Triveni Turbine Limited

Q1 FY 23 Earnings Conference Call Transcript
August 02, 2022

Rishab Barar: Good day everyone and a warm welcome to all of you participating in the Q1 FY 23 Earnings Conference Call of Triveni Turbine Ltd. We have with us today on the call Mr. Nikhil Sawhney, Vice Chairman and Managing Director; Mr. Arun Mote, Executive Director; Mr. S.N. Prasad, President, Global Sales Products; Mr. Sachin Parab, President Global Sales Aftermarket; Ms. Surabhi Chandna, Investor Relations & 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, maybe forward-looking in nature. And the 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 request 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: A very good afternoon, ladies and gentlemen, and my apologies for starting this call a little bit late, we had some technical issues. But I'm very pleased to report the results for your company Triveni Turbines for the first quarter FY 23. And we had very positive, we started the year off in a very positive note. I'm happy to report that we have had another high in our order booking for a single quarter at ₹ 3.6 billion, and this is also coupled with a very strong closing order book. As well as the performance in terms of an all-time high in EBITDA as well as revenue, it places us very well for the growth that we forecast for this current year but also forecasts for what we believe to be the growth in the next year as well. Some of the highlights on a consolidated basis. The revenue from operations in the first quarter of FY 23, stood at ₹ 2.59 billion, which is an increase of 40.7%. The EBITDA for the quarter was at ₹ 561 million which was up by 35.8% with a margin of 21.7%. The profit before tax was at ₹ 508 million in the first quarter which is an increase of 39.1% with flattish margins of 19.6%. The PAT for the quarter was a ₹ 383 million and increase of 37.8%. We also had the highest ever quarterly order booking of ₹ 3.6 billion during the first quarter and a record outstanding carry forward order book on the 30th of June of ₹ 10.7 billion.

Coming to some of the financial metrics, during the quarter under the view, revenue from operations grew at 41% as compared to the previous year, with the domestic sales showing an increase of 32% to ₹ 1.6 billion, while the export turnover increased by 59% to ₹ 966 million reflecting both the post-pandemic macro recovery in the domestic as well as international markets. And the Company's success in its international orders as well.

As a result, the mix of the domestic and export sales changed to 63% domestic and 37% export in Q1 FY 23 as compared to 67% domestic and 33% export in Q1 FY 22. The EBITDA increased by 36% to ₹ 561 million as against ₹ 413 million in the previous financial year of the same quarter. While EBITDA margins declined by 70 basis points to 21.7% as against 22.4% from the previous quarter of the last financial year. The decline in EBITDA margins in the first quarter over the last year is largely attributable to higher raw material costs. But as you can see, our operating leverage, our change in product mix and our forecasted change in product mix in the quarters to come, lead us to believe that we do not have a margin problem and we will maintain our PBT for the full year as well as our future years at above 20%. The profit after tax for this quarter grew at 38% as I've already stated.

Order booking which is a record high for this current quarter, stood at ₹ 3.6 billion as opposed to ₹ 2.7 billion in the first quarter of FY 22, which is an increase of 31%. The domestic order booking during the quarter grew by 26% while the export order booking grew by 44%.

I'm happy to share that in a short span of time of augmenting our capacity in the South African Development Community (SADC) region with our acquisition of TSE Engineering in the last quarter, the Company has bagged a significant services contract for large steam turbines in this region, which is for utility turbines. We've accounted for ₹ 190 million in this quarter, but we believe the size of this contract is far larger at approximately over ₹ 1 billion.

This is a new area for us to enter where we are going to be looking at expanding our servicing reach, which allows us to cater to the servicing and O&M requirements of large customers. But also allows us then to further sell-on other parts and services which could be at much higher margins. While this was not forecast in our budget and though this may be a slightly lower-margin business from aftermarket perspective, we believe that, this will not impact our overall margins of the Company. And in fact, it would give us greater impetus for future growth, not only in the current region, but expanding this service offering to other parts of the world.

We continue to see growth in our other markets of API turbines as well as the entire range of 0 MW to 100 MW steam turbines. This coupled with our increased focus on aftermarket leads us to believe that the coming quarters will continue to see growth in order booking and we are confident that by the end of this financial year we will have a substantially higher order book, than we did starting in FY 23. The enquiry generation in this quarter in the international side grew by 22%, gives us further confidence of the opening up of export markets, especially in Southeast Asia, as well as some parts of North America and South America.

On an outlook perspective, we believe that our capacity expansions which we had started in the last quarter of the financial year and the quarter before that, would be complete by September of this year and our augmented capacity would be sufficient to cater to the demand that our order book is creating. We believe that our expanded capacity of about 200 to 250 turbines per annum would be sufficient for us in the short to medium term. This coupled with our supply chain initiatives, do not lead us to believe that execution would be a worry. The pandemic has expanded and opened up different markets for us. And as you can tell from the recent war in Ukraine, that energy markets are at an all-time high, which is leading to confidence for power generation both in upstream and downstream oil and gas markets. This coupled with our historical push on the renewable energy markets leads us to have the increased confidence for sustaining demand, throughout this current year but also stemming into FY 24. The company continues to invest in technologies at the higher end of the spectrum, which not only allows us to improve our efficiency and operating conditions so that we can provide a better value proposition to our customers, but we also do longer-term R&D initiatives as I've spoken to you about in the previous quarters, such as our initiatives in both supercritical as well as transcritical carbon dioxide which has a variety of different applications and we would be working to speed up the piloting and commercialization of these technologies in the near future.

The company has a healthy treasury management system and we have expanded the cash in our books to approximately ₹ 853 crore.

So Ladies and Gentlemen with that, I'd like to open the floor up for questions.

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: Congrats on a very good set of numbers. My first question is with respect to the domestic demand environment, we had seen reasonably good growth in the order inflow in the domestic market. Can you throw more color on say, what is the nature of these orders from which sectors it is coming in, which fuel source from which it is coming in and the sustainability of this kind of momentum or the next 12 to 18 months?

Nikhil Sawhney: Okay, so before I get in Mr. Prasad who is our Global President for Products, I have to tell you that we are seeing very robust ordering environment both in the domestic, as well as export market. Given our high market share, we play in every different market segment and as you know from quarter-to-quarter it changes.

We continue to see robust demand, in the domestic market from the distillery segment, from other renewable based projects such as paper & paper recycling, as well as some projects in the municipal solid waste as well. We think that the demand from waste heat recovery is there, it did not contribute significantly in this current quarter but we believe that it will continue in the coming quarters, but let me get Mr. Prasad in right now. Could you give some color to Ravi on the domestic market?

S.N. Prasad: Yes, yes. So in domestic market, distillery segment is one of the key segments for us and the process cogeneration. These are the two segments which are leading the show. So as far as the Q1 booking as well as enquiry pipeline, where it is coming. This is followed by steel and cement, these are the two segments. Even in process cogeneration when we are seeing, so the pharmaceutical is major segment followed by food processing and pulp & paper. So that way domestic trend is quite well spread in process cogeneration covering all the industry segments.

Ravi Swaminathan: Got it, got it.

Nikhil Sawhney: I have to tell you that we see this demand sustaining, we're seeing a growth in the overall market. This is being led on a MW basis as well as an absolute rupee basis also.

Ravi Swaminathan: Okay. Any sense on what would be the domestic market size? So, we will be 1000 MW or probably even more than that?

Nikhil Sawhney: We come to the domestic market by the end of the year, we looked at the fact that it has grown quite substantially in Q1 over, Q1 of the last year, so last year had some difficulties in terms of the pandemic, so it's not appropriate to compare but there has been a substantial growth in the market but I have to say that in general we are still away from the highs and peaks that we've seen in the market of 2007, 2011 which were the last two peaks that we saw in the ordering cycle in the domestic markets.

Ravi Swaminathan: Got it. And with respect to the 30 to 100 MW range, so basically have we started seeing orders there, is there any order sitting in the current order inflow from 30 to 100 MW range or we still in the process of getting and gaining traction? How is the traction there?

Nikhil Sawhney: As you would imagine, Ravi, the orders in the 30 to 100 MW segment because they are larger value, they would be more lumpy in terms of how they contributed to our order books. So, they have not been part of our Q1 order book. But having already well into Q2, we can say that we have good success already in that market segment. This is in the international market and it will be from areas where our historical strength lies which is in the thermal renewable segment.

Ravi Swaminathan: Okay, so can we expect some order over the next two to three quarters by the end of this financial year?

Nikhil Sawhney: Like I said we are already in Q2 and we are already seeing success so yes, we look for more success in the quarters after that.

Ravi Swaminathan: Okay sir. Got it. And with respect to the South Africa, the AMC orders, you mentioned about profit margins being slightly on the lower side. So is it relative to aftersales margins that generally we get and is it above the overall company level margins or to be look at it as a below company level margins so if you can give some reference, it will be great.

Nikhil Sawhney: As you would imagine that parts is a much more lucrative segment and when we look at aftermarket that is disproportionate in its contribution towards margins, when we look at servicing as it is, it's on a slightly lower end, and when we go to the lower end of servicing such as O&M it is slightly lower margin than that, but having said that, this is not a constraint, when we look at our entire overall portfolio, we would be maintaining the overall margins as a company. And I think what is more encouraging about this is that this opens up very vast revenue field for us and much, much more rapid revenue growth. The possibilities for us to leverage our capabilities of handling large utility turbines can be leveraged in many parts of the world. And we believe that that we're adequately poised to capture this market.

But suffice to say, Ravi, that, once we are with the customer, we think that given our quality systems and the fact that we have an increased use of digital tools in terms of being able to assess the current status and life of turbines that we will be able to push at upgradation cycle, which could then be quite lucrative for us for the parts business. We could also leverage the credentials and capabilities of having the large utility turbines in the domestic as well as other Southeast Asian and North American markets.

And so, we believe that this opens up an entirely new revenue stream for us. But regardless of that, we are seeing enormous growth in our order booking, which will translate to a sustained 35%+ revenue growth for the next couple of years.

Ravi Swaminathan: Got it sir. Thanks a lot.

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

Ahmed Madha: Thank you for the opportunity. I just wanted to understand the margin bit. So, there is some decline in the gross margin considering the increase in the raw material prices, now post the correction do you see any upside in the margins from the current base?

Nikhil Sawhney: What is important, I think to remember is that we operate in a duopolistic market domestically and oligopolistic market internationally. So, margins and when we work with our customers, we like to work with our customers for the lifecycle of their product, which is 25 plus years. And so therefore, while we have the ability to increase prices, and we have the ability to expand margins, we believe that it's more important to take our customers along with us. And so, when you see our margin profile at first quarter with a higher raw material as a percentage of sales at nearly 57%, firstly, when we took at our own supply chain base, that will come down over the coming quarters both, because the product mix will change increasingly towards export as well as a higher degree of aftermarket.

But secondly, we will also absorb a lot of the raw material prices, and there has been a reversion in raw material prices also. So we see the longer-term contracts that we have would then get revised downwards. Secondly, now to what extent will be will that lead to margin expansion versus us transferring that to our customers? I think that we are happy and sufficient with having margins, at least at 20%. We would be upset when margins go below that. So, our attempt should be always to maintain margins at a higher level than that. And when I mean margin that I'm talking about PBT. So, we may have possibilities to expand margins, and they may go up and they probably should in terms of the fact that we have a better revenue mix and declining commodity prices, as well as higher aftermarket sales. So maybe a roundabout answer, I think we do have confidence, but I wouldn't like you to project that.

Ahmed Madha: Got it. Then question on what previous participant were asking about the large turbine more than 30 MW. So, what is the percentage share of that segment in the current closing order book. Is it negligible?

Nikhil Sawhney: It's actually quite it's upwards of 10% of the current order book. And we believe that it will increase in the coming quarters.

Ahmed Madha: Did we recognize any revenue from that large turbines in the Q1 quarter?

Nikhil Sawhney: Yes, we did.

Ahmed Madha: Okay, can you tell me what percentage broad range?

Nikhil Sawhney: I don't think that's necessary to go into details like that.

Ahmed Madha: Fine, no issue. Thank you so much.

Moderator: Thank you. The next question is from the line of Ankit Babel from Subhkam Capital Ventures. Please go ahead.

Ankit Babel: Good afternoon. Two questions from my side. First is historically you have mentioned that, in your segments, there are no big inorganic opportunities. I mean, big in the sense from ticket size point of view. So, and technology wise, you said that you people are amongst the best, so you don't need that. So, just wanted to understand the reason for increasing the cash balance in the balance sheet and not paying it as a dividend. Because one more thing, which I mentioned was that you will take care of the capital allocation policy and the return ratios of the company. So, if you have no other options for the cash, you will distribute it?

Nikhil Sawhney: You bring up a very good point, I'm sure, you may have got our annual report by now already. You see some our annual report that a lot of the cash pile that we have is driven by negative working capital, as well as high customer advances. These are technically liabilities that we do have to fulfill at some point in time. Now to take the fact that we are operationally efficient as an operation and exclude that from our cash pile. I think we are well positioned right now. Also, while I may have talked about expansion of capital pile, the dividend of course currently, which we had announced in at the end of the financial year FY 22 has not been paid, it will be paid only after the AGM. And so therefore, the cash pile will decline post payment of that dividend. But suffice to say and your point is well understood that what will we be doing with our cash pile? I think that we think at this point in time is really not a problem for us, that we are constraining either return metrics or for that we are not complying with our dividend payout ratios, etc. So, I think that we will continue to maintain payouts to our shareholders, but at this point in time, given the fact that what our customer advances are, given the fact that that we do have liabilities attached with that, we think that we are sufficiently poised in our cash balance.

Ankit Babel: But I believe you people will maintain this negative working capital kind of scenario going forward also. So, every time you have cash flows?

Nikhil Sawhney: Well that's what I meant. We would like just to be prudent, it's not for any other reason. And so why -- when we believe that it becomes a problem, then we will take appropriate action. And of course, this is something that was subject to the Board's decision.

Ankit Babel: Okay. And the second question was that, there is a big overhang of the supply from Triveni Engineering, I mean, the stock sale, which you people had announced. So just wanted to understand, can you expedite that process of selling so that there is no overhang on the stock price?

Nikhil Sawhney: You bring up a point which is not in my control, or in control of Triveni Turbine, this is Triveni Engineering selling, but I will pass the message on, I think that, that you bring up a point that I may not have been aware of which is this overhang. But okay, I'll understand a little bit more from you as to what you mean by this or I'll ask Investor Relations Manager to be in touch with you.

Ankit Babel: Okay, that's it from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Himanshu Upadhyay from O3 Securities. Please go ahead.

Himanshu Upadhyay: So, my question was on API turbine, you entered the business two or three years back, what needs to happen that that business becomes quite large. Let's say where are we stuck and what is the CapEx happening on that part of the industry, which is the refinery and fertilizers and petrochemical. So, the CapEx happening in that, what we need to do get a bigger share of that business?

Nikhil Sawhney: You bring up a very good point which is the fact that we have not historically had any large contribution to our order book from the API market segment. As we see our product development and approach to market in terms of qualifications in this segment, it has opened a very large market for us. How will Triveni Turbines cater to this, very frankly these turbines are a little bit more standard. So, they are actually easier to make from our perspective. And so, it's less customized to the extent that we have with our regular power generating markets, so it is easier to execute. They are smaller in size of capacity, so from an execution perspective, it's really not an issue and we've catered to that through expansions in terms of capacity.

Now, executing is not a constraint, the issue would be more in terms of winning orders, where we think we have adequately priced solution for this market, both at a high efficiency level so as to provide better economics to the customer, but also benchmark versus our competition. And so, when we see that the market is opening up quite considerably for us, we are quite hopeful that this market will contribute meaningfully for us in terms of growth, but it will never replace the growth of what we're seeing from the overall renewable energy market in the short term.

Himanshu Upadhyay: So, I take your point, but just the first thing in new oil and gas product is getting product approval. And to that product approval we have cleared across all the continents of it. And from all the engineering companies who are designers, now to win the orders that is where we are working on and what type of CapEx are we seeing that side of the business?

Nikhil Sawhney: And so, we are seeing extremely large CapEx in this market. This we're seeing both from the domestic market which is not only from downstream, but also upstream oil and gas in the domestic market, but increasingly so from the fertilizer segment. We also see very large investments internationally coming from a variety of different large utilities be it from shale gas all the way up. So, there's a lot of CapEx happening in this market globally.

Himanshu Upadhyay: Okay, one thing which is our domestic market in India, see who would you be competing. Is their local manufacturers or the product is completely imported smaller turbines? So, can you just some idea in that?

Nikhil Sawhney: You're right. This is an import substitution market.

Himanshu Upadhyay: Okay. And one more thing. So, in government contracts, there was this thing that below a certain price point, domestic manufacturers should be given a preference. In many of the fertilizer and petrochemical companies and refineries are government companies. Do we get any preference in those businesses or there is yet no presence in the ticket size where you are operating API grid turbines?

Nikhil Sawhney: Prasad, can you answer this question as to whether we see any price preference for this market with domestic Public Sector Undertaking (PSUs) in the oil and gas segment?

S.N. Prasad: There is no price preference for domestic suppliers as of now, even our competitors who were offering they also manufactured the turbine in India, even if a PSU comes with any price preference, so, that will be equal to both the parties. So, we are not looking forward to that. We will be competing based on the technology merits and delivery mechanism.

Himanshu Upadhyay: Near when it was stated that API oil and gas was import substitute. So, when it was stated that it is import substitute, that's where this second question came?

S.N. Prasad: Yes, you are right in some cases, there is a local player our competitors they also have some manufacturing facility. So even right now, even those cases wherever the imports happening, there is no subsidy for domestic manufacturers as of now for this rotating equipment of turbine.

Himanshu Upadhyay: Okay, and what percentage of products should be import substitute as let's say number of turbines which are used or what percentage?

Nikhil Sawhney: I think as we get into this market, we have more information and we will get that out to you. I think the fact is that the market is quite large and as we are seeing our approvals from the OEMs, we see this contributing to our enquiry book substantially and will eventually form a part of order booking in a meaningful manner going forward. But as you rightly point out that we do see demand coming from a variety of different segments and this is just one segment.

Himanshu Upadhyay: And earlier when we entered this business our thought was this can be a pretty large market. So that thought remains the same or the probability of this business also becoming very large is high. It will take time, but we remain confident now also as we were earlier when we entered the business?

Nikhil Sawhney: You're very right, we are confident about this business line.

Himanshu Upadhyay: Okay, okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Tushar from Kamakhya Wealth Management. Please go ahead.

Tushar: Congratulations for great set of numbers. Sir, a couple of questions. My first question is on the CapEx. In the last call, you said like it would be investing ₹ 35 crore to ₹ 40 crore, expanding the facility to 200 to 250 turbines. Sir is it fair to assume that considering your assets turnout to be, so we can get incremental revenue ₹100 crore to ₹120 crore?

Nikhil Sawhney: No, it will be more, the asset maybe more, but what Arun I think, can you give some visibility as to how much capacity utilization you may see of the facility and when will it be ready?

Arun Mote: Yes. As you know, we are building one more Bay in our new Sompura facility. We already have most of the CapEx done and it will be complete in Q2 FY 23, we'll be able to capitalize all the capital expenditures which is required for expansion, the capacity will be flexible, it will be somewhere between 250 numbers to 350 numbers depending on how much outsourcing we are able to do and what are the subcontracts that we do because that would also determine the capacity. Whatever CapEx we have indicated to you meeting, we are not exceeding that, we are continuing with it.

And we expect that by Q3 FY 23 mid, even our subcontractors' expansions will be complete and will be fully operational, it would definitely mean additional revenue in the current year, which we have already planned for and in the coming years also. And this capacity, what we're building is likely to be sufficient for a couple of years for us there is not expected anyway in capital expenditures for this, does it answer your question?

Tushar: Actually, your incremental revenue, I would like to get some color on?

Nikhil Sawhney: I think what Arun is saying and what I think we've said in our previous calls is that we're not a capacity constrained company in the fact that, that our capital employed may be used for capacity expansion, but our supply chain initiatives in terms of actually having a vast degree of outsourcing also does add amply to our capacity. So very, frankly, if you look at what is a greater indication of our asset turns and ratios like that would be by just looking at our revenue growth, which would be the commitment that we have to fulfill the orders as a part of our order booking. And so, the fact that we are seeing 35% plus growth, the next couple of years can give you an indication of whatever turns you want to see on our assets.

Tushar: Fair enough sir. My second question would be, did you see the top line grow like product is customized to clients and coming two to three years on the top line?

Nikhil Sawhney: Yes, I think I alluded to this already. We are quite confident of our growth for the next couple of years in terms of both being reflected tangibly by the order booking that we have. This current year's revenue is pretty much locked in the bag, we have all the products that we need to do, including whatsoever was part of our order book and bill is a sufficient visibility towards our growth to this current financial year.

Our aftermarket, which will contribute all the way up to Q3 is also a well-planned and well forecasted, the enquiry book that we have also seems to suggest that the growth that I talked about would continue into FY 24. Our enquiry book also does suggest that our FY 24 order booking should be quite robust, given the expansion in the markets that we already spoke about, which is above 30 MW as well as API, as well as a continued focus on fixed capital formation in the below 30 MW segment. So, we're quite confident. Thank you.

Tushar: Fair enough, thank you sir.

Moderator: Thank you. The next question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: Hi, thanks for giving me the opportunity. Congratulations on a good set of numbers. You did allude to some line on FY 24 also, I mean just wanted to get an understanding of this demand environment that we are seeing, what is the longevity of that? And my second question was on the margin profile, of the above 30 MW.

Nikhil Sawhney: No, the margin profiles don't change substantially with the capacity of turbines, it is independent of competitive intensity, but more than that is specifications. The higher the specifications, the higher the margins. There are certain historical markets, which give you lower margins in certain markets, which give you higher margins, as you would imagine markets where customers are concerned more on price to give you lower margins and markets, where customers are concerned more about efficiency and robustness and other features, which are important to the industrial process, those give you higher margins. And this is consistent through the entire range.

So, we don't see margins changing specifically, for example, the API segment, which has much more focus on health and safety and other constraints in terms of fire, etc. is a much higher margin business. Aftermarket, as you know is a high margin business for us as an entirety, but you have the entire spectrum within it, you have servicing, which is slightly lower, you have refurbishment, which can vary in terms of the scope, and parts, which is a very high margin business. But in all when we calculate our growth, and we look at the margin profile of the company going forward, and like I stressed a couple of times, we don't see margins as being a problem for us. We aim and are confident of maintaining a PBT margin in excess of 20%.

Mihir Manohar: Sure, and the longevity of this growth that we're currently seeing?

Nikhil Sawhney: Yes, so there are certain markets, which are new to us where we've expanded the market in which we operate. One is that our direct focus in the 30 to 100 MW segment, which is a market, which is approximately on a global basis, one and a half times the size of the market below 30 MW, seems to suggest and already are the successes that we've had. That we will have good growth in this market, which should sustain our visibility as well as then order booking. Similarly, in the API market where we have low market share right now, as we see going forward. And we should aim to get a better market share, as we increase our presence and increase our reference bases with customers. So that coupled with the fact that aftermarket space is where we see a greater presence on the ground with our customers, we should aid in getting more revenue. We think that the order booking trajectory can be sustained for several years.

Moderator: Thank you. The next question is from the line of Payal Lad from Progressive Shares. Please go ahead.

Payal Lad: Good afternoon sir. So, I have a couple of questions, these are basically if you have the extracts from the annual report. The first one being how do you see the market in Germany in terms of Waste to Energy steam turbine generators that are already commissioned there?

Nikhil Sawhney: No, I wouldn't like to speak specifically about any particular market if that's fine. But in general, Europe has a great focus in incineration of municipal solid waste. And this has been driven by variety of different impetuses. One is that the regulation is not allowing for dumping of municipal waste into municipal dumps because of leachate and other carcinogens that are treated in groundwater also, given the fact that dumps lead to the emission of methane. And so therefore, the fact that a municipal solid waste incineration plant would generate carbon dioxide and suppose to methane is deemed as clean. And so, it comes under the subject of the certain Clean Development Mechanism (CDM) benefits, and both local as well as country specific grants. So, we see this as a very large segment, of course, Europe is as a leader in the environmental sense and decarbonization, it has taken the lead in it, we believe that the economics of this will be true globally.

Payal Lad: Okay, the second one is, could you highlight more on these newly developed sub-three MW products that cater to demand for your products in terms of market size or growth opportunities?

Nikhil Sawhney: Yeah, again Arun, can you speak a little bit more about this segment, which is part of our annual report?

Arun Mote: These are turbines, which are standard turbines. And these are made and stocked and sold. These are not against the orders. We are developing the market. This is something which will go through not only our sales force, but also through our distributor network. That's how it's coming. We are building the market, we should be able to give you more size of the market in the coming years because this is something which is developing, and we see positive increase in the enquiries in almost each quarter.

Payal Lad: Okay. And in terms of the aftermarket business, laying its foray into new industrial segments, such as your geothermal and your compressors. So, do you see any scale up in the contribution to this division along with the order wins that has come in this quarter from SADC?

Arun Mote: Yeah, my colleague Sachin would answer but I would like to tell you that we have very positive references on geothermal market, not only in almost all industrial areas, which is in Southeast Asia, and also in the Australia and New Zealand, Australian continent. Sachin, please.

Sachin Parab: Good afternoon. In terms of the Geothermal market, we have good traction. And we are seeing continued enquiries in this segment. So, our efforts in the Geothermal segment are paying off. Mr. Mote has mentioned about some of the geographies and in all these geographies, we are seeing consistent business and repeat enquiries.

Payal Lad: So, have you seen any enquiries for the current quarter for this division?

Sachin Parab: Yes.

Nikhil Sawhney: I think let's not get into specific segments for enquiries and order bookings. But suffice to say that on a year-on-year basis, our penetration to this market has improved. We're seeing greater visibility on enquiry basis, but also as part of our order booking.

Payal Lad: Okay. And one last thing. In last conference call, you had mentioned that you had to reduce the order book of about ₹ 400 million on account of the Ukraine invasion. I understand you had even mentioned that the percentage contribution is not very large. So are these orders near execution or some part of it has already seen.

Nikhil Sawhney: They are on hold.

Payal Lad: The entire is on hold?

Nikhil Sawhney: Yes, and I think that to be fair, we don't see this coming back into the order book very soon. So, we will look to divert whatever that is part of our inventory. Arun, can you comment?

Arun Mote: Yeah, these orders were at different levels of execution, some in engineering, some where the raw material has been bought. They are successfully getting diverted. And we don't see any major impact of these orders which are on hold, which we expect eventually to get cancelled. We won't be affected in our operations at all.

Payal Lad: Okay, thank you so much.

Moderator: Thank you. The next question is from the line of Abhilash Hiran, an Individual Investor. Please go ahead.

Abhilash Hiran: Can you quantitatively express the cost benefit for a company who is putting up a steam turbine or versus alternative competitive products?

Nikhil Sawhney: If you see a variety of different applications in a steel industry, one is power generation that they need for their own operations and the second is capturing heat as part of from the furnace etc. Now, the capturing heat as part of from their furnace, I don't think they exist alternate technologies apart from it being captured through a boiler steam basis at this current point in time.

Well of course, our solutions of concentration of supercritical carbon dioxide. Like I said, the first application of waste heat recovery doesn't seem to have any alternate solutions while for steel industry in specific which doesn't use steam as part of the process, their power generation requirements could be fed through other means, be it from grid or variety of different sources. But generally, because of the remoteness of steel plants they do end up generating on site also because they do end up importing coke for the current furnaces. Even if the furnace moves to hydrogen base, the fact that it will still emit heat and so therefore, we would still need a technology like the steam turbine to capture that heat. I don't know if that answers your question.

Abhilash Hiran: No sir. So, could you this right on what my question basically was that if I'm using a steam turbine versus a Diesel Generator (DG) set or any other alternative forms of generating electricity. So, then what would be the per unit benefit of using a steam turbine just across various industries. In the last call you said that you will come up with some white papers for this, which gives us a better understanding. So, from that perspective, we could just share some broad numbers of use of the benefit of using of steam turbines?

Nikhil Sawhney: Okay. I can give this to you because I know this for the sugar industry, where you have a cost of bagasse somewhere in the region of about ₹ 800 a tonne, the typical cost of generation of power without counting the cost of heat, because you're using steam as part of the process as well. You have a cost somewhere in the region of between ₹ 1.50 to ₹ 1.80. Now, if you include a margin on the heat transfer as well, you could probably get that cost down to be the ₹ 1 to ₹ 1.10. But of course, all of this is dependent on your cost of fuel. So, I think you can calculate a variety of different ways, but suffice to say if there is a heating requirement as part of the industrial process, which would be there in industries such as chemicals, petrochemicals, agro food, paper, sugar, rubber, textiles, etc., it always makes sense for you to generate on site.

Abhilash Hiran: Okay, for heat. Yes sir, sorry.

Nikhil Sawhney: Because your thermal efficiency is much higher.

Abhilash Hiran: Okay. And Sir, at what scale does it make sense? Like, the industry has to reach a certain threshold for them to install a steam turbine from an economic standpoint?

Nikhil Sawhney: But actually, its basically when whenever a continuous process industry that it makes sense, the size and capacity would change depending on the size and capacity of the industry and its requirements. But as long as it's continuous, then it makes sense for you to go into this, if it's a discontinuous or a batch process, etc., then it probably doesn't make sense for you to have a steam turbine, because we need to get it operating does take some time, and it's not the best solution.

Abhilash Hiran: Okay. Coming to the waste heat recovery. Could you give us a sense on what is the penetration levels in for waste heat recovery in steel and cement?

Nikhil Sawhney: Dear Prasad can you give an idea as to what is the penetration?

S.N. Prasad: Yes, yes. Especially when it comes to cement industry. Now, majority of the cement industries are trying to tap the waste sheet. Our penetration today based on our statistic, almost 30% of the cement industry, they have gone for waste heat recovery options and some projects are in the pipeline. Still we feel that around 70% potential there on that. When it comes to steel industry almost 100% of the sponge iron, when they're installing itself, they go for a waste heat recovery option. As the new sponge iron and pig iron plants are coming, there will be opportunity for that. Whereas in cement, whatever the installed base running cement plant, there is a 70% of the cement plant yet to tap this potential.

Abhilash Hiran: And so, what would be that number for steel. You said 70% for cement and what would be the number for steel?

S.N. Prasad: Steel, as they installed the plant, parallelly they go with this waste heat recovery tapping, because the waste heat whatever comes from kiln, that is a huge waste heat. So, they get the permission only once they show the tapping of this waste heat and converting into the power.

Abhilash Hiran: Okay. So, currently whatever steel capacity they all have installed the waste heat recovery…?

S.N. Prasad: Yeah, especially sponge iron and pig iron plants that is a segment; otherwise integrated steel plant, yes, everybody installed capturing this waste heat.

Abhilash Hiran: Okay sir. And in the annual report under the inventory section, you mentioned that the cost of inventory which are expensed out is around ₹ 54 crore. So, can you explain what is it exactly?

Nikhil Sawhney: Lalit if you could just explain what this what this means exactly?

Lalit Agarwal: So, this ₹ 54 crore is nothing but the same period inventory which has happened during the year. So, the overall inventory has reduced by ₹ 54 crore during the year.

Nikhil Sawhney: Arun I think you can give a better idea. So, the operating what has led to this has been a more efficient manufacture of modular systems that we actually had better procurement of inventory, and we had better turnover of inventory.

Arun Mote: Yes, we could manage the inventory well. We utilize the old inventory, and also through standardization, we can decrease the WIP, because quite a few assemblies could be used in multiple places. The number of turns on inventory also has gone up marginally. Totally, our working capital has improved substantially. And we are once again on a negative working capital with a very good number. And we hope that we will continue this.

Abhilash Hiran: Okay. And sir what is the domestic market share right now?

Nikhil Sawhney: It's in excess of 50%.

Abhilash Hiran: Also, historically, the number at 60%. So why is there a fall from 60 to 50?

Nikhil Sawhney: We're expanding our market as we speak, so we are capturing newer market segments. But there's some competitive intensity in the market as well. I think a lot of these factors are going and our focus is also more on export markets. The reason that we like to maintain a majority market share so that we are able to maintain our cost structures. And that has been a real impetus rather than actually capturing more market share in India, because India, as you know is not a lucrative market for us. It's not what drives our profitability.

Abhilash Hiran: Right sir. And one last question was, so what will be our export market share?

Nikhil Sawhney: We don't have full visibility into the export market. The fact is that's a very difficult question to answer. What we do like to look at and as a benchmark for our success in the export market is the growth of our enquiry book. The reason I say that is getting an enquiry in a sophisticated space, like a steam turbine, is allowing the customer to view your offer. So, he's ready to accept you. And so that is a very big win for us and our conversion from enquiry book, but when they do come up is high. I wouldn't like to share that number, but we do see good conversion for my enquiry book to our order booking. So, I think that we do see increasing our penetration to the global market on an annual basis, actually it's happening on a quarterly basis. Now that we're selling above 30 MW as well internationally and having good market penetration, you will see this number rising only.

Abhilash Hiran: And sir, finally, could you explain a bit on this supercritical CO2 turbine that you're working on? What is the progress, where are we each time? How's it globally panning out?

Nikhil Sawhney: Like I said, this is a project that we first have to pilot and then we'll have to commercialize it. A part of it is in development, part of it is in engineering. And we have confidence in terms of the supply chain and manufacturers, some we have to develop. It's a little way away in terms of couple of years. But we think the solution, both on paper as well as testing is something that that we're working aggressively on with our partners such as Indian Institute of Science (IISc) as well as other academic institutions. We're optimistic that this can provide much better economics to our customers. Of course, there is some other work that we're doing on the transcritical side, which could show quicker results from piloting. But we added when that happens, we'd be happy to let you know, I think let it first get into some degree of piloting before we give you a more data on how it's performing.

Abhilash Hiran: Right. And this type of turbine is nowhere in application in the world currently, right?

Nikhil Sawhney: No, we have heard this Siemens launching this with a company that they own called Ecogen, somewhere in Canada. And I think that Mitsubishi has also done some development on this line. I don't know how well it's commercialized yet. But very frankly, what we feel that Triveni Turbines' development in this space being done at the same pace and at the same level that has been done by global peers. And so, it's also confidence in the fact that this technology will have more people promoting it. So that's also positive. We understand our cost structure and our cost structure is good. So ultimately, it's a question of market development.

Abhilash Hiran: Thank you.

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

Amit Mahawar: Congratulations on a great set of numbers and the large service win in export markets. I have two quick questions. First is on the hiring plan for what is the current strength for aftersales, sales force out of India? And how should it ramp up in the next one to two years. So that's the first question. The second question is on breakup of API drive turbine servicing globally. How large is the market? And what percentage of total 30-100 MW market is basically for aftersales for API turbines? Thank you.

Nikhil Sawhney: No, no, API turbines are all small. They're pretty much below five MW. So firstly, that's the segment. But you do have API power generation market, those are much more lumpy. And those are for power generation, not for drive. Nothing that is driven at such a high MW capacity. On the recruitment, as you know, in the last financial year, we added nearly 10% to our workforce, our plans in this financial year are quite aggressive as well. And from aftermarkets, in specific, I wouldn't like to give you a number of our service engineers and how many we're adding, because, it is little sensitive. But suffice to say, our strategy is to be closer to our customers. And so to that extent, what's more important is for us to have a greater degree of aftermarket personnel internationally. Sachin, can you provide Amit some insights into how you're seeing our recruitment?

Sachin Parab: Yes, so we will be definitely increasing our field force. We have been doing that consistently. And we don't just depend on our own engineers. We also have a network of trained service personnel in different markets that we have developed over the years. And they complement our own field force. There's a lot of supervision done by Triveni personnel themselves. And we are continuously looking at increasing our field force in services.

Amit Mahawar: What is the current mapped market in India only on refinery that Cogen or ethanol and what is the market size that we have for the India, total opportunity maybe to see the total pipeline?

Nikhil Sawhney: In the distilleries market, Prasad, can you give an insight as to number of distilleries you have in the enquiry book?

S.N. Prasad: Today from the enquiry book wise, see the total commission of distilleries are 400 distilleries got the licensees, otherwise today active enquiry book is closer to around 40 distilleries in our enquiry pipeline from domestic market.

Amit Mahawar: Thank you. And good luck.

Moderator: Thank you. Ladies and gentleman that was the last question for today. And I'll hand the conference over to the management for closing comments.

Nikhil Sawhney: Thank you very much, ladies and gentlemen, for participating in our Q1 FY 23 conference call. I apologize for our technical glitches. We will try to remedy them for our next call. Thank you. Good bye.

Moderator: Thank you. On behalf of Triveni Turbine Limited that concludes the conference. Thank you for joining us.