



Triveni Turbine Limited

Q1 FY'21 Earning Conference Call Transcript

August 6, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Triveni Turbine Limited Q1 FY'21 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 phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rishab Barar from CDR India. Thank you. And over to you, sir.

Rishab Barar: Thank you. Good day everyone and a warm welcome to all of you participating in the Q1 FY'21 Conference Call for Triveni Turbine Limited.

We have with us today on the call Mr. Nikhil Sawhney -- Vice Chairman and Managing Director; Mr. Arun Mote -- Executive Director and Mr. Suresh Taneja -- Group CFO, along with other members of the senior management team.

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

We will start this call with opening remarks from the management, following which we will have an interactive Question-and-Answer Session.

I now invite Mr. Nikhil Sawhney to share some perspectives with you with regard to the operations and outlook for the business. Over to you, sir.

Nikhil Sawhney: Thank you very much and have a good afternoon to everyone. Thank you for joining the Q1 FY'21 Conference Call for Triveni Turbine. I hope everyone is well and the families are well in these COVID times, but also given the unfeasible rains in Bombay, I hope that you are all well.

First off, I would like to give you a little bit of overview on where the business stands and how we have prepared in this past quarter. Even though we had a call about six weeks ago, I think that you would see that the company's performance has been quite good in this very trying time. The COVID-19 pandemic has impacted not only us but global economies and industries in a very severe way. And while Q1 FY'21 has been a difficult quarter due to the restrictions of travel involvement of raw materials, but also the fact that that businesses were not allowed to operate. And we were also closed as a company in terms of our entire production for little over three weeks. Our supply chain continues to be impacted and so did our logistics as well.



Given these factors, it is quite commendable, I think in our opinion, the performance that Triveni Turbine has put forward in this current quarter which truly shows the agility that the company is able to operate through while being able to have a low asset base, under which it operates, but still deliver in a very dynamic manner to our commitments to our customers primarily, which ultimately hopefully leads to performance for our shareholders.

Again, in this time, our top five priorities have and will continue to be the safety and security of our employees and key stakeholders along with close customer connect. This is all to ensure that we understand and work with our clients to whatever impact the virus may have led to continue to have on their businesses.

The order booking for the quarter has also been impacted due to this lockdown. While surprisingly to us, the enquiry generation has been at a similar level and has in fact maybe increased by a couple of percentage points. Our team has worked relentlessly, and they deserve the entire credit. The dedication of the employees of Triveni Turbine to be able to deliver satisfaction to our customers really was at the forefront of all the efforts in this past quarter. And it has turned out in an extremely fortuitous manner for us in terms of being able to derive the benefits of our transition where we are at this point in time. As part of this new normal, the company has also strengthened its digitization efforts with an adoption of various tools such as augmented reality and virtual reality. I alluded to this in our previous conference calls. And as you would tell from this results that it is because of these digital tools that we have been able to achieve whatever performance we have, in this current quarter. We believe our step into digitization is just at its beginning right now. And we are at a real transformation of the company where we would hold digitization at the center of all our activities and endeavor to benchmark our activities on efficiency and productivity. So we're at real transformation right now, there has been a lot of thinking internally and we will be taking future initiatives which will truly transform a company to be even more agile in the days and years to come.

From the performance itself, the net income from operations for the quarter was at Rs.1.65 billion, which is lower by 23% and EBITDA was at Rs.433 million which is lower by 7% while PAT was lower by 11% at Rs. 273 million. The PAT number was impacted by the performance of the joint venture which had lost Rs. 146 lakhs during the current quarter. This is due to the fact that there were no dispatches in the joint venture. And by the subsequent quarters and by the end of the year, the joint venture will display profitability and so we are confident on its operations.

The outstanding carry forward order book as on the 30th of June 2020 was at Rs.6.78 billion which is only lower by about 3% when compared with the beginning of the year. The company achieved the total order book of Rs.144 billion as against Rs.2.15 billion during Q1 FY'20. The decline in order booking as you can well imagine was due to the lockdown and lower international order booking as we had also alluded to in the previous conference calls. However, the positive factor is that even during this period, the enquiry flow has been very steady. At the same time, the company could achieve a higher EBITDA margin of 26% due to focus on cost reduction, through value engineering, supply chain optimization, and a reduction in administrative costs. All of these are sustainable into the future as well. We have been alluding to this over the previous conference calls that the form in which the company is selling its products is more modular which allows us to have a tighter control on inventories, which has a tighter control on manufacturing expenses, as well as utilization of raw material inventory. So therefore, not only does this allow us to be more efficient from a cost perspective, but also to be more agile from a cash flow perspective also. At the same time, the mix of aftermarket along with product sales has positively



impacted the company in this quarter and I will go into that little bit of detail in a few minutes.

The domestic order booking was down by 19%. And as you would imagine that this was impacted with the restrictions that we had in terms of the lockdown in the current quarter. The main segments that we got orders from what the usual suspects in terms of renewable sectors, waste heat recovery and specifically process cogeneration. This is a segment that we are still seeing some growth in the domestic industry. And we believe that the domestic industry will show us good order booking for this current year akin to probably about a total market of about five years ago. Though at the same time the enquiry suggests that in the coming year, which is FY'22, the order booking from the domestic market will pick up again. This is driven by several factors, which I would be happy to answer once you ask questions around it. At the same time, the export market has seen a decline in order booking of 53% and some of the export orders that we had on hand which was stuck at port were able to be dispatched in this current quarter. We have to say that the company incurred certain costs on those export orders that were stuck at ports in the form of demurrage, those have been included as part of costs and we believe that those costs will not be recurring in future quarters. The company currently has installation in over 70 countries. And we are focusing on expanding our presence in a variety of different sectors, not only in the renewable sector in which we have a global dominant market position, but increasingly so in the process cogeneration and in the oil and gas market going forward.

The turnover for the aftermarket in Q1 FY'21 was at Rs.426 million which is 3% higher when compared with the same quarter the previous year. And the share of aftermarket sales to total sales was at 26% as opposed to 19% in the same quarter previous year. On the other hand, order booking in the aftermarket segment was at Rs.401 billion, showed a decline of 35% as opposed to the same quarter in the corresponding year. We have to take great comfort in the fact that the aftermarket segment has led the business in this current quarter not only in being able to maintain its sales in this trying times, because we have to understand that it was because of the urgency that our customers faced in terms of getting their spares because they may be part of the essential supply chain or part of essential industry themselves, that drove us to get permission to start our operations. So, aftermarket is what allowed us to get back in front of our customers and being able to deliver to them. At the same time, the order booking was impacted driven by the fact that there was uncertainty in terms of when customers may take their shutdowns as well as total lockdowns in certain areas. It did not allow us to have a closer interaction with our customers. Going forward, we believe that aftermarket order booking will pick up in the coming quarters and we will display a good result in terms of order booking for the aftermarket segment for the full year which is FY'21.

Design and Development has always been a very strong area for the company. And we always believe that the value of Triveni Turbine has been its engineering capability and the technology that it puts into its products and therefore able to cater to its customers' requirements. We have continued to focus on this and we will be investing further in research and development into new areas of fluid dynamics and new areas of rotating equipment, whereby we can utilize the best of our abilities both from a manufacturing perspective, but also, from a supply chain and management side. We are optimistic that we would come up with certain areas that can lead to future revenue growth for the company. But this will all be driven by technology and design and development.

The outlook for the company is quite good. While we had given an update in the last call, about the possibility of having a decline in turnover and profitability, at this point



in time, six weeks forward from when we spoke, I am not in the position to change what we anticipated at that point in time, but we believe that the outlook for the business is quite good. This is driven by not only a decent enquiry level but also in terms of the focus that we have in the end markets which have funding and have attraction in terms of customers willing to set up the projects. The problem happens in terms of finalization of orders. And what we find is at this point in time that customers are looking to bargain. And therefore, while we have a cost advantage over our competitors, we feel that there is not a time for us to be discounting at a level which is not necessary. And so therefore, we may even go slower on accepting orders. But customers feel that they have a bargaining advantage in terms of being able to pressurize us in terms of pricing.

But having said that, our international travel we believe would start off again in the next four to six weeks. At the same time, our operations in Dubai and South Africa have started and this will help cover not only the European and African markets, but also some parts of West Asia. The Thailand and Indonesian operations we would be starting soon and so therefore we will be able to have more focused efforts in front of our customers at that point. We have a strong enquiry pipeline like I said, but specifically for the aftermarket it is quite robust and we believe that Q2 onwards, the order booking is expected to pick up and for the full year, the company sees a strong order booking for the aftermarket business.

There is also a strong pipeline between all the segments of the aftermarket, but there will be a greater focus on the refurbishment business. The one sector market based business which will get impacted and may not be able to recover to the same level of its performance of the previous year will be our service, which as we move into a more digitized form of offering service to our customers, it will definitely have a revenue impact because we may not be able to be in front of the customers as much as we may like. But from overall year-on-year perspective, the business will perform well.

The company's foray into the oil and gas market is also gaining momentum and we are hopeful of getting some large orders in the segment in the coming quarters and we will be able to display some good results for this current financial year. More than that, this places us very well for this market segment for next year going forward.

Due to the COVID-19 impacting the domestic as well as global markets and economies, and based on the current situation, the company may witness a decline in revenue and order booking in H1, but it is expected to improve in H2 with the current orders in hand. And the company believes that it could limit its decline in revenue and profitability to the extent that we have already spoken about.

While all the attempts have been made to minimize the impact in terms of revenue declines, our attempts for a cost cutting perspective and operational flexibility will be also moving forward with a very sure footing. We believe that there is still some scope for us to be able to rationalize costs. And we think that from the longer-term perspective, we will take very prudent decisions and I hope to come back to you in the next couple of quarters with some concrete plans as to how we will be able to implement those.

Therefore, with healthy outstanding order book and with a good pipeline of enquiries, we are confident that the company will fair well in the coming quarters. Of course, we have been impacted severely with this COVID crisis and the lockdowns and we have lost between four to six weeks of revenue and this will directly impact the company for the current financial year, but it places us quite well in the coming years.



The company has a good cash position of about Rs.3 billion. And this is driven by reduction in our inventory, where we have been able to release a lot of cash there. At the same time, operational flexibility has also allowed us to get better cash from our customers in terms of receivables. But more importantly than anything else, that as we move into Q2, Q3, we are of the opinion that we will move back into a negative working capital environment which the company had for the several years in the past.

So, with that, I am happy to take some questions from the investors and from participants.

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

Ravi Swaminathan: My first question is with respect to the O&G orders that you had mentioned that they can be big. How large can they be per annum on a steady state basis, if you could quantify it will be helpful?

Nikhil Sawhney: Well, my estimation is a couple of billion-dollar market for a product in any given year. The point is that because of the fact that these products are low in value from the perspective of end buyer, they do not tend to qualify too many people and they do not want to go through the process of, of all the bureaucracy of having to qualify because safety and security of the product is paramount to them. So, they do not mind having the best cost. But given the change in environment that we have in terms of declining oil prices, and the need for everyone to be more efficient in terms of their supply chain procurement, we have actually had good success in getting into a lot of the qualification that our clients need, and at the same time, we are hopeful and as we currently stand, we are in the process of closing a couple of orders. So, it all depends on size and scale of what the requirements may be. If it is a new refinery or a new complex, the requirements are large. If it is a question of upgrading or replacement, requirements in terms of value are smaller.

Ravi Swaminathan: You had mentioned that it is a couple of billion dollars, it is like 15,000 crore. Even 1%, 2% market share can make a huge delta to your order inflow. Do you expect that kind of magnitude of inflows in the first year itself?

Nikhil Sawhney: That we can see what success we get. This is a new market segment for us, drive markets. And when you look at the entire market, this has a potential to pretty much double the business that we are getting right now, but that is over the longer-term.

Ravi Swaminathan: More slightly short term, I mean, the gross margins have expanded this quarter. Is it because of the mix aftersales service growing at a relatively higher pace than the other segments because of which it is there or is it like...?

Nikhil Sawhney: You have two reasons: One is that structurally, we have reduced costs. It has been through the entire organization. So, it starts from manufacturing expenses, which is driven by the mix of products that we are selling in terms of how standardized they maybe. And at the same time, administrative costs, as you would imagine have come down considerably both from a work from home perspective, as well as the fact that international travel was not possible. At the same time, the mix of aftermarket with product has of course helped in terms of the EBITDA margins, but the lower revenue also was laid down by general operating administrative overheads and operational overheads. And so, we believe that as turnover grows, they may not be a potential to expand EBITDA margins. I do not think I would like to give that as a takeout to



investors here, but I think that to maintain margins is something that is definitely in our visibility.

Ravi Swaminathan: And my last question is with respect to cash levels, I mean, we are sitting on a very comfortable Rs.300 crore of cash, which is like 15% of market cap. We do not have big Capex plans and you had also mentioned that working capital in fact would even go down. So, any plans to increase dividends or do buybacks?

Nikhil Sawhney: Well, now, the board has not taken any decision on it. And as and when it does, we will come back to you, but I think the imperative of the business right now is to ensure that we provide greater visibility to the shareholders from a revenue perspective. And I think that is the ambition that we have in terms of growth is something that really, we would like the cash surplus to focus around. Ultimately, the company has derisked itself in a variety different way. As you could see from the fact that it was able to actually deliver this type of turnover in a quarter which was significantly impacted both in terms of dispatch as well as outreach to customers both in India and internationally, we think that we have the wherewithal both from a management perspective as well as the different functions to be able to add value from our revenue.

Moderator: Thank you. The next question is from the line of Ashutosh Garud from Ocean Dial. Please go ahead.

Ashutosh Garud: I just wanted to understand from a sectoral mix perspective would you be able to give some sense of your order book mix across sector?

Nikhil Sawhney: No, I think we stopped giving that because people are reading too much into it. But in general in terms of outlook, as we look at it from a domestic market perspective, there are certain sectors which are performing well, which we believe will continue to grow well, such as the process cogeneration, which is in the food, distillery space, pharmaceuticals space, we think that the waste heat recovery segment which is in steel and cement, will take a little bit more time to pick up. In the international market geographically, we are seeing much greater traction in Europe. And we think that would be a bigger market for us in the coming quarters. It is basically based on where people have opened up and requirements in terms of the underlying businesses remain. Our largest market segment is the renewable segment and so that will be our focus in terms of municipal solid waste incineration as well as other biomass-based applications.

Ashutosh Garud: And on the PLI Scheme, do you think that there would be any kind of benefit coming to the manufacturers like us?

Nikhil Sawhney: PLI, I think, is for specific industries. We think under Atmanirbhar Bharat will be other programs around it. We have contacted several times in terms of standards. So, we believe as standards are adopted, there will be certain non-tariff barriers which should come up in the Indian market. As it is, we do not suffer from imports to such a large extent, but even to the limited extent of 5%, 7% of the market which goes to export may possibly come down. At the same time, we think there are certain implementation of certain policies, which could end up benefiting the company from the longer-term such as the capital goods policy. And so, we think that there is this potential for us to make the most of government schemes and programs as well.

Ashutosh Garud: If you can elaborate the point of digitization... you mentioned earlier, how exactly will that play a role in our business -- will it cut costs or is it going to expand the opportunity size on a demand side?



Nikhil Sawhney: Both. Firstly, it opens a new revenue stream. And that is what I would like to focus on because very frankly, these are ways for us to reach customers when we could not reach them previously. This is ways for us to offer services to them both in terms of reliability as well as productivity to them, where we could not previously. So this is a new offering for us to be able to offer this to our customers, not only in terms of being able to remote monitor, but also to use data in a much more efficient way for being able to predict where and how our customer may have his problems. And so, this dependability is a service and ultimately leads to revenue increase in terms of newer product lines. This also benchmark us in terms of offerings with our competitors. And so, therefore, it is a step up in terms of being able to cater to our customers better. So, the second part as you rightly put it also is the fact is a reduction in cost and this happens through the entire value chain of the company. So, when you start from places like travel that comes down, you have increased digitization on the shop floor in terms of industry 4.0 and so, we have greater degree of automation and a greater degree of flexibility on the operating floor which not only leads to decline in manpower cost but for higher productivity, but also leads to higher efficiency and lower turnaround time and less wastage and variety of different factors. So, I think all these factors add together to make the company more agile firstly, but also increased revenues and lower cost.

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

Harshit Patel: I had a couple of questions. First was on our value engineering effort. So, could you elaborate a bit more on that as to what exactly we are doing here and what would be its contribution in our overall operating margin improvement because since last three to four quarters, we have been witnessing a sustainable improvement in the operating margins from the kind of levels that we have achieved in FY'19. So, from FY'20 onwards, there has been a pretty decent progress on that front. So, if you could elaborate a bit more on that it will be very helpful?

Nikhil Sawhney: Value Engineering is a continuous exercise whereby we aim to take cost out of a product, both through material cost reduction as well as through a manufacturing and supply chain efficiency. So, it is more complicated answer than just simply laying it out. But principally for us, it drives around the fact that the steam turbine is a customized engineered to order product, to the extent that we can standardize modules, and you are able to actually configure those in the manner they can be used across a variety of different platforms, we are able to then have value engineering from engineering side. So, every discipline has its own different elements. I have Executive Director, Mr. Arun Mote on the line as well. Arun, would you like to extend a little bit more about your value engineering exercises?

Arun Mote: When we talk of total costs to the product, we have the material costs, we have the conversion costs and then we have the indirect material costs, these three and the last one, of course, is the overhead. Now, we as Vice Chairman has said, in the business of engineer to order product, so, what happens is that there is a continuous learning of the product which entails value engineering. What we mean by value engineering is that, we ensure that the function of the product is not compromised, but the material that goes into it, is reduced on a continuous basis. About 1.5% to 2% of the material by value engineering and by supply chain initiatives is something which is considered to be good for all engineers. So, one, we do this value engineering and it is a continuous process, you will find it every time we introduce a new product, the cost will keep going down. The second is the conversion cost which through direct operations and sub-contract, we continuously reduce it, there we get some percentage, maybe 0.5% or 1%. And then on the conversion cost on the other side, we have been going through a process of rationalization of manpower and other



administrative expenses which we have started. And that is yielding continuous results. As in FY'20, that is last year and this year, you rightly pointed out there has been a continuous improvement in the margin. So, this is one of the processes. And the last one is of course on the other expenses of indirect material that we are going ahead. So, it is a combination of all the efforts that is giving us these margins. We have also introduced a new initiative of using an inventory and that is also giving a result which will continue to be there for about one, one and a half years next. So, these initiatives in total are giving the company more margins on product as well as on customer care. And we would like to emphasize that the current difficulties have shown how an agile organization like us has transformed and given results to the shareholders in a much better manner. Thank you.

Nikhil Sawhney: Thank you, Arun. I think essentially if you look at it from the quarter results, you will see that our material cost is somewhere in the region of about 52% and that come down from I think 58% to 56% levels in different quarters in the previous year. And I think that is something that what Arun was talking about in terms of efficiency of operations, and the other costs I think he would be able to work through.

Harshit Patel: Another continuation of my question would be that you earlier mentioned that you have started in-house testing of turbine. So, you had commissioned the test bed sometime in FY'20. So, could you give us an idea as to what kind of cost savings that has resulted into? And earlier when we did not have that kind of test bed, who used to test our turbines?

Nikhil Sawhney: Well there are two different things that we test that that we commissioned over the previous years. I do not know what you mean by the test bed. We installed and commissioned a dynamo meter, which is essentially giving us greater dependability on our research and development and new models of blades that we would develop. And previously, we have research houses would have this and so the cost we would spent in terms of higher expenditure on R&D there. But we decided with this in-house not only in terms of being able to do it quicker, but also, we felt that it is a good capability that we should build ourselves. So, cost to itself is not really very large. Another large equipment that we did commission in the last couple of years was vacuum tunnel. And this is a larger vacuum tunnel than one that we already had. This augmented our capabilities to the extent that we already had a vacuum tunnel which allows for high speed balancing, and this increased capacity, it really did help the capacity of our joint venture which had larger turbines, but also the refurbishment market where we can cater to turbines of a much, much higher megawatt and the range that we currently cater to which is zero to 100.

Harshit Patel: For the first quarter, could you quantify what was the share of exports in our overall aftermarket orders and the present order book?

Narayanan: Aftermarket mix is, as we said, that the overall dispatches in the international segment are lower than what was estimated. So, it is in the range of around 80:20. That is the kind of mix for the aftermarket perspective both order booking as well as execution.

Moderator: Thank you. The next question is from the line of Kaustubh from Rare Enterprise. Please go ahead.

Kaustubh: I had a few questions on the GETL JV. Just basically three questions. How much of your end profitability does this JV contribute right now and what is the main topic of debate right now in this whole issue which is going on and what is our stance on it,



what is the best possible outcome that we would like to achieve from this legal case which is going on and what should we base for in the worst case scenario?

Nikhil Sawhney: You have asked a very difficult question because as you do know this matter is sub judice right now. And so, therefore elaborating on this is quite difficult for us to do but let me try and answer it in whichever manner I can. From a perspective of the profitability of the joint venture, the expectations of course were it to be a larger market, larger turnover, larger profit than the standalone enterprise. As for the last several years we could see, the joint venture really has not contributed more than I would say a maximum of 10% of profit to Triveni Turbine. The matter is currently in front of NCLT from a perspective of mismanagement oppression, and I think the petition is in public domain so you can get access to it. We believe as a company that very frankly, we have certain competencies and capabilities in this field. We have competencies in the field of manufacturing and designing in turbine. Our field is not litigation. And so, we hope that we will be able to move on from this fairly quickly.

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

Anand Bhavnani: I have three questions: First, in this quarter, if you can give us a sense of how much did we save on travel cost given that there was almost no travel?

Nikhil Sawhney: I do not think we did that break up. I think you are asking for a bit too much of a detail, but as you could see from other expenses include a variety of different factors; one aspect which has been higher has been our selling cost, which was like I said, because we had some exceptional cost in terms of demurrage for port but what if we look at it, we could substantially see maybe Rs.3 to Rs.4 crore of reduction in the year on an annualized basis.

Anand Bhavnani: This is Rs.3 to Rs.4 crore reduction for the overall other expenses or for the travel expenses?

Nikhil Sawhney: Annualized.

Anand Bhavnani: With regards to the oil and gas market you mentioned the overall market size is \$2 billion, or about Rs. 15,000 crore. As of today, the qualifications that we have from the key players, what is the addressable market size for us out of this Rs. 15,000 crore as of today?

Arun Mote: I would like to give overall. As our vice chairman has indicated, the overall market is in a couple of billions. Now, we will be catering to a segment. That segment could be up to maybe 3 to 5 MW range and it would be in specific applications. So, the overall turnover and the addressable market will depend on which enquiries will be coming. So, we would not be able to quantify this just like that. Today, our concentration has been on the registration and more the registration we get, more the enquiries we get and based on that, we would be doing it. So, it will not be correct to quantify the market and how we will be getting it because we are in the very initial phases.

Anand Bhavnani: Just wanted to understand what is the current market set up like? I am not asking what we are targeting. Of the 3 to 5 MW segment in the oil and gas, what is the size because overall drive turbine is 2 billion, but 3 and 5 MW would be some percentage of it. So what percentage it is?

Arun Mote: It would be roughly about I would say 15% to 20%.



- Anand Bhavnani:** For us in Q1, how much of the revenues were due to orders which could not be shipped in Q4?
- Nikhil Sawhney:** It is not more than about Rs.20 to 30 crore, but we will have slippage from Q1 to Q2 also. You are right, there was impact primarily from the export side.
- Anand Bhavnani:** And lastly, there is some chatter about possible change in MEIS Scheme. So currently we do get benefit under MEIS Scheme, right and what is the percentage of the exports that come to us as MEIS incentive?
- Nikhil Sawhney:** We had a 2%. I think the question that was asked earlier in terms of the PLI Scheme. We did allude to that in terms of how the company is representing before government to ensure that this MEIS converted into packing credit or other forms of export incentive, which are more WTO-compliant. But secondly, is also that specifically according to certain policies that have already been implemented, we have a segment for steam turbines and specifically export of steam turbines that is continued, incentive to be provided. And this is provided under the capital goods policy which has been tabled and which has been accepted and passed by the legislature.
- Anand Bhavnani:** So as of now, it seems the incentive would be modified but broadly it will be retained at the same level, 2%?
- Nikhil Sawhney:** There is only talk right now primarily from newspapers in terms of abolishing MEIS completely and limiting it to Rs.9,000 crore from the Rs.45,000-odd crore, that its current outlay is through a variety of different PLI-driven schemes. How that is implemented is I think anyone's guess. I think from our perspective, very frankly, we focus more on being able to derive better profitability from our customers as it is. The refund of money that we get from these schemes is extremely slow and extremely poor. So, we just look at this as incidental. Yes, it does help our profitability, but from a cash flow perspective, it is quite delayed. So, we focus on our business. I think that is where we should derive more profitability from better market position, get better orders. I think all these things that come along the way always very helpful and it is not as if we lose focus of them, but it is not a priority.
- Anand Bhavnani:** And lastly, before COVID struck, we were anticipating that FY'21 could be the first year we get to deliver some orders for drive turbines in oil and gas. Is that still a possibility for us or does it get pushed to FY'22 now?
- Nikhil Sawhney:** Yes, I think you are right, it gets pushed to FY'22. So, we were hopeful about it right now that we are in a point of closing. And we hope that by the next call that we should have positive things to that you know about. Let us see how that develops. I think we are optimistic on that side, as you rightly point out that we will be talking about it for a couple of quarters now.
- Moderator:** Thank you. We take the next question from the line of Manish Goyal from Enam Holding. Please go ahead.
- Manish Goyal:** Just to clarify on the revenue mix change what we have seen is higher aftermarket. So, within aftermarket also, there has been a beneficial revenue mix in terms of higher spares or more profitable revenues which would have helped our margin improvement?

- Nikhil Sawhney:** No, the blended margin of aftermarket is consistent. But as you would imagine, the customer-facing element of service is of course going to see a level of decline because customers also act that that open to letting service engineers come without proper planning and process, etc., and we are also in the form of actually moving our digitized offering forward. There will be a period of transition within servicing. I think for the entire year as a whole, we look at margins to be consistent as previous years. Order booking should be good going forward. There may be slight decline in revenue in the aftermarket segment, but broadly it will be in line this year.
- Manish Goyal:** Also, if you can just provide some insight as to how is the refurbishment market developing for us? Last call, we were like a bit upbeat on the enquiry levels.
- Nikhil Sawhney:** Yes, I have our President- Aftermarket, Sachin on the line also. Sachin if you could provide some visibility to Manish.
- Sachin:** We have had some very good success in opening some new markets for the refurbishment business both on the western side of India and on the eastern side of India. Also, we have had good inroads into new segments of the market. Overall, the trend is very positive, and the enquiry levels have gone up for the refurbishment business.
- Manish Goyal:** So, is it that the restrictions on the travel is kind of a big impediment for us to get the order inflow right now and execution part as well for refurbishment?
- Sachin:** To some extent, yes....
- Nikhil Sawhney:** Sachin, please give an idea about the digital services as well as to specifically on the refurbishment and aftermarket side, how are you doing there.
- Sachin:** We are using a lot of digitization tools for addressing the needs of our customers. Yes, travel has impacted us, and we are seeing much more traction on the domestic market where travel is much more feasible. International markets, challenge of travel has affected but we are using digital tools to connect with the prospects and generate more and more enquiries.
- Manish Goyal:** One more question broadly on the order enquiry pipeline. Last time we mentioned that domestic market has somewhat had a market size of 1,000 MW. So, if you can give us a sense in terms of how do you quantify the enquiry pipeline both in terms of domestic and international?
- Nikhil Sawhney:** I think for this current year, our belief is that the domestic market will come down to about two-thirds or less than that of the previous year in terms of total orders missed. So, there is going to be a decline in the domestic market. I presume you are talking about product here, not aftermarket. So therefore, as we said in the previous call also, we believe that the first two quarters will be driven by domestic market enquiries and orders which were pent up and backlogged from the previous year. And therefore, we believe that the international market should substantially add to our order booking in the latter half year which is what we are seeing in terms of our interaction with clients.
- Manish Goyal:** Nikhil, would it be possible to quantify like, what is the international order book, enquiry book like usually you talk about it in terms of megawatts?



- Nikhil Sawhney:** It is in gigawatts. It is large. And like I said that, in fact, if I see our enquiry book this quarter internationally also has grown, but it has only grown by 1% or 2%. But that means that is just a segmentation of it. So that we just meaning to say that the market exists. The issue that we are facing right now is from port is from finalization. And I had spoken about. Customers also looking at this opportunity to say, "Well, listen, no one has ordered. So, if you want an order, give me whatever 20%, 30%. 40% discount." That does not work for us. We do not price discount. We do not work that way. So, there is no need for us to buy orders. We are in a good position. And I think to that extent we will be prudent.
- Manish Goyal:** Are you saying your competition is succumbing to that in terms...?
- Nikhil Sawhney:** No, no. You see, as it is, we have cost leadership in this space. So very frankly if there is anyone who could do it, it would be us. One or two orders here and there obviously happen. But in general, I think everyone understand if we go down, that would be a slippery path.
- Manish Goyal:** From your commentary it seems that even if we have little lower revenues in the current entire year, we will be able to maintain our margins?
- Nikhil Sawhney:** That is what I alluded to earlier. Even though you would have low operating leverage, the fact is because of our sustainable cost savings we think that we will come out in a good manner, but our attempts are of course to make sure that we maximize revenue as much as possible because the order book is sufficient for a higher turnover than that.
- Manish Goyal:** So, the note says that there has been some manpower rationalization. So, can you quantify in terms of how much people have been laid off or what is the...?
- Nikhil Sawhney:** No, these are not lay off, these are rationalization, but we are undergoing an exercise which is much-much thorough which is really to benchmark individuals directly on the productivity. And so, that may have some implications, which I will come back to you in the next couple quarters and give you more details, because the question is that and what Arun had also tried to point out, is that we are trying to make an organization which is extremely flexible. And I think that demonstrated in this quarter in the way we operate, but we believe that we should be even more flexible. And so that is the way that we like to build up.
- Manish Goyal:** And in terms of reduction of cost, does it involve or probably are you looking to accelerate your process of shifting the facility at Peenya to the new facility, which has been a state-of-the-art facility and has lot of room to expand?
- Nikhil Sawhney:** The basis of the productivity between the two factories is marked. And it is the learning between the two factories that we want to benchmark both at the same level. And so, it is really taking it up to that level where we can have a greater degree of automation and basically digitization in the manufacturing process itself and see how best we can come up with that. We will come up with more details which will only be positive for the company.
- Moderator:** Thank you. The next question is from the line of Nirav Shah from Prabhudas Lilladher. Please go ahead.
- Nirav Shah:** Just wanted to understand when do you see that kind of this enquiry level getting converted into actual orders coming back to pre-COVID level where the trend was



much, much smoother -- so, do you expect that to happen in second quarter or third quarter onwards, one? And how fast, whether it can be in domestic market or international market?

Prasad: I will take this question in two ways. In domestic market, yes, I think slowly we are seeing some traction is happening. But as our Vice Chairman mentioned that even the negotiation process is taking a longer time. We are waiting and watching the scenario. Whereas, the international markets what we expect probably once the international travel starts, so that we are expecting maybe by end of this month or early September, so the enquiry pipeline is there, all technical alignment meetings are going on, on virtual platform, what we feel that probably Q3 traction should be better on international.

Nirav Shah: In terms of a fuel supply side and logistic issues, they have been bizarre completely, right or are we still facing some...?

Nikhil Sawhney: You are very right. As we currently stand, issues are fine. But if we look at it from a risk perspective, the greatest area of risk for us is our supply chain vulnerability to COVID. And I mean vulnerability, not from a cash flow perspective, because that is something that we can help them on is really if some of our small subcontractors get large cases of COVID in the shutdown for a period of months, these are things that no one can help with or certain cities lockdown and therefore supply chain gets interrupted. So that is the risk that we carry. And that will be there we think till the end of the year. Logistics, I think is fine now, that is not a problem.

Nirav Shah: Finally, we had talked about digitization, and we probably would have made a huge amount of investment as well. So, could you throw some kind of Capex guidance for the year as a whole and what part will be digital Capex?

Nikhil Sawhney: We expense all this out. But as a company, which is prudent in terms of any capital expense, we try to minimize these as much as possible. And the bigger point is that we must try to learn ourselves from what our vendors are providing us. So, we have to internalize the processes that we are trying to implement. So, from a digitization perspective, it is ongoing and will continue. It is something that we have been trying to do for the last five or six years in different forms of process. But I think it is just going to get more accelerated now. And so, from a P&L perspective, we are not going to see anything mark from a cost side to spend more. In fact, you will see some benefits only. The net will be better.

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

Sandeep Shetty: Sir, you mentioned about industry 4.0 and automation that is being currently implemented by Triveni. Just sir, if you can explain on that, because it is our belief that usually automation and industry 4.0 is more applicable to automotive industry and industry where mass production is the scenario but Triveni being more of a custom made kind of a thing, if you can explain on that that will be helpful sir?

Nikhil Sawhney: So if we start on the output and what do you expect out of industry 4.0 is you expect higher productivity, expect lower wastage, you expect higher quality, etc., And so, all of it starts from a matter of process. Automation and industry 4.0 are slightly different like the degree of robotics that you may have within a company is slightly distinct. Automation for us is a digitized process of ensuring that there is a seamless movement of drawings and data between design to the machine. So, there is no human interference at all. More than that is the fact how machines themselves



operate and how they are programmed to be able to move between different jobs. And so, there is a huge degree of automation and machine learning to be able to reduce set up time, etc., There are different components as to how you break the manufacturing process down. Now, of course, this is more easily understood in a sector that is auto and our learning also come from the vendors who are providing this to the auto sector. But I think that there is enough learning for us also as a company where we can help with this.

Sandeep Shetty: I was trying to understand how it is impacting production. So, I was thinking on that line.

Nikhil Sawhney: The main thing is that when you have a customized product, what happens is that every component of it is usually a large, I am going to say it is customized. The biggest issue that you had is in terms of quality, because you need the consistency on every product that is manufactured, but those are unique. So how can you get that done and really to have a dependability of quality is extremely important, then of course, it must be overlaid with cost. And once you get all those factors, you need the repeatability of it.

Moderator: Thank you. The next question is from the line of Ashutosh Garud from Ocean Dial. Please go ahead.

Ashutosh Garud: Do we compete with Chinese players for these products which we have?

Nikhil Sawhney: Largely we do not, because these are customized orders and the system by which large manufacturing infrastructure is being built in China has been on a very standardized platform. So actually, we do not see China in the international market or the domestic market. We would not encounter Chinese competition more than I would say less than 1%.

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

Anand Bhavnani: So just medium-to-long term of a question. As a company, our skills lie in engineering and while we are in one segment turbines, we are leaders there and we try to get into the higher turbines with GE venture and for some reason, it did not work out as planned. So, in terms of adding more revenue stream, what is the thought process at the board level if you can give us some sense? We have cash. We keep hearing about companies wanting to transition out of China. Is there possibility that we are contemplating to have joint venture with some of the leading global companies and our skills in managing lean operations and our engineering skills plus their global demand, can those be combined and can we enter a newer segment, if you can give us some sense on what is the thought process?

Nikhil Sawhney: You bring up a very- very interesting point. And this is thought that I think individually we have all had. The board have to say has not considered anything along those lines and is nothing in front of the board in that matter. But very rightly, you do bring up a point that there is hunger with management to drive further revenue. I think one of the things that we have built with a lot of dedication is our balance sheet and the ability to be able to have higher return on capital, higher return on equity business, at the same time, have the productivity of good asset turnover, etc., So very frankly as long as we can keep all those factors in mind, we are quite open to see how best we could actually approach future businesses, but really technology needs to be at the heart, we are working, that is over a long period of time, that is the element of technology is extremely important.



- Anand Bhavnani:** That partly answers the question. If you can give us, has that been discussed at the board or is it there certain proposals, anything, I mean, I broadly understand the principle, but if you can get into some nitty-gritty's of what all ideas maybe you already rejected, that will also give us a sense of what you are thinking?
- Nikhil Sawhney:** No, right now, there has been no plans at all on spending any money from our cash reserve. The company continuously evaluates and is in dialogue with different companies and certain sectors, be it in terms of newer age, different types and non-lithium ion-based batteries. We think that is a good area to look at from a research perspective as well as from a deployment perspective especially for utility great applications. We think that there is potential there. We have already talked about development that we are doing both indigenously as well as with academic partners for supercritical carbon dioxide market and certain other developments that we are looking at both with partners as well as independently on that front. So, we think that there is good scope. We can accelerate some of those developments further. There will be some money spent on those is something that the company can well afford. So, we hope to have commercialization in some of these operations at least in the following year.
- Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.
- Nikhil Sawhney:** Thank you very much for joining this call, ladies and gentlemen. I trust all of you will be well between now and our next call. I think the company has displayed some good performance in this quarter given the trying circumstance and we look forward to taking forward this discussion in our next call. Goodbye.
- Moderator:** Thank you. On behalf of Triveni Turbine Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.