator: Thank you. We take the next question, a follow-up from the line of Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal: Just wanted to get a sense on the cost base. We did mention in our presentation that cost control and value engineering efforts are being put. So one is that on employee costs definitely we see a decent reduction. But on other expenses, probably if you look at the current quarter also it has not declined much, it is almost same at ₹ 31 crore. So is there any one-time in this quarter? Or should we look at this as a normalized run rate going forward?

Nikhil Sawhney: No, I think they are certain elements of administrative costs which are built in for be it COVID etc., which will come out. There may be some legal expenses as well which are non-continuing on a more routine basis. I think that if you look at from the P&L perspective, we will try and reduce administrative and manpower costs as is necessary. When we look at the balance sheet, you will see that actually our reduction in inventory has been quite substantial. And we have gone and spent a lot of time technically to align to a more modular form. And so, therefore, we have had a much more inventory liquidation, and therefore, more cash generated out of that.

If you look at from our other current liabilities, we have about ₹ 170-odd crore, ₹ 180 crore of customer advances, which is pretty much all that that segment makes up. So we have a good cash flow mix coming in from our customers, despite the fact that we have no debt and cash on the books. So cost control wise, I think it's continuous. I think our focus on cost control is more from the product, how can we reduce material out? How can we align our sub-contractors and vendors to reduce their costs as well, because 50% of the value of our purchase order is bought out equipment? And so administrative costs, etc., are things that, yes you are right, we have to focus on. But I think they are consequential of just the circumstances that we are in right now.

Moderator: Thank you. The next question is a follow-up from the line of Karthik from Unifi Capital. Please go ahead.

Karthik: Sir, this question is in context of the guidance of high double-digit kind of order book growth in the next financial year. Now, if I look at our closing order books in the last, say, three financial years, it's been in the band of ₹ 700 crore. Now, there has been a bit of decline in the current year, should we expect a kind of a good increase from the ₹ 700 crore base which has been a closing order book for the last few years?

Nikhil Sawhney: Well, even if we look at the ₹ 650 crore base, it will still be high expectations, that can be a very good double-digit growth, not in the teens.

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

Nikhil Sawhney: Thank you very much, ladies and gentlemen. Thank you for joining the Q3 9M earnings call for Triveni Turbines. I wish you all are safe and please be well. Thank you very much. Goodbye.

Moderator: Thank you. Ladies and gentlemen, on behalf of Triveni Turbine Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.