



Triveni Turbine Limited

Q4 and FY 21 Earnings Conference Call Transcript June 29, 2021

Moderator: Ladies and gentlemen, good day and welcome to Triveni Turbine Limited Q4 and FY 21 Earnings Conference Call. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the 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 of 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 Q4 and FY 21 conference call for Triveni Turbine Limited. We have with us today on this call Mr. Nikhil Sawhney – Vice Chairman and Managing Director, Mr. Arun Mote - Executive Director, Ms. Surabhi Chandna – Investor Relations and Value Creation 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 may be 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 regards to the operation and outlook for the business. Over to you, sir.

Nikhil Sawhney: Thank you very much Rishab. A very good afternoon to everyone and I trust everyone is well and everyone has had their vaccination or is in the process of getting their vaccinations.

To start off with, at Triveni Turbine, we have vaccinated over 1700 of our employees and employee dependents and subcontractors and contract workers, and by July end we expect that we would have 100% vaccination of all our staff and employees and critical workers. The offices are operating in full swing though with work-from-home protocols as well and our factories are operating at 100%. Having said that our sub-contractors would be currently operating in the region between 50% to 60% given certain mobility issues with workers. All of this will be addressed, and I would touch upon this later during my introductory remarks.

The turnover for Q4 for Triveni Turbine for the financial year FY 21 has increased by 16%. However, EBITDA and PAT have increased by 36% and 69% respectively as

of Q4 FY 21. The turnover in the financial year is at ₹ 703 crore, a year-in-year decline of 14%. The decline in product sales is at 19.2%. However, there is a growth of 3.3% in the customer care business. Despite the lower sales, EBITDA has increased from 20.8% to ~24% and in FY 21 that stood at ₹ 167 crore. The PAT percentage for FY 21 is largely similar to that of FY 20 at 14.6% despite an extra relief charge of ₹ 18.5 crores on account of certain employee related VRS expenditures, as well as a lower share of profit from the joint venture. The employee cost is also significantly lower for this year by 14% at ₹ 87 crore.

Investments have increased to ₹ 347 crore as against ₹ 132 crore, that is an addition of ~ ₹ 200 crore in investments in this year and this is reflective of our strong cash management and earnings visibility. There's been a significant reduction in our working capital as well due to the lower trade receivables by 38% and it stands at ₹ 77 crore as opposed to an earlier figure in excess of ₹120 crore. Inventory is also lower at ₹ 160 crore.

Now the year itself, ladies and gentlemen, this has been an extremely difficult year and all of you I am sure have had COVID and this pandemic impact you in some manner or the other. The Company's performance has been satisfactory given the backdrop of the restrictions in both the domestic and international markets and emergence of variants that has led to the second wave on the domestic front.

During the year, the global market for steam turbines in the range of below 30 megawatts (MW) in which we participate has shrunk by 32% and the domestic market has shrunk by 43% in the year FY 21 in megawatt terms. However, despite that the Company has maintained its leadership position in both the Indian market and internationally. We have attached an international report and the findings of that which tell you about our leadership position in this space globally. The mix of domestic and export sales has remained more or less at similar levels at 54% domestic and 46% export in FY 21. And in line with our outlook last quarter that the Company was able to reduce the decline in revenue and profits for FY 21 to 14% compared to 21% in the nine months FY 21.

The improvement in EBITDA margins for the financial year has been driven by a combination of higher share of aftermarket in the sales mix, but also on account of a lower raw material cost and value engineering. Further there have also been significant reduction in employee expenses due to the realization of VRS benefits and the reduction of manpower. These are sustainable benefits and the quarterly EBITDA margin of 16.8% does not reflect the longer-term EBITDA margin levels for the Company. For the quarter in itself, as you could tell the raw material percentage at ~ 54% as opposed to the annual figure of about 51% was driven by our skewed product dispatch into the domestic market which carries a lower margin, but also by higher other administrative expenditures which are non-recurring in nature, and we believe do not reflect the longer-term earnings potential of the Company.

There has also been a significant reduction in manufacturing costs in the year due to an increased effort on value engineering as well as streamlining our manufacturing process to look at more standardized measures of manufacturing. Similarly, there have also been certain reductions in travel costs and other administrative expenditures which will come back in this current year.

The profit margin has been largely maintained at 14.6% and this is after the exceptional expenditure that I had already spoken about. The consolidated outstanding order book position stands at ₹ 6.39 billion as on the 31st of March which is lower by 9% as compared to the previous year. The Company achieved a total order booking of ₹ 6.43 billion which was lower by 19% year-on-year.

Finally, the Board of Directors has recommended a payment of dividend of 120%, which is ₹ 1.2 for the financial year FY 2020-21.

Ladies and gentlemen, order booking is at the crux of the performance of Triveni Turbine. The product order booking that we saw for the financial FY 21 was at about ₹ 441 crore which is the lowest order booking for products that we have seen in the Company for the past, I would say almost a decade. This though, as the visibility that we have in Q1 of FY 22, sitting here right now on order booking is a completely different situation. Order booking for the entire financial year on the product side that we saw in FY 21 would be something that we would be able to capture before the second half i.e. in H1 of FY 22. This visibility is something that I would talk a little bit more once the question and answers are opened up. But as you can tell from the performance of the Company in the financial year FY 21, the aftermarket business is a steady rock for the Company. That business contributes over ₹ 200 crore to our order booking as well as revenue and easily about ₹ 100 crore in cash flow and a similar amount in terms of profitability before tax. This is recurring in nature and due to the closeness of relationship that we have with the customer, it is a true testament that we have been able to capture and maintain this level of performance. In the trying times of COVID, we have been able to reach our customers and we have been able to ensure that there is a high degree of customer satisfaction so that we can have a lifetime relationship with our customers. This is extremely important, as the life of our relationship with the customer for one product stretches in excess of 25 years. Having said that, of course we leverage that for further sales, so that we can build on our product relationship as well. I will talk more about how we are growing this business and what visibility we have on the growth of our aftermarket business during the questions and answers session as well.

The factories have been operating in the normal manner, but we have seen an increase in commodity prices which have impacted the Company. The Company has tried to mitigate this through bulk ordering as well as value rationalization and through expanding our supply relationships on a global basis. But a certain percentage of this price increase may not be able to be passed on, but we will have to see how that develops in the quarters to come. As it currently stands, the margins on which the Company operates are stable.

The Company has also been focusing on its international marketing efforts. We have been considerably constrained over the course of the past year in terms of being able to address our international market. It is extremely creditable to our marketing teams to sell a highly technological product virtually. We have been able to secure significant international orders. Of course, not as many as we had got in previous years or as much as we would have expected, but despite that considerable international orders through virtual means and through means by which our customers have been able to derive confidence in our products and our processes and technology. We think that this will lead to a new form of marketing. But having said that because of the disruptions of lockdown that we have seen in various international markets over the course of last year, we have an enquiry book which reflects that the demand is growing in many different geographies in a variety of different sectors. Therefore, we lead to a certain degree of optimism of an expanded international sales within the current FY 22. This will also be supplemented with our expansion into different product segments such as the API segment which we have already spoken about in the quarters of past.

The domestic order booking for Triveni Turbine was at ₹ 4.32 billion which was a decline of 5% as compared to last year and the domestic outstanding order book stood at ₹ 4.49 billion, up 14%. During the year, the global market in which the Company operated experienced significant shrinkage of 32%. In Q4 FY 21 the

shrinkage in market size has moderated to about 9% but owing to the restrictions this has impacted order booking of the Company.

This was on the product side. On the aftermarket side, during FY 21 the aftermarket registered an order booking of ₹ 2.02 billion which is lower by 7% when compared with the corresponding period of the previous year. The aftermarket turnover was ₹ 1.92 billion, a growth of 3% over the previous year which has been driven by our refurbishment and spares businesses. The aftermarket contributed to 27% of total turnover in FY 21 up from about 23% in the previous year. Design and development continue to be a key focus of our business. We have expanded and continue to expand the overhead in this segment so that we could design and deflect our products, not only in terms of our current product ranges to improve their efficiency and cost structures, but also to expand our services product range to be more solution oriented. The enquiry generation during FY 21 and Q4 FY 21 remains strong in both the domestic and international markets which is positive for order booking in the coming quarters. During FY 21, the enquiry generation in the domestic market grew by 35% as compared to the financial year 2020, which we believe is a positive indication of the order finalization in the coming quarters. These have been driven by process cogeneration and waste heat recovery segments. In the international segment the enquiry generation was dominated by thermal renewable based independent power projects, as well as process cogeneration.

Global economies in many parts continue to be affected by the pandemic which continues to affect the Company's business. But we believe with the vaccination drives and lower COVID-19 cases, the Company's prospects will significantly improve in the coming year. The enquiry pipeline is strong and international markets are gradually showing signs of recovery. While we continue to carry a healthy order book in the enquiry pipeline, we do expect some delays and deferment of executing orders in H1 of FY 22 with respect to order dispatch. Order booking will be extremely healthy to the extent that we will have a book and build within this current year which we were not able to attain in FY 21. This is what led to a lower turnover and a slightly lower overhead absorption in Q4 FY 21. Overall, we expect both the global market and our market share to remain the same if not improve in the coming year and this is going to be backed up by our technology and R&D developments.

As the Company has been talking about for the last five years of energy transition and moving towards a low carbonized economy, the Company has made significant efforts in its research and development towards establishing a solution and product pipeline to cater to this segment effectively. This is in two parts. One is through rotating equipment in the steam turbine lines, but also as we have spoken about in other areas such as concentrated solar thermal which will lead to a better value proposition for our customers who require both heat and power solutions in an industrial context. This is a significantly large market, and we believe that we are optimally positioned to leverage it.

The other thing that we will be working on over the course of the next quarter to bring increasing visibility to our shareholders is a more articulated capital allocation policy. As our Company now has over ₹ 400 odd crores in its bank, we believe that a prudent capital allocation policy which imbues the values of Triveni Turbine as being a higher return and a high return on equity Company should be maintained. We will be articulating this in more detail in the coming quarters, but it will provide a visibility in terms of how we aim to grow, and it will be closely linked with our research and development, our organic growth opportunities and possible diversification.

With that I would like to introduce you to a new Investor Relations Manager, Surabhi who joined us recently. She has had an experience with Morgan Stanley as well as with some other public companies and she would be happy to have a long-term

mutual dialogue on the Company so that we can both benefit from the engagement. Surabhi, would you like to say a few words?

Surabhi Chandna: Sure. Thanks Nikhil, for the introduction. It is my absolute pleasure to be part of the Triveni group and I look forward to interacting with the investor and analyst community. For anyone wanting to get in touch my coordinates are mentioned in the investor brief from yesterday and also listed on our website. Thanks again and if we are done, then we can pass it on back to the moderator to start the Q&A session.

Moderator: Thank you very much. The first question is from the line of Ravi Swaminathan from Spark Capital.

Ravi Swaminathan: My first question is with respect to export order inflow. Over the past couple of years, it has seen a declining trend. Is it attributable purely because of the COVID restrictions which are there or in your press release you had mentioned that global steam turbine market has kind of come off over the past 3 to 4 years, is it a combination of reason because of that also? Are customers moving away from coal-based steam turbine solution? If you can, give a broad outlook as to when we can go back to FY 19 levels of inflows, it will be really great.

Nikhil Sawhney: Thanks Ravi. Let me answer this in a couple of ways. We have tried to provide data that there's a macro trend of de-carbonization and that is something that I am sure all of you are extremely conversant with. The different segments of markets, which we have broken up as in below 30 megawatts, below 100 megawatts and then above 100 megawatts are impacted by different situations. The de-carbonization has varying degrees of impact in all these different segments. In the utility segment it's been reasonably disastrous in terms of the amount of new thermal power plants that are coming up. But the requirement from the industrial side is slightly distinct because they require both heat and power which cannot be substituted by renewable energy sources. So, the demand is following a CAPEX cycle rather than the de-carbonization stream. Having said that, this market exists within the larger thermal market and so there will always be pulls and pushes and strings where banks have funding, which are funding commitments and objectives which are driven around de-carbonization. But having said that, efficiency-based solutions are the name of the game and those are the ones that are being implemented in the international market as well as in India. But when we look at the international market and this is reflected in our order booking as well, an enquiry book, it is dominated by waste to energy which is thermal renewable as well as process co-generation. Process co-generation is a requirement from a variety of different sectors. So, we actually see from Triveni side in this coming current year, the fact that over FY 21 we were not able to cater to a majority of the market due to travel, but still maintained our market share. The market declined by over 30%. That pent up demand will get realized over the course of the next quarters; I am going to say next year for sure. And so therefore, we would see an increased market available to Triveni and therefore what I am going to presume but we already have indications of, because we are already three months into the current financial year, is order booking also.

Ravi Swaminathan: And with respect to the domestic market, it seems like co-sectors like steel, a lot of companies are announcing CAPEX, cement also there seems to be some CAPEX activity. So, if you can give a broad outlook as to domestic market over the next 2 to 3 years, how fast can the market expand, that will be great.

Nikhil Sawhney: The domestic market in FY 20 was somewhere in the region of about 1400 odd megawatts and this has declined to somewhere in the region of about 800 odd megawatts in this past year. We are seeing that this market would rebound in excess of FY 19 in the current financial year, and it is driven by a variety of different sectors. You have the distillery segment which in the sugar space, which is expanding quite

aggressively to have a different value proposition there for companies moving away from molasses-based distilleries to direct juice, which would mean additional capacity of turbines that will be required. The same infrastructure may not be suitable. The power complex in a distillery would comprise of approximately 25% of the entire cost of which 10% would be the steam turbine. So, we will gain from that segment growing and as an affiliate Company of Triveni Turbine which is Triveni Engineering is closely associated with the sugar industry, we have good visibility that there is an expanded CAPEX program in that space. Similarly in process co-generation spaces also good visibility in terms of investments into food, food processing, paints, pharmaceuticals, etc. These are slightly low in capacity but higher in value from a per megawatt perspective. The segments of waste heat recovery in cement is growing, but stressed CAPEX in terms of new capacity additions cement side have not been announced. I mean, they may be announced but they have not realized into orders as yet. And similarly on the steel side, there has been very muted orders. But we are hopeful that given the rise in commodity prices that CAPEX would translate into orders possibly in the next couple of years.

Ravi Swaminathan: Steel generally the ticket size of orders are pretty large, can we see...

Nikhil Sawhney: Not in our segment. But you have the rolling mills, and you have the smaller non-integrated players who would require in our size. The chemical side is growing extremely well and similarly with pharmaceuticals also.

Moderator: The next question is from the line of Sreemant Dudhoria from Unifi Capital.

Sreemant Dudhoria: If I look at the historical trend of your closing order book-mix last at least 4-5 years, the absolute number from the products has been stagnant. Both, exports and domestic put together nearly about around ₹ 600 odd crore. But it's really the aftermarket, the closing order book which has actually grown up, I think which has doubled from FY 18 ₹ 72 crore to about ₹ 133 crore now. So, in the past calls you had mentioned that this aftermarket is your key driver, and you have some 2-3 point strategies, one among which you said was servicing third party turbines. What is our penetration level now in this category, both in the domestic as well as export markets? What are we doing differently to service the third-party turbines and what could be the share of this business in the next two years?

Nikhil Sawhney: I think you bring up an extremely good point. Not only is the aftermarket segments for Triveni, as for all capital goods companies, a driver towards profitability and to the life cycle relationship with the customer. But to expand it, is a very delicate balance because you cannot push more sales to customer without losing credibility. Therefore, to expand the growth of this highly profitable segment, we have to look at the refurbishment side which is exactly what you had spoken about. I am going to ask, our President Aftermarket Mr. Sachin Parab to give you a little bit of visibility on exactly the question that we talked about, what are we doing and what are the visibility that we have for growth in both spare and service business, but also in terms of refurbishment. Now you must remember refurbishment for us is refurbishing rotating equipment. Of course, it includes steam turbines, but it also includes certain other rotating equipment. So, Sachin can you a little bit of insight on this please?

Sachin Parab: Good afternoon everyone. To answer the question posed about the penetration level in domestic and export, to be very honest, we have today only a small penetration in the multi-brand service offerings of Triveni. There is a lot of scope for us to grow in the future and that is why we are buoyant both on the domestic and export front that there is a good potential for growth. As you rightly mentioned, the order book has been growing and the carry forward order book has also been growing over the years. We are trying to do things differently in terms of improving our reach, our coverage in the international market. We are strengthening our organization and our

marketing efforts, both physical and digital. So, this is helping us and we were able to manage with good order bookings with our efforts under digital and our strengthened marketing. In terms of your question about the share of business going forward, historically seen, aftermarket business has been about 25%, this year it is about 27% of our revenue. And we target to grow it more to around 30% of the revenue in the years to come. Refurbishment business as a part of our aftermarket business has also consistently grown. The reason for that is basically the diversification that we are doing. And as Mr. Nikhil Sawhney mentioned, we are not just focusing on industrial steam turbine, we are diversifying into utility turbines where there is potential. We are diversifying into new geographies, new industry segments, such as geothermal that we have talked about in the past and our successful entry into this segment has given us a lot of confidence on our capabilities and the potential can be tapped very successfully by our Company going forward. So, all of that and the recent successes and the traction in some of the export markets gives us good confidence that we will be able to achieve our plans for the future.

Sreemant Dudhoria: So, in the overall aftermarket, order book what is the mix of refurbishment?

Sachin Parab: This has also been growing over the years. About two years ago our Refurb business in the overall order book was about 27%. FY 21 this has become 31%. FY 22 we are targeting 35%. So, there has been a good growth in the Refurb business as a part of the overall order book of Triveni Turbine aftermarket. I hope that answers your question.

Sreemant Dudhoria: Sure. Another maybe a little granular detail I am checking, you mentioned that it's not just the industrial turbines which you are looking in the aftermarket, but the utility geothermal and even the other parts in the system. So, the driver going forward would be industrial turbines or these other things which you talked about can also contribute...

Nikhil Sawhney: Let me explain it to you rather than looking at the product itself in terms of what is the solution we are providing. There are different and varying degrees of solutions that we provide which could be anything from overhaul to re-engineering and this stretches the value chain of technology. So, the point is that we want to stick to high value-added services, but at the same time capture it with the liability that we are willing to accept. There is a large value warranty liability question that comes into this which plays into what is the technology that you are going to be putting in. So, this varies. So, for example, in the steam turbine line, of course, we would be much more comfortable going into the higher end of value addition, which is upgradations and life extensions, etc., which may not be the same in other markets. But having said that, because the profitability of this segment is extremely high and the return in equity and capital in this specific business line is extremely-extremely high. We would go after this market in an opportunistic manner in terms of being able to source demand from wherever we find it. In terms of a consistent buildup of demand we, of course, need to work with certain customers and geographies so that they can have confidence in our capabilities and our capacities to be able to deliver because it's obviously already in a running condition in their plants. On a breakdown condition most people usually go back to the OEM because of speed of execution. So, to bridge the credibility gap with the customer is the first breakthrough and that happens over a period of time with successful installations and that is something what Sachin was pointing out too, that it only happens over a period of time in certain geographies. As you have successful installations, your credibility grows, and you are able to then offer it to a wider set of customers in a varying degree of industries and technologies.

Sreemant Dudhoria: Great. Thanks for the detailed explanation. So, in your initial remarks, you I think gave a number that out of your profit before tax number, if I noted it right about ₹ 100 crore comes from the aftermarket. Is that the number which you said?

- Nikhil Sawhney:** I said about ₹ 100 crore of free cash flows comes from the aftermarket segment.
- Sreemant Dudhoria:** I had a few questions specifically on the quarter gone by. You had highlighted the margin compression that has happened in the Quarter 4 was driven by, I think you said about a domestic order which was of lower margin? So, I just wanted a clarity on that, did I get that point correct?
- Nikhil Sawhney:** No, you didn't exactly. I said that there are a variety of factors that have led to a slightly lower EBITDA margin. One of it is the fact that the turnover mix between domestic and international was skewed more to domestic which carries a lower margin and so that is reflected in the higher material cost or raw material cost percentage of turnover which is approximately 54% versus a 51% odd for the full year. Secondly, there were higher other administrative expenditures which are non-recurring in nature which have impacted the quarter. But I would encourage you to look at the full year numbers as what we believe is a sustainable number for the Company going forward not only for FY 22, but for the years to come.
- Moderator:** The next question is from the line of Bhavin Vithlani from SBI Mutual Fund.
- Bhavin Vithlani:** Could you give us an update on the ongoing case with GE? In the last section of your press release you mentioned that there was a judgment by NCLT. If you could help us understand, that will be useful.
- Nikhil Sawhney:** Bhavin, you are asking me for something which is sub judice and it really wouldn't be correct. Our lawyers told us explicitly that this is something that we should not be commenting about in public. I think the information that we had, we have given you and we have given to the Board, and this is what the Board has mandated us to disclose not only to the shareholders, but to the exchanges as well. Suffice to say that, as you can see it from the performance of the Company in FY 21 that the joint venture is a going concern and there is profitability in it. There is a dispute and the details of the dispute have been detailed to some extent in the disclosures. There will be more disclosures that will be carried in our annual report. But suffice to say that the Company is defending its position and I think that we all await a speedy resolution to all matters. But that is all I think I can say at this point in time unfortunately.
- Bhavin Vithlani:** Sure. Next question is on the growth part. You did mention about some outlook on the sugar and...
- Nikhil Sawhney:** That's a good question. I am going to ask Arun who is our Executive Director and CEO and S N Prasad who is our President as well, on the visibility that we are seeing. And especially Bhavin, as I pointed out in my introductory remarks, we are pretty much done with Q1 already. So, we have a firm idea as to the orders that we have secured with advances as well as those that we have secured without advances. And suffice to say that it's a significantly high number which leads us to have extreme confidence that the product order booking of this ₹ 440 odd crore that we achieved in the full financial year of FY 21 is something that we would exceed within the first half year of this year itself. Arun, would you like to comment and give a little bit more clarity into the sectors that you are seeing this from and if you can get Prasad to also comment.
- Arun Mote:** Good afternoon to everyone. As our Vice Chairman & Managing Director, Mr. Nikhil Sawhney has said, we started the year very well off and we are done for the first quarter. All the budgeted parameters have been met as regards various financial parameters and market is looking up as indicated by him. We expect that our order booking for the half year this year will be well over last year's full order booking in

the product line. And on the customer care the growth that is planned, we are already coming in. As far as the operations of the Company are concerned, we are very strong, we have made all the arrangements to meet COVID eventualities. Even if we would have a third wave, we are not likely to be affected severely because we have worked out arrangements for all our working staff to be staying together and ensuring that the Company runs. That's on the operation side. As regards the market, we are very well-poised, even if the market is shrinking overall even in the industrial space, which is not much, but due to introduction of new products and new blade designs, we will be able to address the market with certain exceptional efficiencies which are required in some operations. And also, the product gap is being closed wherever we find that the portfolio has not been sufficient. So overall, for the Company as such the addressable market would be expanding irrespective of what happens to the overall market which we expect any way to come to pre-COVID level in a year's time. So, that is the situation we have. In domestic market we are looking at a good order booking in process co-generation which includes pharmaceuticals, as you know people will be going for bulk drugs production, so we are targeting that. And we are also looking at distillery segment where we already have a good market share, and we expect to improve it further. On cement side, the waste heat recovery market has come up and we hold a dominant position in that market. So, all these three segments are giving us good order booking as well as the enquiry generation has been quite good. So overall, as management I think we are quite satisfied with what is being done in Q1 and I expect similar things in Q2. So, H1 hopefully should be a good one as expected. Thank you.

Bhavin Vithlani: Just last question from my side is on the margins. As we see a cycle of increased product orders and execution and given that the margin percentage is lower, would it be fair to assume that our underlying margins which have been in that 20-21% range could trend down as we see growth coming back?

Arun Mote: See it's like this, margins what have been indicated are over a fixed turnover and when you are talking of, we are expecting growth in aftermarket as well as the product. So, it is not that the margins would be suppressed. It would depend on the product mix and the total expenditure that we would go through. So, when the turnover is increasing, it is both product as well as customer care where we would have turnover, we expect that they would compensate each other along with the value engineering that we are going through.

Bhavin Vithlani: Just a last follow-up, what could be the capacity utilization currently?

Nikhil Sawhney: I don't think we have any problem in capacity utilization we are operating, it depends on the number of shifts, etc., but if you have to look at it in terms of what could be the top potential output, we would probably be operating anywhere in the region of between 45% to 55%. But I have to say, Bhavin, on the margin question is that there is a commodity price pressure. It would be remiss of me not to mention that. We will try and address it to the extent possible, and to see how best we could pass it on. It may not be possible for us to pass it on in the extremely short term, but over the medium term, of course it will all be passed on. And so again quarterly execution, I would request you to look at annual numbers for visibility on the numbers and the margin that we have given.

Moderator: The next question is from the line of Manish Goyal from Enam Holdings.

Manish Goyal: Just to carry forward from Bhavin's question on the margins and the reply you gave. So, the current order book what we have, is it a fixed price contract and do we have any escalation clause built to it?

Nikhil Sawhney: These are short duration product contracts and our scope is only for product supply. We have separate contracts for installation and erection commissioning. But as I indicated to you earlier, the potential from one customer from a life cycle relationship, if we sell him a product worth 100 is over the next 7 to 8 years or 10 years, we aim to derive the same amount of value from the aftermarket from him. So, establishing that relationship and credibility is extremely important. Of course, we will try and push as much as we can, because these are unique and discreet products and really you cannot compare one with another in terms of pricing. So, it all depends. There is nothing uniform in terms of acceptability to customers, but ultimately, we have to do what the customer is happy to accept.

Manish Goyal: I agree Nikhil. I appreciate that we leverage a lot on the aftermarket going forward, but just from a shorter-term perspective you did mention that difficult to pass on in near term. So basically, we should probably factor in that in the first half we may see a fair bit of margin pressure.

Nikhil Sawhney: But look at it this way Manish, is that our material cost as a percentage of turnover is somewhere in the region of about 51%-52%. We don't buy any direct steel. It's always fabricated or is value added on it. So, the percentage of direct raw material in terms of metals as a percentage of our entire raw material cost would not be more than 10%-15%. So, even if that goes by 10% you are not looking at very large numbers.

Manish Goyal: On the new products if you can just provide an update on API drive turbines, how is it progressing?

Nikhil Sawhney: That's a very-very good question. In fact, we have set extremely ambitious targets for ourselves this year and I think you could remind us of this in the subsequent quarters as well too. But I would like S N Prasad who is our President with Triveni Turbine to give you a little bit of insight on the API market as well as on international. Prasad if you could just talk about international from a product side, as well as the API market in specific.

S N Prasad: Good afternoon everyone. Starting with API market, as we informed in our previous calls also, this is one of the key segment for us and we have a product readily available which is developed and well accepted. Our vendor registration process since the last two years, whatever effort we put on that so we would be able to achieve the decided target. Today we are accepted as an API product supplier over 90% of refineries consultant EPCs, OEMs accepted Triveni as an approved vendor. Even our Q1 order booking is as per the budget. We booked quite a good number of orders from API segment. That is again a mix from international as well as domestic, domestic like Indian Oil. And international also we picked up from South America and some orders we picked up from North America as well for API segment. So, that way it is quite a bullish market for us and based on the enquiry pipeline, if you see on the API segment, there is a huge growth on enquiry pipeline. Today we are sitting substantially over 1000 machines enquiry pipeline on API. Coming to international, non-API, the enquiry pipeline is quite good. We are seeing some Middle East, North Africa region is one of the key area for us, API as well as the non-API segment. And Turkey and Europe, these are the other two areas where we are following it up for waste to energy enquiry base and waste heat recovery options. And MENA is substantially giving us API enquiry pipeline. So, that way we see even in international, apart from domestic, domestic obviously there is over 30% enquiry pipeline increase is there. Even in international we are seeing a good traction and through virtual interactions there is a good acceptability there. Even though last year numbers are not that good but based on the current enquiry pipeline and the Q1 tractions what we are having, we are quite optimistic that we will be able to meet the desired results what we are expecting in international markets as well. In

international again we are seeing one of the combined cycle opportunities increasing for us apart from waste to energy and waste heat recovery cogeneration proposal. So, this is a new segment where we are entering as a combined cycle that is along with gas turbines as well as gas engines and DG sets. That is one segment we are entering into that.

Manish Goyal: So, would you be able to give a perspective, like currently in API turbines out of existing market how much of it we are able to address and to what megawatt range we have launched the products for API turbines?

S N Prasad: Based on the current product availability to us almost 85% of the market we will be able to address the product across. Because in API the megawatt ranges are not much because majority of these size is some 5 megawatts, some 6 megawatts to drive turbine application. Rather than a megawatt we have number of machines drives. So, today we can address 85% of the market. And this market is substantially big market that way.

Nikhil Sawhney: From a number of units perspective, it may be about 60% from value perspective.

Manish Goyal: So basically, just to clarify we are now addressing 85% of the total API market. It is not that the products what we have launched we are addressing 85%? Just to clarify.

S N Prasad: Total API market. So, our products will be able to address 85% of that technically.

Nikhil Sawhney: And this movement has only been in the last 18 months odd. And of course, the last 12 months have been very difficult from an order booking perspective as we have already talked to you. But we should be able to have a very good penetration here in the current year and going forward.

Manish Goyal: And typically, the product order size would be similar to what we have in steam turbine, like if we will probably want to look out on a per megawatt basis or something like that, if you can give us a perspective, just to get a perspective as to how can our order book look like going forward.

Nikhil Sawhney: We don't really break it down into price per megawatt. Suffice to say that because these are smaller turbines and in a segment which has extremely high environment health safety guidelines, the price per megawatt is higher than normal but the scope is less. We are not providing the entire scope. So, turnover would be less per megawatt because we are not providing other equipment such as generators, etc.

Manish Goyal: So, here we will not be taking on an EPC business but purely product supply.

Nikhil Sawhney: But even earlier we were not doing EPC, we were just doing integration package. Because I look at EPC from a perspective what liability you take forward.

Manish Goyal: So here we will probably do a product drive turbine supply to the integrator, and we are not doing the entire integration.

Nikhil Sawhney: But there will be some integration. For example, the lube oil system, etc., will come under us. But the scope of supply is less in this segment.

Manish Goyal: Just for a housekeeping, if you can provide us a breakup of order inflow and order book of the aftermarket between domestic and exports.

- Nikhil Sawhney:** Manish, maybe we could take this offline. I am sure whatever numbers we have been giving in the past, we would be happy to give you. But suffice to say that the order booking and the aftermarket side has been consistent in both the domestic and aftermarket, and even in this last year we have used a lot of digital means to maintain and grow our international aftermarket business.
- Moderator:** The next question is from the line of Amit Mahawar from Edelweiss.
- Amit Mahawar:** I have two questions. First on the strategy of diversification. Can you specify which areas should we look at when we use the balance sheet to expand our addressable opportunity. And my second question, once we finish the first, I'll maybe ask.
- Nikhil Sawhney:** I couldn't follow your question exactly. Are you saying that how would we look at the allocation from a perspective of technologies?
- Amit Mahawar:** I was just trying to understand the possible diversification route, which segment will we look at in terms of diversifying.
- Nikhil Sawhney:** So, there are two aspects to this. Our competency from engineering perspective and our balance sheet is what we would keep in mind because we need to ensure that we will have sustainable growth in each of the segments that we do look at. We have already talked about us looking at an alternate offering from a technological perspective to providing heat and power which is through supercritical carbon dioxide. But equally as we look at the transition from de-carbonization away from carbon based to maybe a potential more hydrogen-based economy also which I have an opinion that I think that there will be a certain segment which will definitely move to hydrogen either it's from a perspective of electrolyzers to full-fledged requirement. But the heat requirement from that and the combined cycle requirement would still require our offerings which will come. So, we will be moving towards looking at both rotating as well as static technological solutions within that space.
- Moderator:** We take the last question from the line of Pranav Tendulkar from Rare Enterprises.
- Pranav Tendulkar:** I have just one question. Can you just elaborate if any industry decides to hook up captive power plant coal based versus it puts various renewable plants like solar or say wind...
- Nikhil Sawhney:** Can you repeat the question please?
- Pranav Tendulkar:** I am saying, if any industry puts up a captive thermal power plant coal based or gas based versus if it puts a captive renewable plant like solar or wind, how does the economy actually compare? Because what I see is that there are many industries which are our large customers, like paper, sugar, cement, etc., are actually...
- Nikhil Sawhney:** Thank you. I think you bring up a question that we take for granted. So, I think we need to explain a little bit better and possibly we will give a working paper with our next earnings calls which is to explain the cost of heat. And when we talk about co-generation there's a requirement to not only power but also heat in industrial. In residential establishments also, but we are talking about industrial. So, when we look at sugar, paper, rubber, textiles, pharmaceuticals, chemicals, they require steam that is heat as part of the process which cannot be generated on a renewable basis. Or if it was to be generated the capital cost as well as the efficiency cost of that is prohibitive. But to give you an example, say solar works at an efficiency levels somewhere in the region of 10%-12%, and there would be the capacity factors, etc. A thermal based plant running of even coal at a small size would be somewhere in the region of about 25% efficient. If you move up the technology curve and actually,

let's leave the technology curve, let's just say that if you had to look at efficiency that's for power production, if you were to include heat, you would probably be in the region of utilizing approximately 50% to 60% of thermal energy in the application. Also, I think that till now, a renewable solution hasn't come about for heat which is as obvious as what exists for the utility power market. The utility power market has a very clear winner and I think that is quite obvious that renewable has a better cost economics.

Pranav Tendulkar: Because what happened is that last year many coal excavation was de-centralized. There are like 150 more private coal licenses and the coal supply in India is going to go through a very high growth phase. And it is going to be very-very easy to put up a coal burn power plant which was not possible previously because you had to import coal and there are many things. I think that if that is the case then you could have a very high growth phase in next 2-3 years. Am I wrong somewhere?

Nikhil Sawhney: I think you are right. I think if you already look at spot power rates, forward rates, you do have an increased power consumption in the domestic market in India. And in fact, this is a global phenomenon, and you are probably going to see very high spot rates of power going forward which will lead to a lot of expenditure on short-term power.

Moderator: Thank you. I now hand the conference over to the management for their closing comments. Over to you sir.

Nikhil Sawhney: Thank you very much. Ladies and gentlemen, thank you for attending the financial year 2021 earnings call. We think that Triveni Turbine is in a very steady position, even though our order booking for the financial year 2021 was not up to mark due to the COVID pandemic. We have great visibility on FY 22 from an order booking perspective and we believe that we are in a steady and stable footing and anticipate and look forward to our move on this energy transition path. Thank you very much. Goodbye.

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