Triveni Turbine Limited

Q2 FY 23 Earnings Conference Call Transcript
November 03, 2022

Rishab Barar: Good day everyone and a warm welcome to all of you participating in the Q2 and H1 FY 23 Earnings Conference Call of Triveni Turbine Limited. We have with us today on the call Mr. Nikhil Sawhney, Vice Chairman and Managing Director; Mr. Arun Mote, Executive Director; Mr. Sachin Parab, President - Global Sales, Aftermarket and Ms. Surabhi Chandna, Investor Relations and Value Creation along with other members of the senior management team. Before we begin, I would like to mention that some statements made in today's discussion may be forward-looking in nature. And a statement to this effect has been included in the invite which was mailed to everybody earlier.

I would also like to emphasize that while this call is open to all invitees, it may not be broadcasted or reproduced in any form or manner. We will start this call with opening remarks from the management following which we will have an interactive question-and-answer session. I now 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 morning, everyone. And welcome to the Q2 / H1 FY 23 earnings call for Triveni Turbine Limited. It's my great pleasure to address you today, given the record performance that we've had on a number of parameters, our top line EBITDA, our order booking which all bodes very well for this current year as well as for the year to come. But to get into some details, the performance of the Company during the quarter under the review has been very impressive, with the turnover and profitability growing by 41.9% and 53.8% respectively when comparing to the corresponding quarter of last year, excluding exceptional income.

The Company is well on track for a strong multiyear growth trajectory aided by positive momentum in its addressable markets, ably supported by focused business strategy and extremely capable execution. The revenue as I said for the second quarter stood at ₹ 2.93 billion which is a growth of 41.9% and the highest ever on a quarterly basis. The domestic sales showed an increase of 17% to ₹ 1.64 billion, while the export turnover increased by 93% to ₹ 1.29 billion driven by the Company's success in international markets in both the below 30 MW and the above 30 MW segments in the post-pandemic time.

As a result, the mix of domestic and export sales changed to 56% and 44% export in Q2 FY 23 as compared to 68% domestic, 32% export in Q2 FY 22. The product segment turnover was ₹ 2.23 billion during the quarter, an increase of 48% and aftermarket turnover was ₹ 700 million during the quarter, a growth of 25% over the previous year. As you could see aftermarket contributed 24% of total turnover in Q2 FY 23 versus 27% in Q2 FY 22. EBITDA for the quarter was at ₹ 664 million, up 39.2% year-on-year with a margin of 22.7% which is again another record for quarterly performance.

PAT for the quarter was at ₹ 463 million, an increase of 53.8% year-on-year. As I said, the highest ever quarterly order book we also recorded in this quarter, and which was at ₹ 3.61 billion registering an increase of 18% over the last year. Our record order booking for the half year of ₹ 7.19 billion during H1 was an increase of 23.9% year-on-year and now outstanding carry forward order book as of 30 September stands at ₹ 11.37 billion, an increase of 37.3% which is again another record for the Company. Investments including cash stands at ₹ 7.83 billion, an increase of 4.3% from 31st of March '22.

I will talk about more about order booking. On the product side, order booking during the quarter was at ₹ 2.72 billion which is higher than 17% when compared with the corresponding period of the previous year, and this is the sixth consecutive quarter of the Company clocking over ₹ 2 billion in order booking for the product segment. The Aftermarket segment also recorded an 18% increase in its order booking to ₹ 886 million in this current quarter.

At the half year mark, order booking in H1 as I said, stands at a record ₹ 7.19 billion and growing a healthy 23.9% over last year. Noticeably export contribution has increased to 39.5% and order booking for the Aftermarket segment has also shown a solid growth of 44.7% over the last year reaching a record ₹ 1.9 billion in the first half. This all spells very favorably for the years to come. But as I will try to give you confidence during the later part of my remarks, H2 seems to be even better and we are quite optimistic on all performance metrics of sales, profitability, order booking, which all spells very well for the years to come.

The total outstanding order book as I already said stands at ₹ 11.37 billion as on the 30th of September, which is increase of 37% when compared to the previous year, and the domestic outstanding order book stood at ₹ 6.46 billion, and the export outstanding order book stands at ₹ 4.91 billion, which contributes 43% of the closing order book.

In the product segment from an order booking perspective, we have received a high number of inquiries from the international markets, our growth in international market inquiries has grown by over 50% in this current quarter. At the same time, domestic inquiries, specifically led by a decline in Metals and Mining segment, where the domestic market has declined by about 19% in the current quarter, but on overall basis, the entire inquiry book for Triveni Turbines has grown by over 26% in this current quarter.

This is coming from a variety of different segments, Triveni Turbines is a preeminent supplier of thermal renewable solutions to both independent power producers as well as industry and we continue to maintain both our domestic as well as global leading market positions. In India, we have a dominant market position. Increasingly in the international market, we are making great headway.

Market segments in which they are arriving from include solid municipal waste incineration, in which we have received orders in the higher than 30 MW category in this current quarter, which again strengthens our market position as a dominant supplier into this market segment of municipal solid waste incineration globally. This is for an order from West Asia and we have other successes in this area as well.

We have also received orders from Southeast Asia, Europe and North America in this current quarter, which gives us confidence in terms of the recovery in these markets as they open up. The requirements stem like I said not only from thermal renewable solutions, but also from industrial CapEx, which is happening in terms of fixed capital formation in a variety of different industries. This seems to be led by process cogeneration and heating requirements for a variety of industries, but also in terms of independent power production based on biomass and other renewable fuels.

The Company also is performing exceedingly well in its API market segments. And that is a market segment that is growing quite rapidly for us. And our developments in this line place us at the forefront of technology that is being provided to our clients in this market segment. We provide both single stage and multistage designs which are extremely energy efficient and have an extremely good payback for our customers.

On the Aftermarket side, the Company continues to grow across three market segments of refurbishment, spares and service. In the traditional business, energy enhancements and upgrades have significantly contributed to both the international and domestic market orders. As I had alluded to in our last quarterly call, we have picked up a significant order in the South African Development Community (SADC) area, for servicing of large utility turbines. These are orders which contribute not only a lot to our top line, but also to the capability of the Company to get further work with our clients to move up the value chain to get an increasing number of spares and other higher-value higher-margin orders.

This order in specific in the half year contributed to approximately ₹ 13 odd crore of cost which was included in other expenses, as you will see. There will be other expenses such as this coming in the future quarters. And while the margin level for these orders is lower than our typical Aftermarket segment, we as a company given the growth operating leverage, mix in export versus domestic reduction in material costs are confident of maintaining margins in the short, medium and long-term for the Company.

Our focus is on growth and as I had alluded to in our previous conference call about a growth of over 35% odd in the current year and next year, we are quite confident given the state where our order book lies to be able to achieve these numbers, if not try to exceed them.

Given the growth, given the high return metrics of the Company, and given the fact that really the Company does not have much use of its capital, its cash in bank, the Board of Directors have decided to do a buy back in this current quarter and subject to the approval of shareholders, the Board has approved a proposal to buy back from equity shareholders of the Company up to 5.28571 million equity shares at a price of ₹ 350 per equity share for an aggregate amount not exceeding ₹ 190 crore through a tender offer on a proportionate basis in accordance with the provisions of SEBI Buyback of Securities Regulation 2018 and the Companies Act 2013.

This is a request that we have received from many shareholders and especially our large and largest mutual fund shareholders in India. We believe that this is a good way to return a chunk of money to all shareholders. The performance of the previous buyback that the Company did in February 2019 has a subscription of over 184% and small shareholders had a subscription of over 2000% in that buy back. So, we're quite confident that this will be taken very favourably by shareholders and seen as a means by which the Company looks to return capital to shareholders. The promoters will be participating in this buy back as well.

Having said that, now our R&D continues to perform exceedingly well. We are focusing on further Intellectual Property (IP) development on all existing product lines in terms of improving our blades, blade parts, structure analysis and other parts of the turbine. While at the same time, our developments on future technologies also continues to do very well. We are in the process of piloting certain technologies, and we hope to report soon on some progress in these lines. With that, I'd be happy to open up for question and answers. I have our colleagues on the line as well to help assist in any questions you may have.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth: Congratulations on a very strong set of numbers. My first question is pertaining to your export market. While you know we have had exceptional performance in the export market, generally there has been concerns around what is happening around the world in terms of slowdown in economic growth. So, if you can share your views about what you're hearing from your end markets, especially in the export side?

Nikhil Sawhney: Okay. You know, you bring up a very important question because there are two factors to the market in which Triveni Turbines operates as I've been trying to allude over the last several conference calls, Triveni Turbines provides heat and power solutions to industries as well as renewable energy-based power solutions to the Independent Power Producer (IPP) industry. So very frankly when we see demand coming from places like Europe, it is coming from a perspective of energy transition, where you have requirements of energy efficiency stemming from industrial processes such as waste heat recovery, or other biomass based IPP plant. The largest segment of growth in markets such as Europe, which is currently under a huge degree of energy crisis as well as the conflict. Stems from diversifying their energy requirements, so needs such as municipal solid waste incineration, as long as the waste exists provide an extremely good business case for entrepreneurs or businesses to set up these capacities.

And as you know there is ample funding for these types of plants. Globally otherwise, you'd have an enormous amount of growth happening in agro industries, agro and process industries continue to provide growth for us in a variety of different markets, especially Southeast Asia, Central America. The API market, as you know given the level at which oil and gas prices are at, continues to be quite robust. And we are aiming to increase our order book in this segment gradually over a period of time, but it will reflect quite well on overall order booking.

So, from the perspective of our traditional market below 30 MW, the international market seems to be doing quite well. And we are very optimistic in the coming quarters to exceed our current performance. And the above 30 MW segment also we've had success. And we aim to continue pushing in this market segment. Though, of course, it is more lumpy than the below 30 MW segment, as you could imagine, because of the number of turbine orders that actually do come about. The API market segment also continues to grow. A factor which is either international growth considerably is is our focus on servicing internationally and our aftermarket proposition.

I have a President Aftermarket Sachin on the line. Sachin could you give a little bit of indication as to how you see aftermarket growth and especially on the international side.

Sachin Parab: Good morning, everyone. I'm glad to actually bring you up to speed on the..

Moderator: This is the operator, we have lost the connection to Mr.Parab. You may continue in the meanwhile

Nikhil Sawhney: Okay, thank you. I will get Sachin to answer the question when he gets back. But if that answers your question, we can go back to the next question.

Kunal Sheth: Sir, thank you for such an elaborate outlook. My second question is pertaining to the margins, you made a comment about that you're quite confident about maintaining your margin for this year / current year. But would you believe there are also drivers within the business that can help you expand margin going ahead, especially that we are also talking about increased focus on services?

Nikhil Sawhney: Yes, I think you see the multiple areas where we can improve margins. As I said, operating leverage will allow us to improve margins, product mix both in the export domestic as well as aftermarket to product will allow us to expand margins. Stability in commodity pricing and the fact that most of our rate contracts will now be renegotiated at lower rates could mean certain margin expansion.

But having said that, we also see expenses along the way. We have already expanded our workforce by about 15% compared to last year, same period. We aim to increase that more significantly going forward to cater to a very large growth coming forward. We also aim to invest into R&D and to future-proof ourselves from a technology perspective. But at the end of the day, the fact that we're seeing this amount of growth. And we are confident that we have pricing ability in the market. We have to be cognizant that we don't overcharge our customers, because we're playing a longer-term game here.

So, we're confident that we could improve our margins. But why constrain growth at this point in time, let us run with growth. We are quite confident that we can maintain margins at where we're at. We just don't think that there's any reason for us to expand margins at this point in time, rather push for greater growth.

Moderator: We have the next question from the line of Amit Advani from Prabhudas Lilladher Pvt Ltd. Please go ahead.

Amit Advani: Yes, thanks. Thanks for taking my question. So my first question is with respect to exports, and you highlighted that we have seen a strong pipeline in three, four geographies. If you could just elaborate more, where are we seeing the, larger contribution expected to come? You mentioned about Southeast Asia, Europe, Africa. So, if you could just elaborate more on which part? And which category between like, 0-30, 30-100 MW we are expecting to receive orders?

Nikhil Sawhney: Yes, actually, the thing is Triveni Turbines has inquiries from over 110 countries. And it has an installed base on over 75 countries. So, we're quite diverse as far as this goes. So when we talk about demand coming from areas like Southeast Asia and Europe and North America these are very large markets, and of course, it will be spread between countries within them.

Our focus as a company and our competitiveness, and our market proposition is always strongest in the thermal renewable segment. So of course, a considerable amount of our inquiry and order book is in this market segment. As you'd imagine, this is a market segment that is also growing in the market, because that is ultimately what finds adequate funding and least resistance from the climate change supporters. So very frankly, that contributes a lot. Industrial growth by itself would contribute maybe about 35-40% of our growth, excluding API market. So, we are reasonably insulated, but though we play very strongly into the energy transition market.

In the ranges, of course, our historical market of below 30 MW from a number of turbines which is always going to contribute far, far more significantly than anything above 30 MW. But we have a very good headway in this past year since our joint venture with General Electric ended in this market segment. And we aim to continue getting orders both domestically and internationally from this market.

As I told you our recent order of municipal solid waste incineration was for above 30 MW market. And so were our orders earlier in this year for waste heat recovery in the steel sector. So, we have confidence that is broad based its in terms of geographies. It's driven around thermal renewables and new solutions, either directly for grid dispatchable power or for internal heating requirements. And yeah, I think that's what I can give you right now.

Amit Advani: Thanks. And with respect to sir inquiries, I think if I heard it right, you mentioned that inquiries have grown by almost 27% for this quarter. But I think there was a decline in enquiries in domestic market. Is it right?

Nikhil Sawhney: Yeah, our enquires overall, over 25%. Internationally, it grew by 58%. This is what gives us confidence in international order bookings, in the coming quarters in the year. Domestic market enquiries reduced by 19%. And this was pretty much all driven by the eastern belt of mining / metals.

Amit Advani: And sir any outlook, are we expecting the same in current quarter?

Nikhil Sawhney: Our outlook is still equally robust. The market itself for the half year in the domestic market was somewhere in excess of 700 plus MW, for the below 30 MW category; we didn't have much of any orders above 30 MW. So, we're confident that year-on-year growth is there. If we look at order conversions in certain industries, they seem to be very robust, especially in terms of markets, such as paper recycling, new markets, such as plastic recycling, et cetera, will be picking up as well.

You have cement expansions and cement waste heat recovery, which will be coming up quite seriously in the coming quarters. So we're very positive on the domestic market. As I told you in our previous conference call as well, the entire market has a still a long way to go before it hits its peak for the domestic side. So, we think that while we have an upswing in fixed capital formation, it is nowhere near any peak in any manner. So we believe that we will continue to see growth in the domestic market in the coming years. But the next two, three years we should continue to see it.

Amit Advani: One last question sir on the SADC you mentioned that it contributed around ₹ 13 crore to the cost other expenses and margins typically here are lower. So, in this large service turbines what could be the market for us and are we expecting the margins also to improve here in coming quarters and anything in the pipeline here, apart from SADC?

Nikhil Sawhney: Yeah, pipeline has orders from there as well and they will be contributing in this financial year as well as next financial year. I think Sachin is back, so I let him speak a little bit more about this. But in general, the SADC, the reason I highlighted the cost for the half year, which form the part of other expenses is so that you get understanding on the published results as to why other expenses have gone up so considerably. And therefore, we will continue to provide notes to accounts to give that clarity.

These orders we will aim to improve margins, but it's difficult from these particular orders to come back to the general aftermarket margins. We think that providing the capability here, the market is really giving us credentials for the global market for us to provide this as a service provider everywhere. The market is extremely large -- extremely, extremely large. So Sachin, can you just provide your comments…

Sachin Parab: Yeah, the specific question was about the SADC market. The services market in SADC region is huge. I don't have a figure to share with you. But we have a very, very small rather insignificant market share. And the reason why we have entered into this strategic services contract is so that we can build credibility, create a reference and get into the reckoning in other markets as well.

So, there is a lot of headroom in SADC itself for us to grow in the services region. And purely from a service standpoint of manpower supply, we are aiming to upgrade ourselves in the value chain, and get into more of supplies of parts and upgrades, which will actually help us in improving the margins even better. So, this is just the beginning the foundation being laid in SADC region for the services.

And we are confident that the reference we create here will help us get new business in other markets. The market remains extremely large. And as I said, the market share is very small, so tremendous head room for us for growth.

Nikhil Sawhney: Sachin, why don't you give an indication of the overall aftermarket growth?

Sachin Parab: So, this year, we have seen good order booking across the spares, services and refurbishment domains of the aftermarket business. The growth has been driven significantly by efficiency enhancement and upgrade projects. And we see that across the markets more so in the Indian context where we find that a lot of customers are finding value in getting upgrades done on their turbines. We are seeing good traction across Asia and in Africa for all our revenue streams. And the growth this year, some of the numbers our Vice Chairman has already mentioned, we are quite hopeful and confident of achieving the same growth numbers in the next year as well. So, the momentum should continue for the services business.

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

Himanshu Upadhyay: Congrats on good set of numbers. I had a question on our order books are increasing and even for our competitors. Are the pricing also improving in the market and because some of these are European based players, okay. So, what is the pricing happening? Are we seeing any improvement in the pricing?

Nikhil Sawhney: The thing is that, we've come up from extremely volatile raw material based. So, at which point in time you look at it and orders. But in general, you could say because the market is expanding, margins are expanding. You are right, but that general principle. So, that is a positive thing about it, but it is an intensely competitive market also at the same time. So, we do see in general margins expanding because of the market expanding itself. Also given the fact that, that different companies are different cycles of having absorbed the raw material cost increases or the revision of cost downwards.

Himanshu Upadhyay: Okay. And one question I had was, see in turbines we say that refurbishment happens after a period of time… At what point of time the Company decides that it is time to buy a new turbine versus just getting it refurbished, okay? Can you just give some…?

Nikhil Sawhney: It depends on requirement. You see the product itself is a customized product and used by operators in their own manner. So, really the wear and tear is dependent on a lot of inputs from the customer side itself and primarily amongst those is the operator use, especially if this turbine is used in extraction mode or back pressure mode where the steam is or heat is provided to an industry, the requirements both from a quality of water perspective lead to degradation of different parts there.

So, you have different wear and tear that happens between different customers, both based on industry as well as geography, driven by different levels of automation et cetera. So, the refurbishment cycle can be as quick as one year to 20 years, it is all unique and customized and depends on specific considerations.

Our turbines itself are last to build or designed to build in excess of 40 years so they can last, they are rugged turbines. So, they have no problem. But even in our own technology, we ourselves are developing new blades, the new blade parts which improve our efficiency by 3- 4- 5- 6% over the previous generation, and so you could even validate with our own installed base to improve and replace rotors and change blade paths to improve efficiency with an installed base of maybe five years ago even.

Himanshu Upadhyay: Okay, and one more thing on that API Turbine business, what has been the progress and the path ahead on that product. If you can elaborate on that.

Nikhil Sawhney: This is a market segment that's newer to us. And so, we are building inquiry book here and our order book, we have received good orders, we continue to believe that we will receive good orders, we believe the market is quite large. So, we think that before we become a significant player there and coming to the line of more intense competition, we have a way to go in terms of our order booking here.

But it will grow at a very fast pace year-over-year but it won't contribute more than 10% to turnover and we will let you know when it can do, whenever it contributes over 10% over. But right now it is not there.

Moderator: Thank you. The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: I would like an update on the CapEx that was announced last quarter. I think it was expected to come on stream this quarter?

Nikhil Sawhney: Yes, I will ask our CEO & Executive Director, Arun answer that.

Arun Mote: Yeah, good afternoon to you. As regards to CapEx, the expansion at our new plant at Sompura is more or less complete and some balance portion would be completed up to the month itself. There have been certain other acquisitions, as far as land and equipment is concerned. So most of the CapEx is now over. There will be some balance in Q3 that would happen. And I would like to tell you that all of it has been put to use.

Nikhil Sawhney: There's no fresh CapEx proposal. So, whatever the CapEx we had, which is all we're doing, 80% of it is in fixed infrastructure and about 20% is in software and other IT based CapEx.

Alisha Mahawla: Yeah, this is the CapEx that was to increase the capacity to 200-250 turbines, correct?

Arun Mote: Yes, yes, ma'am. And that is what I said, but it has been already put to the use. You recall last year, last year, we had done over 100-110 turbines. And this year in the first half itself, we have reached a figure around that. So, the capacity is full. The building of numbers in the current financial year will be twice as compared to the last year. And we have further space to expand it with the current infrastructure that we have. And as our Vice Chairman has told you earlier, we are looking forward to around 300 turbines that can be built of various types and sizes.

Alisha Mahawla: Okay, sure. And can you also quantify how much of our growth this quarter is attributable to the price hike that was taken in this quarter in the last three quarters?

Nikhil Sawhney: You know every order is unique. So, we don't have any list of standard price. It's not possible to determine it that way. I think the previous caller had mentioned in terms of margins. And I think that's the only way that you can say that we've seen an expansion in margins.

Alisha Mahawla: Okay, sure. And you did mention earlier in the call that there is a drop in domestic inquiry, is this only attributable because of steep inflation in raw material costs or CapEx costs or is it a general slowdown that now we're witnessing and are we expecting this to come back in H2?

Nikhil Sawhney: Yeah, I think it will come back in H2, but I think you have to look at it less of a quarterly basis and more on an annual basis, on an annual basis we will see growth.

Moderator: Okay, thank you. The next question is from the line of Chirag Muchhala from Centrum Broking. Please go ahead.

Chirag Muchhala: Thanks for the opportunity; the question is on the SADC order of ₹ 1 billion that we had, so anything of that order has been booked in Q2 as inflows?

Nikhil Sawhney: No inflows in Q2.

Chirag Muchhala: Okay, so on the similar lines; are we exploring servicing of utility turbines in India as well in the near future? And if yes, then what kind of incremental capabilities we will need to build for it?

Nikhil Sawhney: Yeah, the capabilities are something that we already have, India is a market that works on references and pre-qualification, et cetera. So these are things that we will have in place. India is also a very competitive market. So, we'll have to see how we entered into it, especially given the fact that we don't like assuming liabilities, especially in these matters. State directory boards are notorious in lack of transparency in the operations. So, we'll have to see how we operate in that market. But needless to say, we have the capabilities. We have the capacity as well, we have the knowledge, we have the references now, we just have to see how we approach the market and with customer confidence to be able to execute.

Chirag Muchhala: Okay, but at least from the private sector plans, any immediate plans to also, I mean start exploring that market or I'm in probably not something over the next couple of years?

Sachin Parab: Yes, we can hear you. To answer your specific question. This is Sachin here. In terms of the private players in the Utility segment in India. As our Vice Chairman mentioned, it's a very fragmented and competitive marketplace here. So we are going to be very selective in terms of the businesses that we will pursue where the risk is limited. And there's much more transparency in doing business. As far as independent power producers go with utility turbines, we are the suppliers of parts. So that's an area which we have been actively exploring, services will be more in the medium term, but for the short term, we are looking more in terms of supplies of parts to the Utility turbines independent power producers. I hope that gives answer to your question.

Chirag Muchhala: Thanks. And on the 30-100 MW space, in the last call, it was mentioned that we were successful in a thermal renewable project also which will be booked in Q2. So, has that been booked or that is yet to be booked?

Nikhil Sawhney: It has been booked. It has been booked. Good order, great systems, good technology application.

Chirag Muchhala: Is this is a different order from the one that you're mentioning from West Asia of the solid municipal waste incineration, right.

Nikhil Sawhney: I don't fully recall what I said last time but this is what we booked in this quarter.

Chirag Muchhala: Okay, so, for the 30-100 megawatt space specifically in Q2, how many units have been booked can that be given now?

Nikhil Sawhney: We started on our concalls post the joint venture ending to give greater credibility around the orders here but we would like to stay away from giving individual orders until they are material, unless they are material but regardless to say that that we are getting good market traction here, we get good market participation and inquiry levels in this space are going up. Our customer references and our regard from customers is going up. And so therefore, we believe this is definitely add to and is already adding to our order booking. And we'd like to then just look at the turbine market in terms of applications rather than size over a period of time.

Moderator: Thank you. The next question is from the line of from Prolin Nandu from Goldfish Capital. Please go ahead.

Prolin Nandu: Just want to understand your after sales business a little bit better. To mention that these are customized turbines and life cycle can depend on the usage. But as a thumb rule, let's say if a customer pays ₹ 100 for the turbine, over the life cycle of the entire turbine, what could be the revenue that the customer will have to pay for the refurbishments spare and service element?

Nikhil Sawhney: About three times over a 20-year period.

Prolin Nandu: Okay, so this is ₹ 100 is based for turbine, the ₹ 300 for the rest?

Nikhil Sawhney: On a non-inflationary basis.

Prolin Nandu: Non-inflationary basis, okay. That's good enough. Three times, right.

Nikhil Sawhney: Yes.

Prolin Nandu: Okay and just can you talked a lot about the international aftersales market, in the zero to 30 MW in terms of the turbine that we sell we have very high market share, do we have a similar or a higher market share in aftersales in domestic market in zero to 30 MW. What I wanted to understand was that how are we looking at the service or the after sale elements of the turbines of our competitors? Can you help share some strategies to cater to that market?

Nikhil Sawhney: Yes, so actually it is a very good question and as you would see that growth markets such as India, Southeast Asia, where the installed base is lower, that means that both Triveni, reference sites as well as competitor reference sites are lower, the focus is always obviously going to be in terms of more product sales. In India in specific, because really the expansion in the Indian market, in terms of captive power generation really only picked up post 2003 Electricty act. Triveni's market share and installed base is a prominent market base here. And of course, majority of our market bases cater to by ourselves only. Those customers who don't buy the aftermarket services from us are not buying from a competitor, they are pretty much fabricating it in a very rudimentary manner.

So those are not type of customers that we would like to sell to anyway, because there's no price and margin there in any case. On the international side, as you rightly say, the installed base of our competitors is far larger. And our focus would be to incrementally take share from those OEMs who are largely no longer participating in this space or are very expensive. But this is dependent on giving credibility to our customers in terms of having on the ground presence and capabilities. And to that extent, as we build out our international capabilities and on the ground presence, we will see greater degree of customer confidence.

We have received numerous orders in this past quarter, from clients for our competitor turbines. And these range from utility turbines of 660 MW to combined cycle application turbines of 60 plus MW of our competitors. And so, we think that this is more a question of effort in market and making sure that our presence is there and is continuously selling. We know our capabilities are high and that our cost structure allows us to be extremely competitively priced for the customer. Again, as Sachin has said that this is a key area of growth for us going forward.

Prolin Nandu: Sure, just a follow on to that would be I mean, let's say in some of the international markets, where you need some people on the ground, does it mean that initially we will have to probably invest and then it does not make sense to probably compare our after sales margins that we have done historically, because of this investment phase. And maybe some of these key countries, we will have to probably put that feet on the country. So would it be slightly margin value to at least in the short-term? Is that a right way to look at it?

Nikhil Sawhney: No, no, not at all actually, because this is, we're not a CapEx heavy company anywhere. Our capabilities are people. Expansion markets is a HR constraint as well as a question. To that extent, like I started off with my initial remarks, we have a very ambitious and aggressive hiring plan. And so we are looking for capable managers, looking for capable competent managers at all different levels, business managers, technical and engineering managers, service support staff, supply chain people. So we're looking to expand operations, while of course, keeping in mind the fact that we will continuously look to contain employee costs as a percentage of turnover.

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

Harshit Patel: This is Harshit from Equirius Securities. Good afternoon. My first question is on Europe, as you have highlighted, rightly, that Europe is going for energy security. And that might open up a lot of prospects for us. So sir, could you give us some flavor on the European market as a whole? As to how large is the market? What is the structure of the competition over there? As to what would be the market share of top 3-4 large MNC players, because the Tier 2 players and where do we stand in this overall scheme of things. And lastly, on the similar lines, what would be the difference in pricing, it will be clear as to how much premium would Tier 1 players will be charging and where are we in the cost structure? That would be my first question.

Nikhil Sawhney: So, thank you. Very detailed questions. Unfortunately, I don't think I'm going to be able to give you answers on the pricing levels. But obviously, you would understand that price quoted to a customer and accepted by a customer means that other people were higher or lower, to that. We as Triveni don’t lose orders based on price. Our biggest issue in the international market is a question of visibility as we can expand our visibility to the basic extent, which is an indication through our inquiries; the chances for success are higher.

In general, Europe is going through its energy transition. And its requirements are specifically catered around thermal renewable solutions only or district heating, as a matter. Typically from a competitive viewpoint, Europe has had the largest number of incumbent OEMs, but they also have the largest number of OEMs that have gone out of business or who have sold out also. And so the competitive nature of the market in Europe is the highest. We find that despite the fact that it is a competitive market, you have very healthy margins, I think for all manufacturers.

The market not only in Europe, but globally is dominated by Siemens, Siemens is by far the largest player in all market segments in all markets, especially if you look at it from global regional perspective. And so, they are the dominant player and the rest would fall below including us. So we are there. Now what you must keep in mind is the fact that, that the amount of inquiry that we see from Europe are pretty much same number of inquiries that we see from Southeast Asia. But Southeast Asia provides a different application to those, to the requirement. There's more industrial capex than fixed capital formation happening in Southeast Asia, as well in Africa, than would be happening in places like Europe.

Harshit Patel: Sir, understood. So my second question, would it be on the geographical elite of our overall international revenues? So if not the exact numbers, but if you can give a broad split as to what is the percentage of international revenues that we are getting from each of these geographies? Europe, Southeast Asia, West Asia, Latin America, and so on and so forth? That would be my last question.

Nikhil Sawhney: Thanks. I think firstly, I don't have this information on me, but I don't know how material it is, given the fact that like I said, we sell it over 110 different countries. And very frankly, the economic climate between India and Bangladesh and Pakistan is not the same. So getting in on a regional basis, apart from Europe is not really constructive. But having said that, our order book, like I said, is based on two applications.

One is industrial heat and power application. And the other is renewable energy-based power requirements. Now, you could tell from areas that wherever the installed capacity or size of economy is larger than obviously the larger markets for us. Indonesia is always going to be larger market than Singapore. That's just obvious. Indonesia is also going to be the larger market as compared to Thailand. And Thailand is going to be a larger market for us than Vietnam. These are the consequences of markets. And so very frankly, we participate in the growth of those markets and the energy transition as well.

Moderator: The next question is a follow-up from Prolin Nandu from Goldfish Capital. Please go ahead.

Prolin Nandu: Thanks again for the opportunity. You mentioned that you are also always upgrading and there is a whole element of 3% to 5% -- 3% to 6% improvement in yield and that also is forming a decent part of your order book. For a customer, what could be the breakeven to probably upgrade, right, if that is an improvement of being a yield of let's say 5%. what could be the payback for that kind of a replacement?

Nikhil Sawhney: Yeah, it all depends on cost of capital, but as you would imagine, and cost of capital and the price of your fuel. So, what we've seen, this has been a large driver of growth for us both on the product as well as aftermarket size is, is the fact that the raw material of fuel prices gave biomass, coal, or even notional cost of heat has gone up considerably in the calculation. And so the paybacks are very, very quick. But I would say that for a 5% efficiency, upgrade that 12% cost of capital should give you a payback somewhere in the region of about three years, three and half years.

Moderator: Thank you. The next question is from the line of Khadija Mantri from Sharekhan. Please go ahead.

Khadija Mantri: First question is that in the results, we have -- had a special mention of some ₹ 11.4 crore of expenses towards execution and maintenance expenses in the SADC region. So, was it a one-off and we are clarifying, because we did not book any revenue of this order in Q2?

Nikhil Sawhney: No, no. There was revenue, the expenses, of it were not directly incurred by us so they form a part of other expenses. We had alluded to this in a previous conference call, as well as this conference call as the fact that there will be further revenue coming in this market. And to expect that in both, not only this current financial year, but the coming financial year as well.

Khadija Mantri: Okay. And so, when we say that better product mix improvement in margin, so what would be the ideal product mix for Triveni Turbines which would, which we can, which can lead to 100 to 200 basis points improvement in margins and current levels of 19%. I'm talking about operating margins.

Nikhil Sawhney: No, I think the fact is that it is a dynamic market. Of course, the fact is that we could expand the margins tomorrow to 20% to 25%, if necessary, we just have to refuse certain orders. The thing is that the domestic market is always more competitive. We aim to maintain a good market share, a dominant market share in the Indian market as a strategy and the fact that we consider it to grow, the domestic market, as well as our international market growing, we believe that in the medium term, we'll have a 50-50% product both international and domestic revenue share.

So that is one thing that will stabilize the margins. The next part is on the aftermarket versus the revenue mix, where currently you have to 24% of turnover for this current quarter, the previous financial year, in Q2 FY 22 was at 27%. So you can see why there is a margin difference because of the average margin that you would get the aftermarket segment are considerably higher than what would be in the product. What we aim is again in the short-term is that we will incrementally grow our percentage aftermarket to sales as well. This will be difficult given the fact that we have an extremely high growth rate on the product side.

So, this is something that we'll have to try and that will be a challenge for us in the coming quarters is to maintain the growth rate and Sachin has already spoken about the fact that it has already grown quite considerably from an order booking perspective and then therefore execution and within that this will continue to grow even faster. So we should have a higher aftermarket as a percentage of sales bigger than the previous year. This all gives us confidence in the fact that ultimately, we have yielding revenue from our aftermarket, and something that we think holds us in very good stead for years to come.

Moderator: Thank you. As there are no further questions, I now have the conference over to management for closing comments.

Nikhil Sawhney: Thank you very much, ladies and gentlemen. We're very pleased with where we've ended up with Q2 FY 23, as well as the H1 FY 23. We have full confidence that H2 is going to be considerably better than H1 and FY 24 is going to be much better than FY 23. So, we look forward to your participating in our growth journey. Both Arun and I thank you for being on this call.

Moderator: Thank you on behalf of Triveni Turbine Limited. That concludes this conference. Thank you for joining us.

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