



Triveni Turbine Limited

Q2 & H1 FY 22 Earnings Conference Call Transcript

October 27, 2021

Moderator: Ladies and gentlemen, good day and welcome to Triveni Turbines Limited Q2 and H1 FY 22 earnings conference call. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishab Barar of CDR India. Thank you and over to you sir.

Rishab Barar: Thank you. Good day everyone and a warm welcome to all of you participating in the Q2 and H1 FY 22 earnings conference call of Triveni Turbine Limited.

We have with us today on the call Mr. Nikhil Sawhney – Vice Chairman and Managing Director, Mr. S. N. Prasad – President, Global Sales Product, Mr. Lalit Agarwal – Chief Financial Officer and Ms. Surabhi Chandna – Investor Relations and Value Creation.

Before we begin, I would like to mention that some statements made in today's discussion maybe forward-looking in nature and a statement to this effect has been included in the invite which was emailed 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 Q&A answer session. I now request Mr. Nikhil Sawhney to share some perspectives with you with regard to the operations and outlook for the business. Over to you sir.

Nikhil Sawhney: Thank you very much, Rishab. A very good afternoon to all of you and welcome to the Q2 & H1 FY 22 results earning call for Triveni Turbines Limited. Before I get into the performance of the business, I would like to talk about a significant event that the company underwent during the quarter which is a settlement of its disputes with General Electric and Baker Hughes. There were multiple disputes over the last two years between the Joint Venture (JV) partners and the parties have agreed to terminate the joint venture and fully and finally settle and resolve the disputes. As part of the settlement agreement, TTL has acquired the entire shareholding by D.I. Netherlands in the equity share capital of GETL, for a consideration of ₹ 8 crore and thus GETL has become a wholly owned subsidiary of TTL and is no longer a joint venture with any BH parties or GE parties. The name of the company has been changed from GE Triveni Limited to Triveni Energy Solutions Limited (TESL) with effect from 21st, October 2021 and TTL has received a settlement consideration of ₹ 208 crore of which ₹ 190 crore was delivered during the second quarter and ₹18 crore has also been received, but that is in Q3. The parties will now be free to compete with each other and accordingly TTL will now approach the market

segments independently in all respects. We are pleased with this resolution, which is done amicably with respect to TESL and apart from the settlement consideration, there have been other impacts on the balance sheet of Triveni Turbine Limited due to a higher asset base than the price that was paid for consideration of the shares, which has led to an increase in reserves by about ₹ 27 crore and you can see an impact of that in other comprehensive income of ₹ 19 crore in the reported P&L as well. On the operating side, we remain excited about the prospects of approaching the above 30-100 MW segment independently and it enhances the addressable market of Triveni Turbines which as you know, we already dominated the lower than 30 MW category. So, we are excited by the fact that we will be able to approach this market segment independently with entrepreneurial vigour and with focus of our personnel. Our technology levels and development have always contributed towards the technology of our joint venture GETL, which will now be able to operate independently in this space.

Now the business of the entire company, we are witnessing a very strong momentum in the domestic market after sluggish FY 21, however international markets where the company operates are recovering slower than we anticipated. This is evident in our order booking whereas communicated earlier, we were able to achieve order booking of ₹ 4.25 billion in the half year FY 22, an increase of 86% YoY, which is almost equal to the FY 21 order booking. I must point out that we have been optimistic on our order booking for the last two quarters and had given this visibility to our investors at that point in time. We remain equally optimistic on the coming quarters, but I will come to that subsequently.

We expect that progressive relaxation of travel restrictions in the international market, especially in our key export domains of Southeast Asia will enhance the contribution of international markets to our order bookings in the subsequent two quarters. As a company, we are also seeing an increase in the travel of our sales team in both the product and aftermarket division, which we expect to yield very good results in the coming quarters. As you could already see our CEO and ED Mr. Arun Mote as well as our President (After Market) Sachin are not on this call and we have always ensured that they were on this call. This is due to the fact that they are traveling internationally. Prasad who is also President (International) is currently taking this call from Milan in Italy.

During the quarter, the revenue for the company grew by 11.4% YoY to ₹ 2.07 billion, driven by domestic sales, which grew by 58% YoY to ₹ 1.4 billion. The export turnover declined by 31%. Q2 FY 22 revenues were impacted by delays in some orders, which were in transit and could not be recognized during the quarter.

EBITDA was lower by 12.1% YoY at ₹ 477 million and EBITDA margins declined by 6.2% points YoY to 23.1%. The decline in the EBITDA margins is largely attributable to a higher domestic contribution in revenue, as well as higher material costs due to inclusion of erstwhile GETL, now TESL where the material cost as a percentage of sales were higher due to a fair valuation of interest in inventory. There has also been somewhat of an impact of higher commodity prices in the high raw material prices that we have faced in this current quarter.

Profit after tax grew by 612% YoY to ₹ 1.74 billion, which was significantly impacted by the exceptional gain, which is reported in the results that is in front of you. The investments, including cash at the end of the quarter stand at ₹ 7.32 billion and as at the end of Q2 FY 22, they are up ₹ 2.96 billion QoQ driven by this final settlement that I've already alluded to. The mix of the domestic and export sales stands at 68:32 in Q2 FY 22 as compared to 48:52 in Q2 FY 21.

The total consolidated outstanding order book stands at ₹ 8.28 billion as on the 30th of September 2021, which is higher by 14% when compared to the previous quarters and 24% higher than the previous year. This momentum as I have already alluded to will continue in Q3 and Q4 of this year and we are optimistic of a very good starting order book in four-digit crore for the new financial year FY 23. The company has

achieved a record order booking of ₹ 3.07 billion in Q2 FY 22, which is the highest in the last several years, as against ₹ 1.7 billion during Q2 FY 21, an increase of 74% where both domestic and international orders contributed to this growth. The domestic order booking, as you would see contributed more significantly. This was higher than our expectations. During the quarter ₹ 2.25 billion was the contribution towards the domestic order booking, which is higher by 81% as compared to the last year. The domestic order booking now stands at ₹ 5.85 billion up 27% on September 30th as compared to ₹ 4.59 billion in the corresponding period of the previous year. The export order booking during the quarter was ₹ 817 million, which is high by 56% as compared to last year. But it is short of our expectations for the quarter. Most of the orders were booked through virtual interactions. However, export sales continue to be impacted by COVID during this quarter, but we are optimistic in the coming quarters that we would have a greater participation of the international market in our order booking.

On the product side order booking improved significantly to ₹ 2.32 billion, which is higher by 120% when compared to the corresponding period of previous year. The product segment turnover was ₹ 1.51 billion during the quarter, an increase of 9% over the previous year. The aftermarket segment has also registered an order booking of ₹ 753 million which was higher than 6% when compared with the corresponding period of the previous year. Domestic interactions have increased as travel within the country is returning to normal. And international activity has also gained pace.

The aftermarket turnover was ₹ 558 million a growth of 19% over the previous year for the current quarter. The aftermarket segment contributed 27% of the total revenue in FY 22 and in Q2 FY 22, up from 25% in the previous year. We expect good order booking in the aftermarket segment as well in both Q3 and Q4 as well as then good growth for the entire financial year. In Q2 FY 22, the domestic market under 30 MW is estimated to have increased by 98% YoY. International market has largely remained flat for us in MW terms.

The company continues to focus on design and development and technology. We believe that this has been the mainstay of the company by which it has been able to achieve its market dominance as well as low-cost position. We will continue to expend money on organic research and development, both within the company, as well as with our partners and educational institutions to enhance the value proposition that we bring to our clients for a better, efficient and more cost as a reliable solution. These will also include further developments in the API segment, which we'll continue to invest into from a technological perspective, but also further investments into decarbonized solutions such as supercritical carbon dioxide. This investment will continue for the foreseeable future. We believe that we would look at certain opportunities to acquire technologies as well, which may be able to provide us the visibility as a company to enhance revenues in the years to come.

So far in H1FY 22, we witnessed a heightened investment activity in many end-user industries, such as sugar, distilleries, food processing, chemicals, pharmaceuticals, paper, steel, cement, etc. With the threat of COVID-19 subsiding across country with vaccinations reaching the milestone 1 billion mark, we believe that we will witness improved growth trend in the quarters to come.

Our international market is significantly skewed towards the renewable side of the business, which is not so much in India, but we believe in the coming years, we would find an increased participation of areas such as municipal solid waste incineration, waste to energy plants, which would capture greater share of our enquiry and order books. Inquiries in the domestic market have increased by 40% in Q2 and 67% in the international market. We believe that this foretells of a very optimistic sign for us as both markets continue to grow.

Input prices have increased significantly over the past year. We have seen MS trade prices, copper, forging which are significantly based on chrome increased by over

50% and some even more than 70% over the past year. There has been some pressure on margins, but the company itself is not worried because we believe that within the prudent mixture of cost rationalization, as well as passing some of these costs on to customers, we will be able to weather this. We would of course I presume the questions about the decline in the EBITDA level in this current quarter and as we've talked about in the past, no one quarter should be seen for Triveni Turbines, because that is a reflection of the mix of orders that were dispatched within that quarter, as well as between different geographies of international versus domestic. We are optimistic and continue to maintain that Triveni Turbines will operate within an EBITDA margin of 23, 24% or maybe 25%. We would maintain a PBT in excess of 20 to 22%.

Lastly, as the company continues to maintain a high cash balance, which was increased by ₹ 2.96 billion in this current quarter, which has contributed significantly by an exceptional item of about ₹ 1.9 billion. We also had good increases in cash due to operational efficiencies, as well as increased customer advances. As we go forward, the Board has decided to issue a dividend for this current quarter, a 40% interim dividend and a 60% special dividend to shareholders. Given the cash in hand, the company will be looking very aggressively at areas and ways for it to diversify, but in a prudent way, we believe and we are currently contemplating measures by which we can enhance, our proximity to customers, which we had tried to do through opening international offices in the past, we believe that a more prudent method maybe to acquire these customer relationships on the ground, which will impact and be part of our aftermarket business, that we would be able to be closer to our customers, get recurring revenue immediately and be EPS accretive immediately. These are the types of principles that we would like to use in further growth. Having said that the Board has not considered any inorganic opportunities that as at present, but do we believe that there may be opportunity that may arrive in the coming quarters. We of course, would always maintain a return on equity and return on capital as being primary factors by which any decisions would get made. Of course, any money that would not get spent in a prudent manner should in our belief get returned to shareholders over the medium term. With that, I'd like to open the floor for question and answers.

- Moderator:** Thank you very much. The first question is from the line of from Ravi Swaminathan from Spark Capital. Please go ahead.
- Ravi Swaminathan:** My first question is with respect to the market size for the 0 to 30 and 30 to 100 MW. You had mentioned about growth in that market. If you can mention the absolute size of the market, both domestic and international.
- Nikhil Sawhney:** The market size for the domestic market below 30 MW is double of what it was last year, somewhere in the region of the first half year and 550 odd MW and international market size, is a different number because we don't have full visibility. In the domestic market we have near full visibility of orders that come through. The international market, of course visibility is to the extent that we have been able to garner those inquiries.
- Ravi Swaminathan:** The 30-100 MW domestic market, how big is it?
- Nikhil Sawhney:** Globally the above 30-100 MW market is about one and a half times the size of the below 30 MW market globally. In India, given the size of our industry and the fact that we have a high participation of small and medium industries, we actually have a smaller contribution of above 30 MW segment to the entire market, which is possibly about 60% of the below 30 MW market.
- Ravi Swaminathan:** But, usually, the largest sector, end customer sectors like steel, cement they consume more in the 30-100 MW range, right. I think in 2010-11, it was a pretty sizeable market. Do we see that coming back?

Nikhil Sawhney: Yes, that's a very good question actually. But you see the different requirements from these customers, especially the large customers that you've talked about in terms of steel and cement. Within cement, the majority of demand has been coming from waste heat recovery, which is a brownfield expansion, which is in the smaller MW category. There have been not as many inquiries and orders that have been placed for Greenfield capacity expansion, which may be of a higher capacity size. We believe that those will come about, and we are optimistic on that. On the steel front, you have large integrated steel mills, which will have, which will be in the hundreds of MWs in terms of power requirements, but you have smaller rolling mills and scrap and sponge iron mills, which have requirements within our range, as well as stretching into the 30-40 MW odd category. We as a company, have the products and solutions which can adequately cater to all of these markets. We have actually seen good demand from the steel segment both in the below 30 MW as well as above 30 MW segments, especially from East India, our eastern markets. We see actually fixed capital formation across the line. Very frankly you follow the markets itself and you know that the distillery segment has a huge CAPEX movement underway. The pharmaceutical and chemical sector has a good CAPEX requirement underway. Paper has a good CAPEX underway, you have steel and cement, which have different varies of capital expenditure underway. We see, a large degree of capital expenditure from our perspective in all our end-user markets, specifically on the renewable waste to energy segment and solid municipal waste incineration segment, there has been not that much of a pickup. This has already been consistent in demand in India, but we believe in the coming quarters and years as the government pushes more towards Swachh Bharat that we will find municipal solid waste incineration, waste to energy picking up much like we have seen in the international markets. We will all look with a certain degree of optimism with these COP26 discussions, which will probably provide some visibility in terms of government policy on matters like this.

Ravi Swaminathan: And my second question is with respect to the joint venture given the fact that it is largely behind now, what kind of renewed efforts are we putting on the 30-100 MW range in terms of product range, marketing, across different geographies. I mean outside the Indian market, are we looking at gaining market share in this category now. If you can touch upon what Triveni is trying to do new in the 30-100 MW range?

Nikhil Sawhney: As we pointed out initially, we do have a very good order book, we have a very healthy order book going forward and we are very optimistic on growing that order book also, from the current base of ₹ 828 crore. The 30-100 MW segment has always had technology development from our side, which we have done over the last 7-8 years. We have had products which have an installed base already and we have ready and running references in the segment. We are hitting the ground running, you bring up a point, which we find that we have to be invested which is manpower. Manpower from the marketing side, manpower from technical side, manpower from executional diversification. This is an area where we will be investing in, significantly going forward, but to answer your question on reach of the 30-100 MW segment, we will ensure that in the coming year that we will have greater visibility. I have our President, Sales on the line as well. Prasad, if I could ask you to shed some light as to how exactly we will be getting greater degree of inquiries from this segment, which can then translate into orders.

S.N. Prasad: Yes. Coming to 30-100 MW range, as our Vice Chairman mentioned, from 30 MW our enquiry base is coming from over 110 countries today. In a similar way 30-100 MW range, we'd be using the same approach, same market strategy, change channel partners who earlier were not being used earlier in the 30-100 MW range. Today once it became a 100% subsidiary company of Triveni, the channel partner arrangement will be the same. So, we are quite optimistic, the visibility of the market will substantially increase for us and our competitive advantage and our aftermarket support, these are the two things internationally people value for that. So, with these unique selling points we will be able to address the market requirement with the competitive product, we are very bullish on that.

- Moderator:** The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.
- Ankit Babel:** My first question is on the scalability of your API business, correct me if I'm wrong. We heard last time that the enquiry level was as high as thousand machines and your company level current production overall, it was around 110, 120 machines and your capacity is 220 machines. Even if you get up 5, 10%, share from this enquiry level, you can actually double your revenue. Just wanted to understand how are things going at, in that area and what kind of scalability you are seeing say in the couple of years from this segment?
- Nikhil Sawhney:** Let me answer that question in a slightly different way, because you see number of machines, maybe the capacity constraint that we have in terms of testing, but not all machines that we make need to be tested, in the same way that we run for our larger machines. The typical size of machine that we sell into the market, non-API would be in the range of between 8 to 12 MW that will be the average size. The average size of API turbine is about 1 MW. That's the average size. So, these are significantly smaller, significantly lighter machines which can be done in a different production methodology. We have the capacity in place. There may be some incremental CAPEX that we need to do. Like you pointed out of the market size of about a thousand odd machines that we have visibility on, Triveni has already got good orders from this segment. We continue to believe that we will get good market share in this segment going forward. Our value proposition of having a cost-effective machine, which is both reliable and robust for these API customers, is something that is quite consistent with what we desire. Prasad, would you like to add on this question on API?
- S.N. Prasad:** As we rightly discussing, API is one of the key segments for us. As we mentioned in the earlier calls also, today Triveni has been approved by all the international consultants and EPC and OE, the enquiry pipeline is quite strong as our Vice Chairman mentioned that this segment of the business is seen in a different way, because these are all like sub 1 MW or 1 MW average size of the machine, since our acceptability is there globally, coming year(s) this segment will be one of the key global segments for us.
- Ankit Babel:** The last time it was also mentioned that the value per machine in the API segment is higher than the existing machines. I'm slightly confused that like, from value terms, how much would it be a 12 MW compared to a 12 MW normal machine, which you are manufacturing as of now and a 1 MW API in value terms, would it be like 1/12th the size?
- Nikhil Sawhney:** No. So, in general, all steam turbines are customized and engineered to order. There is no reference pricing of, for 1 turbine for 1 price, because there are too many variables that go in there in terms of customer requirements, is it exaction, is it condensing, is it back pressure, what is the temperature and pressure requirements that may be required by the customer and as well as special requirements from the balance of plant, etc. What you find is in general as a MW comes lower the price per MW is higher. This is just basic absorption of overhead as well as other factors of how the market operates. In the API segment, given the strong push on the reliability and safety, these prices are even higher, given certain specifications such as, SH316 piping etc. as well as documentation that goes along with the segment. It's not going to be 1/12th, but it's not going to be 1:1 also. It's difficult to say it depends from customer to customer. I would encourage you not to look at the fact that per machine would give the same revenue, as a higher MW.
- Ankit Babel:** But the profitability would be same in the API segment?
- Nikhil Sawhney:** Well, the profitability is higher. You are very right about that. It's very difficult to generalize because you're asking about number of machines versus MWs versus profit. But it will be higher. Therefore, it's better for us to just talk about the fact that's

why we reflect our order books in crore. I think that is a better way for you to measure it as well.

Ankit Babel: My second question is the scalability of this 30–100 MW range business. So far, we had the GE brand, which now we won't be having it. How soon we can scale this business and what are your plans for say a couple of years down the line, I guess, currently it is doing ₹ 150 odd crore of business at the peak level.

Nikhil Sawhney: Well, the numbers that have been disclosed in the past. We find the joint venture has always in my personal opinion, underperformed its market potential. The products were marketed jointly under the GE and Triveni Brand. Like I said, technology of both partners was used in applications and installation. We have running references on our technology. They have their running references on their technology. So, as far as the customer is concerned, we do have the viable and validated technologies available. From a perspective of market reach, as Prasad pointed out, we will be using the same market reach channels that we use for the below 30 MW segment. And so, I believe, at least in this market segment from 30 to 40 to 50, maybe 60 MW even this will be quite consistent. In the 80, 90, 100 segments it might be slightly different, and let's come to that. We will also discover what are the challenges on the way. We believe that this is a very vast opportunity for us, especially in the international market and we will look at it in a very conscious manner with dedicated personnel and with dedicated resources to take that forward.

Ankit Babel: Any outlook in terms of scalability? Can you go to 200-300-400 crore in say a couple of years, because we have no clue about the scalability?

Nikhil Sawhney: The fact is that our anticipation is that from a negligible market share right now we would only increase from there. And I think let me get back to you in the next couple of quarters to what the level would be exactly, but I believe that it should play a significant role in our revenue going forward and possibly equate our product revenue in a couple of years.

Ankit Babel: And the profitability can be, the potential is 20%+ kind of operating margins in this business also, once you reach a reasonable scale?

Nikhil Sawhney: Product margins in general are dependent on geography. The aftermarket segment is what actually contributes significantly towards the overall EBITDA of the company. And so, the fact that we don't have such a large installed base in the 30-100 MW category will limit that. But having said it, we anticipate good growth for the future once we have the installed base, we will be able to service these customers for the next 25 to 30 years. And therefore, garner what is somewhere in the extent of 85% or 90% of the life cycle value of a customer which comes from the aftermarket.

Ankit Babel: Lastly, just to conclude, last few years we have been in that ₹ 700-800 crore range of revenue and profitability or so at similar levels. Now, the kind of outlook which you are giving and the opportunity size which you are looking at, is it fair to assume that now Triveni is entering into a multi-year high growth place from here on?

Nikhil Sawhney: I would say so because we have a number of avenues for growth. One is the 30 to 100 MW segment which we would be entering independently where we already have reference bases, and we will try to build a greater order book in that segment which will build up over the course of the years. We have the API segment which we have already talked about in terms of growth. We have an increased push in the below 30 MW segment on renewables which we would think would add to growth, coupled with general fixed capital formation globally which will aid. And the most important from a margin perspective is the aftermarket. We will be pursuing that market very aggressively for growth in not only our existing installed base repairs and service, but on the refurbishment side. And we wish to spend money on this side because it has extremely good return on capital and return on investment. So, we anticipate all four organic roots for growth to perform well. We, of course, will be investing into diversification and new product lines such as our supercritical carbon dioxide as well

as certain other areas of rotating equipment which should also aid growth. So, we are positioning ourselves for growth in the future. We think we have the capacity which is necessary. We will need to add on capability and that is where we are positioned at right now.

- Moderator:** Next question is from the line of Bhavin Vithlani from SBI Mutual Fund.
- Bhavin Vithlani:** A few questions. First, the litigation that we had with our JV partner, GE is now all done and dusted. No further pending litigations.
- Nikhil Sawhney:** All pending litigation with our JV partner is over, we have some other litigations from income tax, etc., which are routine and ongoing.
- Bhavin Vithlani:** The second question is on the larger size turbines as you highlighted. And this is also in respect to some of the global competitors of yours pledging not to sell turbines when it comes to coal-based power plants. Is that an area where now Triveni could get an edge because in the past cycle these orders went to your MNCP asset?
- Nikhil Sawhney:** Bhavin, you bring up an interesting point because largely the large competitors of ours who have stated that they would not be selling for coal use. I think they have been talking about their utility range of turbines. The distinction between a utility range and industrial range, in which Triveni operates in this 0-100-MW space is that we provide not only power but also heat as a requirement for our industry. And as you know generating heat for industry through a renewable source is extremely inefficient and extremely cost uncompetitive. So, you have to have onsite generation to the extent that onsite generation uses renewable fuels. That's great. It works towards the de-carbonization model that we all expect, and all are working towards, but to the extent that it has a carbonous material, then that is what it does take. Competitively, I don't think these companies have stopped offering these turbines for the industrial space. We still see them in the market for the industrial space. But having said that, while we said in the past that we have seen the utility range which is above 100 MWs has declined. The market has declined by over 80% to 85% over the last 7-8-10 years. The market for below 100 MWs, both below 30 MWs and 30 to 100 MWs, both have grown at about 2% to 5% annually over the last 7-8-10 years. So, there is consistent demand, there's high-capacity requirements that are coming up from industry and as well as coupled with genuine renewable energy based independent power production requirement.
- Bhavin Vithlani:** Could you also speak about oil and gas, especially in India because that's a sector where you were practically absent in the last up cycle. And we are seeing a number of refinery additions and they will also set up captive power plants. So, this is not just the drive turbines, but the captive power turbines. Have you also been qualified by the likes of EIL for the CPPs and what's the kind of business momentum we are seeing in that space?
- Nikhil Sawhney:** Yes, we are qualified by EIL, by PDIL and the other consultants and largely, like you said, apart from the API drive market, which may be driven by compressors or pumps or blowers, etc., there's a need for captive power production within refineries. Refineries largely tend to use gas turbines for their primary requirement of power production, but auxiliary requirements such as waste heat recovery and other steam requirements do come from steam turbines. I will let Prasad comment on the domestic market. Prasad, if you could just comment on the oil and gas captive power requirement.
- S. N. Prasad:** Oil and gas captive power requirement, yes, as you rightly mentioned that there is an upswing there and we have been approved by EIL, PDIL and all for even captive power plant, that is generating alternator drives. Right now, all the inquiries whatever that we have, yes, we are eligible to participate in both things. But as our VCMD mentioned that this is limited traction in this because the main plant will be gas based, the gas turbine-based sort of a thing, with auxiliary plants are alternator driven plants,

so we are there in that market. So, we will be participating in all these new inquiries whatever released by IOCL, BPCL, etc.

Bhavin Vithlani: Just a follow up here. Are these potentials like in a ₹ 100 or a couple of hundred crore each project?

Nikhil Sawhney: No, I think, well it depends what scope we are looking at. For us, no.

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

Ashutosh: I just wanted to understand, you also alluded to the fact that you would be expecting a decent set of order inflows last quarter as well and this quarter as well you have done very well. So, just wanted to understand how much of this is a very sustained base from a demand side perspective? How significantly do you see the demand for your products changing from, let's say something like the last 2-3 years? And as some of the other participant also mentioned, we have been in the range of around ₹ 700 crore of topline. How significant do you see that run rate changing, order inflow and the growth for us in let's say next two to three years?

Nikhil Sawhney: The revenue for Triveni Turbines is directly related to the order booking. So, let's just focus on order booking to that extent, apart from the aftermarket segment which runs on a very short cycle of order booking. But aftermarket itself has grown to now nearly 27% of revenue and so that is performing exceedingly well, and we expect that to continue growing by about 15% to 20% a year. On the order booking side our optimism stretches multi quarter. While in this past quarter we were surprised by the greater participation in the domestic market. We had actually anticipated that international to have contributed more. We believe that the next couple of quarters we will have the international market contributing. So, that will provide visibility very easily for FY 23 in terms of the high growth that we want to maintain. Following that we believe that market segments that we talked about, which is an increased participation in the 30-to-100 MW space which actually has an order delivery cycle of about 14 to 16 months. You must keep that in mind. The API which has an order delivery cycle of four to six months, and as well as other applications will continue to aid our growth in order booking. So, we are quite optimistic that we would be able to grow at a decent pace in the coming years.

Ashutosh: So, do you think this is kind of the base run rate which we are looking at right now around ₹ 300 crore kind of run rate?

Nikhil Sawhney: No, I think this is somewhat on the higher side. This is record we were I think about ₹ 200-250 crore is something that is quite visible for the next, well, more than that ₹ 250 plus crore is visible for the next couple of quarters. Maybe more, a little more.

Moderator: The next question is from the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth: My first question was relating to the margins. We did make a comment that the margins were impacted because of the higher contribution of domestic in the current quarter. So, I was just wondering is that the trend in terms of our domestic generally a lower margin business, because one would have assumed given that domestic you have a large market share, the margin profile would be a relatively better than an international market?

Nikhil Sawhney: No, the domestic market I think not for us, but for all capital goods manufacturers is the lowest compared to international for a variety of reasons. The competitive intensity in India is much higher. So that drives a lower profitability margin. Also, the ability for us to transfer and therefore then transfer any price increases in the domestic market are more limited also. But having said that we also run a program whereby we would like to maintain a market share. And by that sometimes you have to take lower margin orders.

- Kunal Sheth:** So, does that really mean that the competitive intensity in domestic market has increased because in India you were the dominant player and then there were hardly one or two other players. So, have new players come up recently?
- Nikhil Sawhney:** No. There is the predominant competition between an International player and us and we have a healthy competition. As you would estimate the fact is that even though domestic margins maybe lower from a global perspective and I think even domestic perspective, getting margins on the capital good itself is an achievement because nearly 85% to 90% of the value of a customer from a profitability perspective comes in the aftermarket. So, really getting that installed base is a very important factor for us because that gives visibility of earnings for much longer perspective. But having said that, there is some movement right now in terms of a huge fluctuation on input pricing and so we have taken and recreated our costs to current prices, and we are not anticipating any price reductions going forward in terms of raw material and so therefore this is where it's turned out in terms of how we priced and how we positioned ourselves in the market domestically.
- Kunal Sheth:** My second question is relating to our international market. Because we have such a wide exposure in the international market what are the variables that one should track, because if it becomes almost impossible for us to get a handle of your outlook on the international markets from an outsider perspective.
- Nikhil Sawhney:** You see what are the drivers for demand, it depends on geography. Geographies like Europe are heavily dominated by a renewable energy both from biomass based IPPs as well as solid municipal waste incineration. A lot of these are supported by government policies and so therefore government policies which provide some subsidy to the developer would be a good benchmark for you to judge Europe, Japan, and to an extent the United States. But the United States also does have a fresh CAPEX much like Southeast Asia, Africa, Middle East. Middle East and parts of South America are also seeing the growth in API requirements from our order book perspective. So, actually it's very difficult to say. I would say general fixed capital formation stability are what would lead to visibility for you to take on our order book internationally. The competitive intensity has not changed internationally. The players are the same. In fact, we find some of the larger players leaving the market because of the pricing that I think we are bringing in. So, I think we are quite confident. The bigger issue that we have internationally is reach, to be able to ensure that we are able to cater to every enquiry effectively. Our investments recently in terms of being able to get specific technologies in our blades in terms of efficiency and reliability have gone a long way in terms of meeting customer expectations internationally which are all learnings that we get over a period of time. And so, I think we are quite well positioned going forward in the international market as well. Of course, we hope that there is no third wave, fourth wave, fifth wave of COVID which inhibits our mode of doing business which we are heavily reliant on travel to be able to get international orders.
- Moderator:** The next question is from the line of Manish Goyal from Enam Holdings, please go ahead.
- Manish Goyal:** Nikhil, just want to get a sense like in 2011-2012 we probably saw the peak market of 2000 MW. Have we come back to that level at least on the enquiry terms? That is the first question. Second is if you can also give us a perspective as to how was the market between 0 to 30 MW and 30-100 MW at that point of time? And I was not clear as to, you did mention about 30-100 MW opportunity in India but maybe if you can repeat in terms of what are the dynamics over there.
- Nikhil Sawhney:** Manish, so in 2011 which was the last peak, I think that we have been talking about a number of times, we saw the entire market of 0 to 100 MWs at about 4300-4400 MWs of orders placed which was split somewhere in the range of about 1800-2000 MWs below 30 and the rest above 30 MWs. Of course, at that point in time that was significantly driven by a fixed capital formation in commodities such as cement and steel. As we sit today, in the first half year we have had orders in the below 30-MW

range of about 550 odd MWs and we anticipate the year to end somewhere in the region of 1100-1200 MWs. So, we still have a growth from a potential perspective of people who remember the growth spurt in that period of time. In the 30 to 100 MW segment we have expanded our capacities of industry in general and so people who were ordering the 20–25 MW turbines will now order 35-40 MW turbines. So, we anticipate the fact that even though the market size may have been over 2000 MWs back in 2011, it's currently somewhere in the region of about 400 odd MWs on the half year and maybe 800 odd MWs for the full year domestically. This is an area which will grow in our opinion quite significantly going forward.

Manish Goyal: Sorry, you mentioned 400 MW was the market in the first half of the current year.

Nikhil Sawhney: Half year for about above 30 to 100 MW

Manish Goyal: And globally?

Nikhil Sawhney: Globally market size of 30 to 100 is about 1.5 times what it is in India. To give you an idea, like I alluded to earlier the enquiry levels for the domestic in the second quarter increased by 40% and international increased by 67%. 67% because it wasn't as much by finalization as we anticipated and the enquiry levels as a whole for half year increased on a year and year basis from about 2.3 GWs to about 3.5 GWs. And the domestic part of that was from about 900 MWs to about 1.5 GWs. So there has been good growth on the enquiry level.

Manish Goyal: And the domestic one?

Nikhil Sawhney: I think that now you are going to get me into trouble because everyone will keep asking for these numbers every time which I have been a little hesitant to do. But suffice to say that the domestic enquiry level contributes about a third of our entire enquiry book.

Moderator: The next question is from the line of Nilesh Jethani from Envision Capital, please go ahead.

Nilesh Jethani: My question was on the capacity utilization levels and thereafter margins. So, I wanted to understand at present what our capacity utilization levels. And second part of the question is going forward once the operating leverage kicks in because of the strong order inflows in the recent past, will this operating leverage help us to more than offset the impact of commodity prices or you expect margins to remain stable going forward?

Nikhil Sawhney: These are two separate questions actually that you asked. On the capacity utilization space, over the period of time and if you look at our balance sheet, we operate on very asset light model and we have consciously moved further into a more asset light model by encouraging only graduates on our shop floor, who will be multi-disciplined and be able to do multitasking. So, we want to move more into manufacture of only IP sensitive and critical value-added products and largely stick on the assembly testing space. So for the capacity that may be required for our order book going forward, we would have to use a prudent mix of vendors and a variety of other means by which to achieve our production levels. And we are cognizant of it and we have planned on it. There may be a little bit of an investment ₹ 5-7-10 crore here and there but I think that the capacity is really not the constraint for Triveni Turbines.

Nilesh Jethani: Our capacity utilization today currently would be at what levels?

Nikhil Sawhney: It's difficult to say because like I said the majority of our capacity is measured on assembly and testing so with that you have to base it on the theoretical number of shifts that we may run, which may be 3 and the fact that we are running possibly one plus shift right now means that we have ample capacity. So, it's not fair to say that

we are at 30%-40% capacity utilization but it's not fair to say that we are at 70%-80% capacity utilization also.

Nilesh Jethani: So, this incremental order inflows won't help to add too much an operating leverage?

Nikhil Sawhney: There will be some overhead absorption especially from the fact the higher revenues. We have a fixed overhead in terms of R&D and marketing and those are the more expensive overheads that we have. Higher revenue always does give us operating leverage and something that we will benefit from.

Nilesh Jethani: On the margins front, going ahead as we largely do the short cycle products, this operating leverage of course won't help the margins, but will the margins improve going ahead?

Nikhil Sawhney: Margins are a reflection of where the product order is from, and this is something that is difficult to explain why there's such a sharp difference between domestic orders margins and international orders. But having said that we believe that we have factored in price increases into our pricing at the current point in time. We don't want to pass full prices to our customers and so they may be a margin impact on the negative side for the domestic market in the coming quarters but overall given the fact that there be higher participation of the international market in revenue as well as the fact that we will have a good revenue from our aftermarket, margins should be somewhat the same. I think right now what would be a greater focus for us is to expand revenue. That was the question earlier. And we are quite confident that we would be able to at least maintain margins if not slightly better them.

Nilesh Jethani: On the exports front, are we also facing some freight related issues, the cost going up so going forward next 6 to 9 months, how do we envisage because of course the exports are a higher margin business for us but with the freight cost going up will we be able to get that kind of margins as enjoyed in the past?

Nikhil Sawhney: Generally, freights are actual, so the customer usually takes the freight cost into his consideration. Freight to the extent that our supplies are impacted would impact us, but it is largely passed through. So, container and prices have gone up because of non-availability of containers. But a lot of our supply goes on skids, it's not containerized. Some parts are containerized, of course. So, it is not fully a matter for Triveni Turbines to be worried about. But having said that our clients are also cognizant of it, and we cost in all prices at the point in time of order. So, we don't really take open risk, much like we do for currency hedging, etc. We don't think it's our business to risk all these fluctuations in market and at the time that the order is taken we try to mitigate that risk immediately. So, the customer bears it.

Nilesh Jethani: One last question, sir, I guess it was asked initially also but this sharp jump in the order inflow so what percentage you would attribute it to the volume growth and what percentage would be value growth?

Nikhil Sawhney: Pretty much all of it is volume growth.

Moderator: The next question is a follow-up from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Just wanted to check any execution challenges you might face in your existing order book in that 30-to-100 MW range in the company which you acquired because at the point of placing order GE was a partner and lot many customers would have placed an order because of GE and now GE is not there. So, any complaints or anything from the customer side? How are you addressing that?

Nikhil Sawhney: Firstly, the joint venture the way that it was operated was that all manufacturing was done by Triveni Turbines itself and marketing was done by respective partners, GE, Baker Hughes did it internationally, Triveni Turbines did it for India and technology

was contributed by both partners. So, given the fact that we have acquired that company, the executing resources are now part of Triveni Turbines from a project management perspective, of course the manufacturing was always with Triveni Turbines. The nature of the settlement which was amicable and has also specifically catered to this worry of yours which is that all support would be given by both partners and whatever technology is required for executing the current order book which may be on their technology would still continue. A number of orders that the company is still executing or has executed in the very near past have been to Baker Hughes and GE as related parties, so they continue to support us which was in their best interest as well. But I think that very frankly we have all the resources necessary. The customer communication that is necessary, we have ensured that we keep the customers and the customer satisfaction in mind in terms of execution.

Ankit Babel: My second question is how you arrived at a valuation of this buying the 50% stake at just ₹ 8 crore?

Nikhil Sawhney: That's the face value of the shares.

Ankit Babel: No, I agree but a company which was making a profit of say ₹ 7-8-9 crore, valuing that at 16 crore, so what was the basis of that?

Nikhil Sawhney: Well, I would not like to go in those details, but it was a comprehensive settlement and so all the numbers were combined into. It's better for you to look at it as one whole net settlement number rather than differentiated settlement.

Ankit Babel: And this ₹ 200 plus crore also which you get was because of some losses which you could have incurred?

Nikhil Sawhney: This number was just a settlement of disputes so it's a question for us to put what are the issues that we had are behind us and move forward. We have a lot of things to do from Triveni Turbine's perspective. We are very excited to be approaching this 30-to-100 MW segment independently and with the vigor and entrepreneurship that we have shown in the below 30 MW segment. We have other growth avenues that we need to spend time on. We have lot of technological investments and interventions that we are making. We also have good money in the bank which we need to find prudent uses for. So, we didn't want these disputes to take up so much of our time. So, it's better for us to move on and I am sure our shareholders would agree with that as well.

Nikhil Sawhney: Thank you everyone for joining. Are there any more questions or should we wrap up now?

Moderator: No questions. Over to you closing comments.

Nikhil Sawhney: Thank you very much ladies and gentlemen for joining the call. As I said, we are very optimistic on the future for Triveni Turbines. The order booking in the next couple of quarters we anticipate to be quite robust so as to lead to a very good and a record order booking starting FY 23 which should of course then lead to an increased and enhanced revenue along our expectations. We will continue to keep you informed on decisions on utilization of cash which the Board may make and we look forward to being in touch with you. Thank you very much.

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