Triveni Turbine Limited
Conference Call Transcript
August 10, 2017

Moderator: Ladies and gentlemen, good day and welcome to the Triveni Turbine Limited Q1 FY 18 Earning Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Gavin Desa of CDR India. Thank you and over to you, sir.

Gavin Desa: Thank you. Good day, everyone, and a warm welcome to all of you participating on the Q1 FY 18 earnings call for Triveni Turbine Limited. We have with us today on the call Mr. Dhruv Sawhney – the Chairman and Managing Director and Mr. Nikhil Sawhney – Vice Chairman and Managing Director, along with other senior members of the 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 conference call invite that was mailed to you earlier. I would also like to emphasize that while this call is open to all invitees, it may not be broadcast or reproduced in any form or manner.

We would like to start this call with opening remarks from the management, followed by an interactive Q&A session. I now invite Mr. Dhruv Sawhney to share some perspective with you with regard to the operations and his outlook on the business. Over to you, sir.

Dhruv Sawhney: Thank you, Gavin. Good morning, everyone to the Q1 FY 18 conference investor call. In our performance review, the net income from operations at ₹ 1.22 billion, which is lower by 25%, primarily due to the deferment of deliveries and lower product order booking in Q1 and Q2 of FY 17. The results have been below our expectations. The PAT has come in at ₹ 128 million, lower due to the lower sales. I will be going into a little more detail as the call progresses. However, we have a strong order intake during the quarter, a 41% growth over Q1 FY 17, of which the share of exports in this is 54%. Again, I'll go into a little more detail here later.

During the quarter, the Company achieved a significantly higher order booking of ₹ 2.15 billion in comparison to the first quarter of the past three years; in FY 15 it was ₹ 1.47 billion, in FY 16 it was ₹ 1.8 billion, and last year it dipped to ₹ 1.53 billion.

So in comparison to this, the ₹ 2.15 billion that we received in April to June is very good, July also has been good.

About 83% of the order books in Q1 are executable in the current financial year, and the quantum is a big difference from last year. So we have a healthy book and bill, out of ₹ 165 crore, ₹ 130 crore are book and bill, and these are our customers which we are fairly confident that they do want to finish the project in the current financial year. Just to give you an idea, the book and bill last year was ₹ 62 crore versus the ₹ 130 crore this year. Book and bill in services also were substantial, which is there, and we are having good book and bill in Q2 and expect this in Q3 for the services sector.

The strong outstanding order book, which is now at ₹ 7.26 billion, is higher by 16% compared to the opening order book as on 31st of March 2017. This really is the highest we have ever had. This order book is the highest in the history of Triveni Turbines and I think that is a reflection of the slight turnaround in the domestic market, it is a reflection of our increased market share which is lumpy but it's done well in the first quarter and on the exports, our offices and our efforts in all the countries which is coming through a bit.

I must say that as I had mentioned in many Conference Calls, our type of business is very lumpy quarter-to-quarter. Now that's the bottom-line that one quarter results really are not reflective of how the year is working out. We maintain our positive growth for the year and that's the bottom-line message. Before that, I would like to spend some time going into the domestic and into the international markets and into the services sector and what we are doing.

The domestic market we find has shown an increase of about 37% during the quarter. Now, we're getting significant inquiries from the domestic market as well. So, we do feel that there is a turnaround in the domestic markets. The fact that we received an 80% market share in the last quarter is good, of course as I say, this is lumpy, but we feel confident of preserving our historical market share in the expanded domestic market. We booked orders worth ₹ 689 million from the domestic market.

Now the sectors which I am sure all of you are interested in are from Sugar Co-generation, Process Co-generation and new sector, which is Waste to Energy sector. We feel Waste to Energy will be growing with the Government's emphasis on the sector and with money being allocated for it. So, this is something that's happened internationally and we are glad it is happening in India as well.

On the exports market, Q1 FY 18 has also been a good quarter. The bookings are, as I mentioned earlier, much higher compared to the first quarter of the last year and it mainly comes from Europe and Southeast Asia. In Q1 FY 16 was ₹ 910 million, last year FY 17 it was ₹ 880 million, and in the current year it's ₹ 1.17 billion. So, there is a substantial increase in order booking even compared to FY 16 because FY 17 was lower.

Now the order bookings in Q1 and Q2 FY 17 are one of the causes for the drop in turnover in the first quarter. The other one you all know, is the GST, and I will come to the GST impact in a minute. These two combined puts the results, deferment of orders and the 2% which benefits the customers are getting under GST had a deferment of orders in India. There were few other points such as one of our customers had a problem of malware in a global shipping line, and that also disturbed shipments. But these are things that get smoothened out in the subsequent quarters.

I would say that on the business highlights, the product turnover is lower by 25%, and as I mentioned, owing to our deferment of deliveries and the lower product orders in Q1, Q2 of FY 17, but the aftermarket has shown a steady growth of 10%. And during the quarter under review, the mix of aftermarket sales is 26% to total sales. The mix of exports is 42%.

The aggressive global strategy that we've had of establishing our presence in six countries globally has benefited with an inquiry pipeline now of 5 gigawatts. So that's some performance that we are getting from across the export market. The good thing that we are looking at is, this will compensate for one region temporarily going down and the other region not going so well.

But the overseas offices, in the coming months' order booking, we believe will help in the aftermarket and those are good margin. And these are businesses where the economies are not wanting new orders, these are very good ROIs for customers to do refurbishment and to give us service contracts. And being on the ground, this is helping to establish our name. Of course, our name, it takes time for the offices to be established. We have had some delays in visas and other things. But now in the last 4-5 months, we feel they are well established and they're getting on very well with expanding our inquiry in customer base.

A word or two about our joint venture, GE Triveni Limited; during Q1 FY 18, GETL recorded sales of ₹ 462 million and a PAT of ₹ 87 million. Even though there were no orders closed by the JV in the last quarter, the enquiry pipeline is strong and we expect order finalizations in the coming quarters. So the areas are Southeast Asia, India and South America. This should help the JV also achieve a higher turnover in the current year and of course in FY 19.

The execution and commissioning of the large size turbines is carrying on, and we expect when they are commissioned in the next few quarters, this will help establish our presence even more in the international market as we want to see references not just in India but overseas.

Your Company is continuing its strong efforts in design and development. This has been one of the reasons we've been able to sustain our position internationally and also in the new sectors. The team has come up with a number of variants, including a few in this quarter. And our move into the oil and gas line is very good. We are now trying for registration in a number of Middle East and North African countries with the oil company. It's a laborious process, but our applications are being received because of our breakthrough in the Middle East. This is extremely encouraging because these are high margin orders and this is a market that was not prevalent to us in India.

In our development, we have a new generation of blade, seals, profiles, and this is helping the Company attack new niche markets in Europe where we were not able to tackle earlier. And the Company's portfolio of IPR is building up in a very consistent manner. I think the domestic enquiry outlook is good from these sectors of Process Co-generation including sugar, which as you know has had a turnaround and is slated to do well as not only they did very well in FY 17, it's slated to do very well in FY 18. So, we are having encouraging responses from there, also in Food Processing and Waste to Energy.

With the current order book, which is at various stages of finalization and with the finalization in FY 18, we will end the year also with a substantially good order book for execution in FY 19, much better than what we started off with in the current year. So, we are looking for very enhanced closing order book in FY 18. And the live inquiry book domestically, to give you a small idea, is 1.7 gigawatts and that's why I said that I think there is a slight turnaround. Of course, we have to look at the conversion of this into orders.

Given the overall global economic and political scenario and the fact that these export enquiries converting into orders can be lumpy, we do feel that on a cumulative basis, the year in terms of order booking and in order execution will be good and we will end with a better performance than what we had in the previous year.

The outlook for the aftersales market is positive and especially, as I mentioned earlier, in the export market. I just want to mention that this is slow. It takes much longer to convince people that we are on the ground and we are able to offer services on the ground. They're not used to this coming from India, a developing nation. But the people that we have orders from, they've got extremely good response for the future. So once we execute these service or export orders in the countries of origin such as the Middle East, Indonesia and South Africa, they expect a good growth in the next few quarters.

I would like to just summarize by mentioning again that the results that we have, which as I opened up with are below expectations, but the reasons are two-fold. One is the deferment of orders because of GST where our customers have a benefit of around 2% and the second is the low order booking that we had in Q1 and Q2 of FY 17, which has not happened in Q1 of FY 18 and we are halfway through, we expect a much better order booking in the second quarter as compared to last year because we're half-way through, so we can say that. Our spread is increased in new sectors such as Phase-II energy and also the oil and gas area and all in all we are looking at good year, it's going to be back ended, but it's going to be a good year. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Sir, this is regarding the domestic market, you had told that there are some signs of a turnaround that is happening. It will be really helpful if you can give an estimate of what would be the market size that you estimate this year and what was it last year?

C. N. Narayanan: Ravi, the last year we had the domestic market somewhere below 700 megawatts and given the kind of enquiry what we are tracking right now, we believe that the market could go up by 10%-15%. But it is too early to predict it but that is all because the first quarter had shown a good order booking overall in the market, around 37% increased order booking Q1 over Q1, but can we take that as a lead, we are not sure about it, we will have to wait and see how the market is going to really pan out.

Dhruv Sawhney: I think my take is that we can't put numbers because the sustainability of a certain good order booking in the Q1 of the same level is difficult, but I think that one can confidently say that the trend is definitely better order booking in each quarter in the domestic market compared to last year. I think that's pretty much there. And we are fortunate that we got an exceptionally good market share in the first quarter. Now even if we go back to normal market shares, we still have a better performance in order booking domestically to what we had in FY 17 in the subsequent quarters.

Ravi Swaminathan: Okay, got it. And Waste to energy, all along it has been only confined to outside India, especially Europe. Now that you have secured an order within India, is there a concerted effort by some of the Governments or something or is it private?

Dhruv Sawhney: Well, we have these enquiries and I would say we've actually got four orders, which is quite something that we hadn't expected so quickly. This is again lumpy, but it's a good direction because they're spread over. I think we are very encouraged by this new field in India, so that we're not so dependent on the co-generation, which is fortunately also good. Sugar is good this year, there's good monsoon, food processing is also good. So these sugar co-generation, process co-generation, food processing are in a good cycle, which they weren't two years ago.

Ravi Swaminathan: Understood. But typically how big can this market get, Waste to Energy, potential-wise or any near-term?

Dhruv Sawhney: That is very difficult because to predict when these customers will actually take their enquiries for closure is difficult. I can say that based on our getting orders in the first quarter, we don't expect it to certainly come to an abrupt halt, maybe the same pace may not be there. But if you take a nine-month span, like the next three quarters, I think averaging out we will get the same sort of the orders. If you want a very rough estimate from me, it's around 150-200 megawatt. But again when they come in, it is difficult to say, but it's not small. We all know that there is a problem of waste.

Ravi Swaminathan: Understood. And in international markets, you were talking about the oil and gas market. In the backdrop of fall in crude oil, still there are lot of enquiries is what you're saying. How it is getting generated?

Dhruv Sawhney: Yes, good question, actually I'll just spend a minute to tell you about the registration. You see you go to any Oil Company; you have to register yourselves, with 16 of those people. Now each of them, they may not be having the same procurement program they had when oil were $70 and $80. But when the oil is at the current level, they are looking for better deals, which is why they are considering us very, very favorably because we are very competitive and we have the same efficiencies and now we have the reference order because oil and gas are very reference order based business, you can't just break through. They have to do a lot of inspections, a lot of paperwork. So we have geared ourselves for this. Our Dubai office has expanded substantially. We have put another person focused on Saudi Arabia now. And so today oil is at the $50 level, which is very good for us because they are seriously considering Indian supply from us versus their classic Western suppliers.

Ravi Swaminathan: Okay, got it. And this enquiry pipeline of 5 gigawatts, this includes this oil and gas opportunity also?

Dhruv Sawhney: Not really, because of the registration, after the registration we start getting enquiries. They are not going to see a huge jump, but they'll be a good margin business.

Ravi Swaminathan: Okay, understood. And sir, in terms of P&L, the other costs are continuing to see an increase. Is it largely because of the spend that we are doing in terms of opening new offices?

Dhruv Sawhney: Yes, it's to do with personnel and administration costs and of course a little bit of travel also extra. These are front-ended. You have to put this in before you have to get the offices, you have to get the paper work done and registration. So you are right, this is the reason for the increase.

Ravi Swaminathan: Understood. But this will continue for how long?

Dhruv Sawhney: No, we are pretty much stable now. All of them are operational now. So this increase is not there, no more.

Nikhil Sawhney: We should not look at order book when coming in.

Dhruv Sawhney: Yes, now we've reached where we have, we are stabilizing. We have also decided that we will stabilize it where we are for a few quarters without expanding geographically into different ways because we feel the potential of growth in these existing offices is pretty good.

Moderator: Thank you. We take the next question from the line of Darshika Khemka from Edelweiss. Please go ahead.

Swarnim: This is Swarnim here from Edelweiss. Sir, couple of questions; first question if you can tell us or maybe if you can quantify, what is the amount of the sales effort due to GST disruption?

Nikhil Sawhney: There were two reasons, one was that, as the Chairman said, there was GST, the other was based on a malware attack which prevented certain exports from taking place; both combined were between about ₹ 40 odd crore.

Swarnim: Around ₹ 40 odd crore.

Nikhil Sawhney: It was meant to be expected mainly last year.

Swarnim: Sir, that I understand. But I was looking at the aftermarket business and I fail to understand that why should our aftermarket business be declining by 30% in this quarter.

Nikhil Sawhney: Look, this is a lot of it is driven by GST, because they're short delivery, take the delivery in June versus July, especially with domestic customers which form the bulk of spares demand, especially given the off-season in certain sectors like Sugar, these get deferred.

Swarnim: Okay. And when you say the GST disruption, that was mainly around the input tax credit, the confusion around that, or what was it exactly?

Nikhil Sawhney: No, it was not confusion, it was planned. Customers deferred their deliveries and they told us. It was all June.

Dhruv Sawhney: Yes, It is very low.

Swarnim: Got it. Sir, second question is if you look on the domestic market…

Dhruv Sawhney: I am sorry, I'm just coming in, and quite a lot of these deferred orders have already been executed.

Swarnim: Okay, in July?

Dhruv Sawhney: Yes, and August; not all but most.

Swarnim: That's great. Sir, in domestic market, while you have live enquiries of almost around 1.7 gigawatts, so I just wanted to understand, do you see any traction in the metals business?

Dhruv Sawhney: Cement a little bit, I was going to mention it, but I'm not clear because our part is a small part of the whole project, it has to really get clear in the financing bit. Cement is good, steel is small, but we have inquiries. But I don't want to take a call on the conversion. I am just going to give you some details, steel is 17% of the enquiries, Waste to Energy 21% and Process Co-generation 38% and Sugar Co-generation 28%. So I mean steel is there, I mean 17% is quite a lot. Personally I feel I'd like to see one more quarter when they call us for serious discussions or when we see that the projects are getting into more of a closure. But at least they are taking offers, maybe they are preparing their projects reports or going for funding, but it is an improvement over what was happening last year where there was no action.

Swarnim: Okay and sir, anything particular in the waste heat recovery segment?

Dhruv Sawhney: Yes.

C.N. Narayanan: Steel is primarily, it may not be for power generation, it could be for the waste heat recovery also.

Dhruv Sawhney: Cement also. See, waste heat recovery globally is the line, you've hit it. This is not going in more for expansion in capacity as it is for efficiency, so most places, the ROI for them is in the efficiency improvement and where they don't have it, then this is where it is.

Moderator: Thank you. Next question is from the line of Devam Modi from Equirus Securities. Please go ahead.

Devam Modi: Yes, sir. On the closing order book front, the domestic order book appears to be much larger than the exports order book. Is there a case of lot of deemed exports being down in the domestic side?

Nikhil Sawhney: No, The order book, as was said, from the product side is about ₹ 165 crore, of which nearly two-thirds is exports.

Dhruv Sawhney: Closing order book is, you're right. But it's not that there is a slowdown. I think this big jump that we got and we were actually pushing for getting orders which are executable in the current year. So we have been successful in turning around number of book and bill and the book and bill ones that we've done is in the 6 sectors because there's where we can get our turnaround in FY 18 itself.

C.N.Narayanan: And secondly, Devam, if you look at it, last year also we had more domestic orders, so that gets into the carry-forward order book. And current year also if you look at the mix between domestic and international, the first quarter, we still have it skewed towards the domestic. So, that's why the domestic carry-forward order book is more than the exports. But we believe that, this will change the situation in couple of quarters down the line where we expect more orders from the international market.

Devam Modi: And given that you would be having a large chunk of deferred orders probably coming through in Q2. Would we see that bunching will happen immediately in Q2 and would it lead to a much higher margin in Q2 then because the Q1 margin was compromised due to the same?

Dhruv Sawhney: No, we expect the Q2 performance to be as per our expectations earlier before all this.

Nikhil Sawhney: And the point is that the deferred orders are all domestic orders, which is also leading to this closing order book as of the quarter-end. So all of it will get normalized, you will see a steady ramp up in the progress of the business over the quarters.

Dhruv Sawhney: Yes, I think you see there will be substantial improvements in Q2, Q3 over where we are now. And as I said, we have done a fairly exhaustive analysis and planning and that's why we can say we are confident of the year ending better than what we had in FY 17, even though we have the results of Q1 today.

Devam Modi: And sir this WtE orders would be from center, state or private sector? And what would be the sort of config and order size here?

C.N. Narayanan: These are all from private sector, these are all for the independent power producers, and it would be on an average of 10-12 megawatt size.

Devam Modi: And these are four machines right?

Nikhil Sawhney: Yes.

Devam Modi: And just an idea, I mean currently we would have done around 3,000 plus turbines and 12,000 plus megawatt installations till date. What would be a rough split between domestic and global, just an idea?

Dhruv Sawhney: Interesting.

C.N. Narayanan: So, predominantly it is domestic. Yes. But off late, our numbers are more in export like last two, three years. So, I think we have maybe around 700-800 turbines internationally located and the balance should be domestic.

Devam Modi: Okay, so you are saying roughly around 20% to 25% would be external or rest of the world?

Dhruv Sawhney: Yes.

Nikhil Sawhney: But many of these are newer installations which, as you know, over some ageing they will give us increasingly higher aftermarket as they age. These turbines are built to last for several decades.

Dhruv Sawhney: You see, one of the things we've had increases in export sales, the export aftermarket really comes a few years after because people take few spares when they have the order, which is why we have had to front-load our service capability there. So they are all ready, they are very good. And so, they will give us service contract but it doesn't happen immediately after you commission it. So we're well placed now to be getting these aftermarket services, which as you know will be at better margins than they are domestically.

Devam Modi: And this thing was basically targeted towards the point that we always mentioned that we are still building references in various geographies. So obviously there would be, those new geographies, but given that we have got already a substantial number of establishments outside, when do you think we'll reach a critical mass wherein you will sort of be a more established name and the process of reference building will sort of be a smaller portion?

Nikhil Sawhney: This reference, it never ends, because very frankly a customer wants to see a running installation in his backyard. Now, so as close as you can get to that, that's when the references truly hit home. Otherwise, these are all something that you have to continuously build on. Our technological developments also mean that very frankly, you want to have newer and newer models as reference sites. So this is a continuous game. It never ends as in terms of getting reference sites, not only for us but for everyone.

Dhruv Sawhney: But let me tell you, given that so, there is much more stability in terms of where we are positioned in these six countries where we have offices now. Substantial brand recognition, service recognition, recognition of Triveni Turbine as a good international supplier with local service. So, the mix is coming through. As you know, this takes a repeated customer call than it takes a few quarters. But I would say, in the six areas we are, in this year we will be well established. Now the question will be, which sectors you keep doing it in? So, we are on the local for all the traditional sectors which we have had in India and in some of our markets. So, it's a model that is fairly well documented.

Moderator: Thank you. Next question is from the line of Varun Agarwal from BOI AXA Mutual Fund. Please go ahead.

Varun Agarwal: Sir, couple of questions. So you said that we have incurred some cost in terms of setting up offices or new references. So just wanted to understand the new products like oil and gas, which we are currently trying to build. So, margins in those particular turbines will be lower than our overall Company level margins or how is it going to be?

Dhruv Sawhney: No, It's higher.

Nikhil Sawhney: About double.

Dhruv Sawhney: Oil and gas is always a much higher margin. The numbers are smaller, the sizes are smaller than normal, margins are higher, the amount of documentation work is higher. Getting in requires registrations into the oil and gas sectors in particular companies, but oil and gas in all the product field is a high margin industry.

Varun Agarwal: Sir, can you give us any idea on overall enquiry level or the opportunity side?

Dhruv Sawhney: As I said, we are getting into the registration of these, so the buildup of the enquiry level in oil and gas will come in the next few quarters.

Nikhil Sawhney: We define an inquiry once we have got an offer to quote. That only happens when we've been recognized as a supplier.

Dhruv Sawhney: And people who track oil and gas, the sector, know questions of registration, you have to register with the oil companies and these are very large oil companies with the consultants but as I said, it is something that augers very well for our future. And we're doing a substantial amount of R&D work in the oil and gas area also.

Varun Agarwal: Sure, sir. Question on your sales, you mentioned we have a lot of miss in terms of topline was more due to deferment of deliveries, right. So if I guess the numbers, see, exports are like down 47% if we compare year-on-year and you said that differs more like domestic. So, are there deemed exports we're talking about here or?

Dhruv Sawhney: No, if you look at our order booking in Q1 FY 17, the exports there were down and that has been reflected in the dispatches here. If you go back and look at those data that we put out in Q1 FY 17 and Q2 FY 17, if you see the breakup of order booking in exports, they were much lower. To give you a small idea in Q1 FY 17, the order booking totally was ₹ 107 crore and it is ₹ 165 crore this year; in FY 16 it's around ₹ 146 crore. So this has been a record FY 18 order booking, but it wasn't there last year.

Varun Agarwal: So, next year, quarter one probably.

Dhruv Sawhney: No, well fortunately, we've got 80% of it book and bill.

Varun Agarwal: Okay, 80%.

Dhruv Sawhney: Yes, that's why we are saying that we expect the results for the year to be better than what it was and probably this year because of the order booking.

Varun Agarwal: Sir, one more thing on the outlook, if you can I mean just give some outlook on the domestic sugar business, I mean industry overall how do you think, does it have some….

Dhruv Sawhney: I won't like to take your time, but our group company will be having a call on Triveni Engineering very soon where they will be talking very much on the sugar. But in one line, the sugar scenario in the North is much better than it's been for many years past 10, 15 years. So for our group, it's good, so therefore we are seeing traction in terms of enquiries for both new projects and services.

Varun Agarwal: Sir, one last question, do we have some guidance in terms of FY 18 numbers?

Dhruv Sawhney: No, we don't do that, but except I am giving you the direction of where we expect ourselves to be and the reason for why we are giving, we are confident of the direction.

Varun Agarwal: Or into the order inflow, can you give something or?

Dhruv Sawhney: We expect a substantial increase in order inflow this year to last year, which we have already achieved in Q1. So we expect that order inflows, we don't go quarter-to-quarter, but if you look at Q2, Q3, Q4, the performance will be better than last year, in order booking as well.

Moderator: Thank you. Next question is from the line of Charanjit Singh from B&K Securities. Please go ahead.

Charanjit Singh: Sir, actually what we are seeing is that as the world is becoming more protectionist, lot of countries would be asking for domestic manufacturing, and certain companies in our sector have already gone ahead and set up capacities in the international markets. So, how do you see that trend and could that also impact our growth trajectory going forward in some of the geographies which we are targeting?

Dhruv Sawhney: Good question. We have counteracted that because they want a local presence. So, our local offices there are able to cater to the customers' requirement and we have tie-ups with local workshops to do some work. We have registered with all the local authorities. And we have in a number of places have local personnel, like in Indonesia and in South Africa. So we are now okay as far as what the customer or the country wants in terms of that. There are some markets which are very protected like Brazil, where we are not really targeting going in there, or China.

Charanjit Singh: Sir, but other geographies like Indonesia and all, we also hear there is more of domestic manufacturing norm getting introduced

Nikhil Sawhney: That's in the Government business.

Dhruv Sawhney: No, but we are in that, we are receiving all the enquires, after considering that. We have a strong office in Jakarta.

Charanjit Singh: Okay. And sir, on the Waste to Energy side, we see that the costs are still very prohibitive and those projects have not taken up in a big way. NTPC's recent tender was there for pre-qualification. And how do you see that market evolving and a play for Triveni Turbine in that market?

Dhruv Sawhney: It's a good point. This is in its infancy, but because the scope is so large and we are starting from a very small base, the four orders that we got, we see many more of these coming where there may not be viability in large Waste to Energy projects, but certainly we find a lot of viability in the smaller ones, which is good for us.

Charanjit Singh: Okay. And sir, last question from my side is on the refurbishment side. Refurbishment is the important focus area for us and it could be a better margin business. But one is logistically how we are targeting that business in terms of getting the turbines here to our facility, what's the kind of cycle turnaround time which we have versus the competitors and the cost efficiency which we are providing to the customer, if you can just highlight on that, which gives us an edge in this business?

Dhruv Sawhney: Yes, we have the best turnaround time globally and we are very uniquely positioned in this refurbishment business, export refurbishment. If the customer is willing to take a shutdown for those months because in many cases we have air-freighted the rotor, refurbished it and sent it back by flight, but in the end he has to take that shutdown. We have this high speed balancing, so, we have all the equipment, we have the best equipment for refurbishment on a global scale. So, the question is that now having our local offices there, they are making forays in identifying customer. Now the customer has to decide when he wants to take that shutdown for the refurbishment. So this takes time, but we are very well positioned competitively, both in terms of cost and in terms of delivery.

Moderator: Thank you. Next question is from the line of Monica Joshi from Hornbill Capital. Please go ahead.

Monica Joshi: As I see and I look back in last few years, we have had a steady expansion in our margins. But some of this has reversed in the last three or four quarters. Now a question, two parts, the first one is how much of the margin contraction in Q1 would you attribute to operating deleverage? That's the first part of the question. The second is, as we see our closing order book, the proportion of the domestic market is inching up. Would you believe that as you progress into FY 18 and probably the first half of FY 19, the expansion that would be reversed by operating deleverage would not be sufficient for you to make up in terms of the margins you have seen in the earlier years?

Dhruv Sawhney: Well, let me say that scenario is for growth. Now, growth is coming, as we mentioned, from the domestic market turning around as well as our export market expanding. There's no question that the domestic market has a different margin perspective to the international market. The way of compensating it is through our aftersales expansion and the percentage of that, both internationally, which is good and as a whole, even in India. So that's the scenario, and we feel that, that can compensate.

Monica Joshi: And how much was the margin in Q1, which we see as under 15%, is attributable to operating deleverage?

Dhruv Sawhney: See, that Q1 is really not something that we can because of the sharp drop in turnover and the recovery of fixed overheads and things. It is really not so easy to start now ascribing how much to this and how much to that. I wouldn't start having any decision points on that. But I'm giving a more long-term view where we've projected, I've said where we feel that the order booking will go up in the next few quarters and where the aftersales will go up. So, I think that by the end of the year we'll be able to preserve where we are in terms of margins.

Monica Joshi: That's nice to hear. The last question is on the domestic market and you've said that you have inched up your market share, actually substantially increased your market share in Q1. So, that could be a one-quarter phenomenon.

Dhruv Sawhney: Exactly, it is.

Monica Joshi: What would you attribute it to?

Dhruv Sawhney: No, even tomorrow it may go little lower. I don't analyze that too much. Our objective is that in the longer term to preserve the market share or slightly grow it. That's the objective where you may be fortunate in one quarter, you may just miss it in the other quarter. We have certain rigidity in quoting in margin. So, we do walk away at times.

Monica Joshi: If I can ask that question slightly differently, have you seen any change in the pricing environment in the domestic market, given that the outlook now is little more positive than what it was many years?

Dhruv Sawhney: It is a good question, but it's too early for even us internally to take a call on that. I think you could ask that in the next few quarters once we get more business and more sectors are played out in the domestic market.

Monica Joshi: But surely you are building your order books here. So you would have had a sense of where pricing is heading, I am not asking for a complete a number,

Nikhil Sawhney: At this point in time, it's broadly the same as what it has been.

Dhruv Sawhney: Yes, it's broadly the same.

Nikhil Sawhney: But very frankly, we have to look at it in terms of the order enquiry that come up for finalization. And as that increases, there will of course be hopefully easing of pressure on pricing.

Dhruv Sawhney: One thing I can say is that in our export business, of the people that are competitors here, we are by far the strongest out of India. Now, under 30 megawatts, if we look at the international market data, we find that we are probably the second largest now globally. So that competition we've had. Other people may be more domestic in their Indian operation, not as a Company.

Moderator: Thank you. Next question is from the line of Amit Nigam from Peerless Mutual Fund. Please go ahead.

Amit Nigam: My question is, the order book which has been built up, if you can just share with us the execution time range which we have typically. So, the shortest time would be, let's say, three months, and the longest would be one year, if you can give us that range; and if possible an average where this would be.

Dhruv Sawhney: This varies by sector to sector and you've given the right things, it is between 3-4 months and 12-13 months, But when we look at the reason, we are able to say that ₹ 130 crore of the order booking is book and bill is because that mix is coming in for delivery and the customer has wanted it before March. It's a mix of timings between 5 and 9 months, 10 months.

Amit Nigam: Okay, sure. And my second question is, the order book, if it has grown so well and there is so much of demand, then should it not be a fair assumption that the pricing would be more favorable than last year when the order book was far leaner?

Dhruv Sawhney: Earlier person asked the same question.

Amit Nigam: I know.

Dhruv Sawhney: I think that we need to let it roll for a few more quarters before we see how it plays, because everything has been so dormant for so long. The market today is still much less than it was in 2012, domestic market, it is 50% down from that time. So, it will take some time, but I would rather go on data rather than just give a shot in the dark on this.

Amit Nigam: Okay. So on the pricing, if there is not so much of clarity, then what about in the cost side, is that far better, more under control?

Dhruv Sawhney: Yes, our costs are always under control. We look for 3% to 5% productivity increases every year in our operations through value engineering and through procurement and through design and that's the forte of Triveni versus other rotating machinery manufacturers, and that's how we've been able to have much higher PBT margins than you would see in many other comparable companies.

Moderator: Thank you. Next question is from the line of Manish Goel from ENAM Holdings. Please go ahead.

Manish Goel: Couple of questions. First is typically we see that in Q1 for us the employee cost usually is higher as compared to four quarters and this quarter particularly we are seeing that employee cost is lower. So if you can please give us a sense why is it and how do you see that going forward?

Dhruv Sawhney: You know, one is of course going forward, it will be higher. Some of the costs that because of the performance in this quarter, we are not putting some of the cost, we're not paying it but the employee cost versus next few quarters will average out to where we were in the last year, except for the overseas offices.

Manish Goel: Is it that the annual hike and any variable performance payouts were not done in the quarter and it will probably happen in Q2?

Dhruv Sawhney: No, till we are at a level of performance it will not happen.

Manish Goel: Okay. And on the margin side, sir, just wanted to get a sense that on one side we are seeing rupee appreciation particularly on the exports, how does it impact us, And on other side we are seeing commodity prices also increasing, especially the steel. So in that both context, if you can see how do we expect margins to be going forward, sir?

Dhruv Sawhney: Good point. The rise in the rupee for us because the exports are fairly good margins anyway, is not too much of an impact that we can't pass on to the customer, so that has not as yet seriously affected any sales, we have not been having to drop substantially. So, the averages of what we are clearing and booking are pretty much what they were when it was a little higher. The competition and again the prices of commodities, steel and others are still controllable. It's a good question that they have gone up, but we are also seeing some slight increases in our sales pricing.

Manish Goel: Yes, reason I asked was because last year particularly we had ₹ 20 crore of Forex gain, which was part of the income as per the annual report and it was roughly 10% of our EBITDA. So just trying to kind of get a sense that even in the first quarter current year the other income is down?

Nikhil Sawhney: No, we've changed our accounting methodology to hedge accounting to smoothen out any mark-to-market impact. And so that will now be absorbed into revenue directly.

Manish Goel: Okay. And sir, last question, if you can please provide insights on the CAPEX plan for new facility as well as the regular CAPEX?

Dhruv Sawhney: Now, it is a hard stop. We've got a few more, the hard stop is in September. The new plant is almost 95% fully done and our tunnel is just going to be commissioned in Q3. So we are within our budgeted cost for the new facility and we are not contemplating anything more, and all that is going to finish in the 3-4 months.

Manish Goel: So in terms of cash outflow in the current year, what can we expect on the CAPEX front, sir, ₹ 20-30 crore?

Nikhil Sawhney: Yes.

Dhruv Sawhney: If you include for the full year, yes. Yes, ₹ 30 crore to ₹ 40 crore. So from April to March. The one good thing that has happened with this plant, GE and many of our customers find this is an incredible world class facility. It's turned out so much, some of you please visit. The scope it is giving us for increased higher model turbines, higher megawatt turbines, and refurbishment is very high.

Manish Goel: So, sir, in terms of new capacity, like for us, what would be the increase in, say, deliveries we can do, just wanted to get a sense that what is the capability which has increased for us, both on qualitative terms and quantitative terms, sir?

Dhruv Sawhney: One is that there was never a constraint. We can take more export orders and more refurbishment orders of large size. Some of the capacity constraints we had when we did one of the GE Triveni orders, it took a long time because we were constrained by our tunnel. Now we've got twice as big a tunnel coming in by November. So in the higher ranges which were going into the GETL range, we will have a substantial cutback in delivery.

Nikhil Sawhney: And also there is new productivity improvements because of generally the methodology of manufacturing have moved into more of digital.

Manish Goel: Yes, that is what I was looking for, that the manufacturing turnaround time

Nikhil Sawhney: But you see, that was never the constraint, so the productivity happened in terms of controlling costs better. And that's what's more important, because very frankly, we are always within the delivery period of the client regardless of the infrastructure bottleneck that we have to deal with in India.

Dhruv Sawhney: For example, we delivered the large turbine to Argentina. It came out of the new facility. And that would have been very difficult if it had been in the old one, and landed in Argentina much quicker than o could have done.

Manish Goel: Okay.

Dhruv Sawhney: So I mean, now I'm confident. And that is with how long it took to get to the port and the shipping from here is pretty different from Brazil to Argentina. So if we can do a large turbine with our inherent drawbacks in the infrastructure on ports and shipping, then I am okay.

Manish Goel: Okay. So at least, sir, broadly for current year, we should be able to maintain the last year margin levels what we have seen. Can we expect that, sir?

Dhruv Sawhney: Well, we are looking at this mix of domestic and export, which we had booked in the previous year. But consistent with what we booked in FY 17 and what we projected then in those quarters, the results will be what would come out on that. So there are no unexpected things that will happen. And because we are seeing this book and bill, which we've already accomplished, we do feel that we'll end the year positively.

Moderator: Thank you. Next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket **Kapoor**: Sir my question is that who are your key clients and from which sector, I have read your annual report carefully but if you can tell me that?

Dhruv Sawhney: No, we don't like to give client information, but the key sectors I can definitely tell you, sectors are Sugar Co-generation, Process Co-generation, Waste to Energy and Waste Heat Recovery, Biomass, so these are our main sectors.

Saket **Kapoor**: Sir now Government of India is giving stress on solar, wind, and biomass so are you getting any such order from Government bodies?

Dhruv Sawhney: These are mainly private sector orders, there are not many Government orders that have come out in the Biomass area.

Saket **Kapoor**: Waste-to-energy concept we are seeing in our country so there is no encouragement from Government side.

Dhruv Sawhney: No, the projects are given to private parties, there is encouragement, that's why the private sector is going into these projects.

Saket **Kapoor**: Okay. Sir, what are you key raw materials sir?

Nikhil Sawhney: About 53% is raw materials. We don't buy basic raw material apart from casting which is steel, the rest is semi-processed

Dhruv Sawhney: We have some forgings and castings, they are main.

Saket **Kapoor**: Sir what is your power and fuel cost, it was not written specifically?

Dhruv Sawhney: Very small percentage of production.

Saket **Kapoor**: I have one suggestion, so whatever questions have been asked in concalls which are frequently asked question if you put on the website then there will be no repetition of the question? If you can give a general commentary.

Nikhil Sawhney: We already do that. I think you should go through the website again, you'll find it.

Dhruv Sawhney: All the transcripts are on the website of the call.

Suyash Kapoor: Last I saw your shareholding Triveni Sugar & Industries are your largest shareholders, if you can give your view on sugar sector? This new Government has come, what policy they can bring, please share your thoughts.

Dhruv Sawhney: See please, that is the sugar sector, you will have a call on our sugar company tomorrow and there you will have a very detailed explanation of the sector on that call tomorrow.

Saket **Kapoor**: Sir as you said that sugar co-generation is your key client so if you can share something on sugar sector, sugar pricing if you can say two to three lines.

Dhruv Sawhney: I'm saying we're finding encouraging inquiries from the sugar sector for co-generation because of the improvement in the sugar sector last year and in the current year. Okay, thank you.

Moderator: Thank you. Next question is from the line of Shrinath M. from Motilal Oswal Asset Management. Please go ahead.

Shrinath M: I just had one question. So since GETL has not booked any orders in this quarter, there would be a drawdown on its order book as of March. So can you share the order book of GETL both as of March and June?

Nikhil Sawhney: The March order book was around ₹ 208 crore and right now it is ₹ 166 crore.

Dhruv Sawhney: But we do expect turnover in this year to be higher than last year in GETL and closing order books to be good. Just to tell you that we are seeing traction now in Southeast Asia and Latin America for GETL, it happened in the last three, four weeks, as you see.

Moderator: Thank you. Next question is from the line of Kamlesh Kotak from AMSEC. Please go ahead.

Kamlesh Kotak: Sir just wanted to understand, can you tell how many turbines we have at GE Triveni JV, how many turbines we have actually commissioned till date, both in India and overseas and how many are in the pipeline?

Dhruv Sawhney: I'll have to calculate the numbers. But I can give it to you offline

Nikhil Sawhney: It's around 10 numbers overall, Yes.

Kamlesh Kotak: Okay. And how many of them are international sir?

Nikhil Sawhney: International, four are under commissioning. One is operational.

Kamlesh Kotak: So this is total, overall, including domestic?

Nikhil Sawhney: No, total is around 10, out of which around four international under commissioning and one already operational. So almost 50-50 you can say, broadly.

Kamlesh Kotak: Okay. And how many are under commissioning in India?

Nikhil Sawhney: India one or two.

Kamlesh Kotak: Okay. Secondly, sir, I just wanted to touch upon on the margin you said, is this quarter margin also because of the commodity prices have gone up, that is also one of the factor, but it is just the lower volume that has been

Dhruv Sawhney: Exactly, we are not finding any cost pressures from iron ore**.**

Kamlesh Kotak: So do we book the commodities, whatever, raw material, as soon as we get the orders or we have any price variation, how does it work, sir?

Dhruv Sawhney: We have a long-term contract for casting and then forgings fixed. So we have fixed pricing contract because these are suppliers that are traditional suppliers. So, we have bulk orders on them. That's how we are able to keep our sales competitive.

Kamlesh Kotak: So for this quarter whatever orders you may have booked, you already have booked raw materials for them?

Dhruv Sawhney: Absolutely.

Moderator: Ladies and gentlemen, I now hand the conference over to the management for their closing comments. Over to you, sir.

Dhruv Sawhney: Thank you very much. Thank you everyone for the questions and for the call. I would like to just end by saying that we are happy with our order booking in Q1 of the current year, both in the domestic market and the overseas market. And we see though quarters are in our line always lumpy, but we see the year ending positively for Triveni and for GETL, and a good closing order book for the year to come. So with that, thank you very much.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Triveni Turbine Limited, that concludes this Conference Call. Thank you for joining us and you may now disconnect your lines.