Triveni Turbine Limited
Q3 FY 23 Earnings Conference Call Transcript
January 24, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Triveni Turbine Limited Q3 and 9M FY 23 Earnings Conference Call.

I now hand the conference over to Mr. Rishab Barar of CDR India. Thank you and over to you sir.

Rishab Barar: Good day everyone and a warm welcome to all of you participating in the Q3 and 9M 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. Lalit Agarwal, Chief Financial Officer; Mr. S.N. Prasad, President - Global Sales Products; Mr. Sachin Parab, President - Global Sales Aftermarket; 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 and a very good morning to everyone. And welcome to the Q3 & 9M FY 23 investor call for Triveni Turbine Limited.

We are extremely pleased that the Company has recorded - record turnover, profitability, order booking and even on the balance sheet, multiple factors have been record for the Company in its history. And so, we are very excited to have this call with you because not only have we had very good results, but the visibility for results not only in Q4, but in FY 24 as well seem to be very robust.

With the identified growth avenues in the form of all the three product segments, which is the leadership segment in the below 30 MW category, the newer focus segments of above 30 MW space, as well as drive turbines and that coupled with a very robust aftermarket strategy encompassing spares, service and multi-brand refurbishment, gives us great confidence in achieving newer milestones in the quarters to come both on operational and as well as on a financial basis.

Revenue from operations for Q3 FY 23 stood at ₹ 3.26 billion, an increase of 44.6%. EBITDA for the quarter was at ₹ 750 million, up over 40.4% with a margin of 23% and PAT for the quarter was at ₹ 526 million, an increase of 47.3% year-over-year.

For the nine months, results have also been very good with revenues from operations at ₹ 8.78 billion and EBITDA at ₹ 1.98 billion and all these numbers have crossed the yearly figures for FY 22 already in the nine months of FY 23.

In this current quarter, we had an order booking of ₹ 4.2 billion and a total order booking in the nine months of ₹ 11.39 billion, which is an increase of over 26% year-over-year. The outstanding carry-forward order book as on the 31st of December 2022 stands at ₹ 12.32 billion, an increase of 33.3% year-over-year, which gives you a visibility in terms of the revenue and turnover that the Company will have to execute in the coming quarters.

On the balance sheet side as well, we have record situations with investments in excess of ₹ 8.3 billion, an increase of over 10% from March 31, but we also have further negative working capital in the business as well as extremely high free cash flows, which are higher from a quarterly perspective and nine-month perspective than the profit after tax on the respective period.

On order booking and order book, the Company has achieved, like I said, another quarterly high in total order booking, crossing ₹ 4 billion. And the domestic order booking for the quarter was at ₹ 2.31 billion, an increase of 181% compared to last year. The export order booking during the quarter was at ₹ 1.9 billion, lower by 21% as compared to last year's order booking of ₹ 2.39 billion. But it has to be kept in mind that quarter included some exceptional very large and very prestigious orders from the international market.

On the product side, order booking during the quarter breached the ₹ 3 billion mark and came in at ₹ 3.06 billion, which was higher by 13% when compared with the corresponding period of the previous year and the product segment turnover was ₹ 2 billion during the quarter, an increase of over 19% over the previous year.

The aftermarket segment registered an order booking of ₹ 1.15 billion during the quarter, growing handsomely by over 130% and compared with the corresponding period of the previous year. The aftermarket turnover was ₹ 1.26 billion during the quarter, a growth of 118% over the previous year. And aftermarket has contributed to 39% of total turnover in Q3 FY 23 versus 26% in Q3 FY 22.

The domestic outstanding order book stood at ₹ 6.92 billion, up 37% and the export outstanding order book stood at ₹ 5.4 billion as on the 31st of December 2022, up 29% and contributing to 44% of the closing order book.

During the quarter under review, revenue from operations grew by 45% as compared to the previous year with the domestic sales showing an increase of 14% to ₹ 1.85 billion, while the export turnover increased by 123% to ₹ 1.41 billion, driven by the Company's success in the international markets, especially in the aftermarket segment. As a result, the mix of domestic and export sales has changed to 57% and 43% in Q3 FY 23 as compared to 72% domestic and 28% export in Q3 FY 22.

In the product segment, enquiries increased by 31% year-on-year, and we are witnessing higher enquiries, especially from the international markets such as Southeast Asia, Europe, West Asia and North America. In its entirety, we have seen an increase in the international enquiry base by over 55% in this past quarter and we have seen a decline of 5% in the domestic enquiry book. Amongst industry segments, renewable energy independent power producers (IPP) segment led to a higher enquiry base followed by process industries.

In the Domestic segment, we are seeing good prospects from the distillery, pharmaceutical, chemical industries, amongst others, including waste heat recovery from the cement sector as well. The American Petroleum Institute (API) segment in the domestic market as well in internationally is very robust and we have good visibility in terms of orders coming from this market segment.

On the aftermarket side, the Company is again witnessing very good growth in the sub-segments of spares demand as well as for efficiency improvement and refurbishment with strong enquiry pipelines. The expansion of the portfolio to cater to utility turbines, geothermal and other rotating equipment is yielding good results and would be happy to discuss more of this as we take the conversation forward in the question and answer session.

An update on the buyback. The Board of Directors at their meeting held on 2nd November 2022 approved the proposal to buyback 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. Subsequently, the shareholders of the Company approved the buyback through a postal ballot by e-voting on the 11th of December 2022. The tendering period of the buyback has commenced on 17th January 2023, and will end on the 31st of January 2023.

As far as outlook goes, despite the global recessionary concerns, Triveni Turbines is constructive on the business prospects in the coming years and our enquiry book suggests the same. On the domestic market, we believe that industrial CapEx growth is expected to continue and the small decline that we have seen in the enquiry base for this current quarter should be overturned in the coming quarters.

We believe that segments such as waste heat recovery and waste to energy will receive further impetus from the Government of India, as well as State Governments. This is for focus in India specifically, but it equally applies to the international markets as well, where there is adequate funding in this space for renewable energy power generation, especially as we see continents such as Europe clamoring for an increased energy transition.

Triveni Turbines is also at the forefront of innovating and leading this energy transition by working with premier Indian educational institutions towards developing emerging technologies. We believe these will lead to a variety of different marine, industrial applications for cooling, heating, as well as power requirements, including recovery of waste heat.

The Company's long-term vision is well supported by a growing workforce with a focus on up-skilling and re-skilling, higher international presence to increase proximity to customers as well as continued investments in customer-centric innovation through research and development. Our total number of Intellectual Property Rights (IPR)s filed stand in excess of 315 and IPRs registered are well over 220 now. The Company has also added in excess of 90 odd people in the previous 12 months and we believe that this growth in personnel will continue into the coming year.

We are optimistic on the future performance of the Company and we believe that with a highly motivated workforce with sales and marketing abilities, engineering excellence and a strong aftermarket capability, the Company will continue to improve its market position and maintain its growth momentum in the years to come.

Thank you very much. I am happy to take questions now.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Himanshu Upadhyay from o3 Capital. Please go ahead.

Himanshu Upadhyay: Yes, congratulations on great set of results. I had a few questions on the aftermarket business. So, in this quarter, when we see the doubling of aftermarket revenues, was this some one-time order or how should we understand this? Because historically, we believe that this aftermarket business, which is around 22-23%, will slowly steadily reach 30%, but we see a very handsome jump. So what are your thoughts on it?

Nikhil Sawhney: Yes, so actually we've been talking about this for the last couple of quarters on our investor calls. So, if you read the transcripts, which are on our website, you'd see what we've been talking about specifically in terms of certain refurbishment service orders that we've taken in our aftermarket segment. As you rightly say, the percentage of aftermarket as a percentage of revenue has hovered in the region of 20% and it has gone up incrementally every year from 23-24% to 25-26% and I think last year, it was somewhere in between 27-28% and in this current quarter, it's coming to about 39%.

These are not one-time order, these we believe are large sustainable orders, which will increase in value over a period of time. But if you look at it in aggregate, the growth in the product side of the business is equally robust. So, while this quarter may have come in at 39% aftermarket as a percentage of revenue, I think for the yearly number where you would take it somewhere in the region of around 30+%- would be a little bit more accurate.

Though having said that, the aftermarket segment is going to grow faster than the product segment. And so, you would see a greater contribution from aftermarket as a percentage of revenue in the years to come. This is supported by a robust margin structure that we have in both the product as well as aftermarket side.

But let me ask Sachin Parab, who heads this business on the aftermarket side, to give you a little bit more visibility, specifically on the refurbishment side of the business. Sachin?

Sachin Parab: Good morning everyone. Yes, we've had a good quarter. In terms of the sales for the quarter, the percentage of the total seems unusually high as VCMD has mentioned in the range of 30% of the gross sales of the Company is what aftermarket sales will be typically. The business is consistent, the orders are consistent, but the percentage this quarter, the third quarter is slightly on the higher side. This is not really the percentage, which we are looking at in the long-term. Gradually, the percentage will go up, but it will hover around 30% or slightly under that.

Himanshu Upadhyay: And one more thing. You said that aftermarket will grow at a faster pace than product? But generally, in capital goods, what we see is product grows better in the up-cycle and refurbishment and all those things happen more in the down-cycle. So, the aftermarket is lagging. So, can you elaborate what is the reason for that? Thanks.

Nikhil Sawhney: Yes. So, as we tried to explain over the past couple of quarters, we have three distinct product segments, which are growing in independent ways. The first is our historical market of below 30 MW turbines, which will grow given our market share based on the market size movements and we see the market size expanding year-over-year, which is evidenced by our enquiry book. But I agree with you, it’s not going to grow at very high numbers. The second market is the market in which we don’t have a very high presence, but we have ambitions to increase our market share, which is above 30 MW space, where we will see good growth in as far as Triveni Turbine is concerned and equally, with drive turbines. But all of this combined, and as you can see from our order book, the product order book grew over 13% year-over-year and while aftermarket order book grew by over 130%.

Now the aftermarket is comprised of three distinct segments, which is spares for your own existing turbine base, services for your own existing turbine base, and then refurbishment, which is what we call both parts as well as service for third-party turbines. Now the first two will grow based on the growth of your own existing installed base. And so, they will grow at the same rate of growth of your product growth.

The refurbishment, given the fact that we have a strategy to have a more localized presence in international markets and have their own independent growth strategies to cater to third-party turbines before the population of Triveni Turbines pickup in any specific geography has borne-out very well for us.

And so we see that market segment, which provides not only parts, but service to third-party turbine users and this stretches across the spectrum of turbine users, be it from utility turbines to applications such as geothermal, it has borne-out very well for us, but it's all based on localized presence and that is a strategy, which we have elaborated on in the past where we aim to increase our international presence going forward. And therefore, capture markets like this, which we will do opportunistically.

Himanshu Upadhyay: One last question, then I'll join back in the queue. See, we acquired one company for aftermarkets business, and which was basically a team of people who were present in aftermarkets, and we said if that strategy goes well, we'll look at more such type of bolt-on acquisitions? So, what have been our learnings from that? And what is our thought process currently on growing the business or through inorganic way?

Nikhil Sawhney: Yeah. Inorganic is very strong word because we spent about ₹ 6.8 crore to acquire the stake that we did. It is basically a quicker acquisition of talent, which is what we did through that route.

Our learnings from it are many. Of course, it's very difficult to elaborate on this call, but suffice to say that we are very optimistic on the fact that we need to have a localized presence. The route to that localized presence being organic or inorganic, I think it is more in our strategy to attempt to do things organically, but if small, again, I must repeat, if small inorganic opportunities exist, we will definitely evaluate them.

Well, I think that Triveni Turbines is looking at multiple different geographies, be it Southeast Asia, Europe, as well as North America and South America, to move on this strategy. And so, we will come out with the correct disclosures once the Board has allowed us to disclose that. But having said that, we are actively contemplating our growth strategy internationally on the same lines or similar lines of having an increased international presence in the quarters to come.

Moderator: We'll take our next question from the line of Kunal from B&K Securities. Please go ahead.

Kunal Sheth: Yeah. Hi. Thank you for the opportunity, and congratulations on a great set of numbers. My first question is pertaining to the domestic market. While you did allude to the fact that there is some slowdown on the enquiry pipeline in the domestic market. But any sense that you're getting in terms of why this is happening in terms of, is it more transitionary? What is basically causing this slowdown? Any sense that you're getting when you talk to your clients?

Nikhil Sawhney: Okay. In general, actually, it's still quite robust. I think this is more of a quarterly phenomenon where we register an enquiry when it comes as a formal request. The conversations that you're having in the market seems to be very robust. But for us, enquiry is a technical matter where very frankly a request for proposal has been raised. So that is the level of seriousness is much higher, as well as the fact that people are looking for raising funding. And so, the bankability of the project, etc. requires a lot of these RFPs to be in place. But the conversation that we are having with our potential customers is as robust, if not more. And so, we see a variety of different sectors adding to not only the enquiry book, but also have contributed to the order book for the domestic market perspective.

Firstly, you have segments, which have been very strong for us, such as municipal solid waste incineration in the global market and it really has not contributed so much on the Indian side. We saw that contribute quite well in this current last quarter. We saw cement waste heat recovery continuing its momentum. We saw a certain process co-generation from chemicals and other side also being quite robust. You have a lot of government expenditure coming up from fertilizer, petroleum, petrochemicals, etc. in both the coming quarter as well as the coming year. And so, we are quite optimistic of government CapEx also, which will be leading to higher fixed capital formation in the PSUs. So, we think it's transitory in nature and we'll see, I think it's still a much higher number than we did in the current year.

Kunal Sheth: Sure. Thank you. My second question is pertaining to exports, especially on the Europe side. With energy costs starting to stabilize and come down in Europe, have we seen any change in the discussions with customer in terms of their thought process? So basically, cooling of energy cost in Europe, how does it impact our business?

Nikhil Sawhney: No, actually, it's bit opposite. The fact is that given the uncertainty in energy costs that they're facing, they are trying to speed-up their energy transition. So, what that means is it to become energy independent as well as become more decentralized and localized in terms of energy generation, especially towards a decarbonized form of generation. So that fits directly into our product basket.

As you know, the fact is that from the renewable energy power generation space, we provide solutions in only two industries, which is biomass based IPPs and municipal solid waste incineration. And both of those are dependent on the waste that is available. So, when the waste is available, it does get used. It's a question of ensuring that we are present in front of those customers to be able to build those orders.

Kunal Sheth: Okay. Great. Thank you so much.

Nikhil Sawhney: But Europe does contribute about 20% of our enquiry book. So, it's very pertinent to our execution strategy.

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

Harshit Patel: Hi, Sir. Thank you very much for the opportunity. Sir, my first question is for our greater than 30 MW segment. Sir, could you highlight what has been our order intake in the first nine-month of FY 23? I remember we had received an order in the municipal waste incineration category in West Asia in the last quarter. So, have there been any follow-up orders from that point onwards?

Nikhil Sawhney: No. But you are right that this is a segment that we are very actively pushing. And if we look at it, this current quarter didn't see any order booking, but we're very optimistic in the coming quarters, we'll get good traction in this space. So, the follow-on orders, etc. don't exist and they weren't any follow-up orders. So, both from the domestic market, which really hasn't had many orders in the above 30 MW category, as well as international, the market is something that we see will expand a little bit in the coming year. And so, we'll be participating more aggressively in that space.

But in general, the fact is that technologically, we are quite confident on our product range all the way up to the maximum 100 MWs. And so, we are going to stop differentiating between below 30 MWs and above 30 MWs from next year onwards and just talk about the industrial heat and power market as well as the renewable energy market.

The reason to provide distinction between the below 30 and above 30 was to give confidence to analysts and investors about the growth of the business. The Company seems to be growing exceedingly well in all its different growth avenues. And as we've seen the record profitability and turnover in Q3, we hope to better that in Q4 and in the quarters to come in FY 24. So, we are looking at a very robust growth for the business and it will be split amongst all its different component categories.

Harshit Patel: Right. Understood. My second question is on the SADC region where we have done a small acquisition. So earlier you had highlighted that the total order value with the current customer could be as high as ₹ 1 billion over the years and we had also booked a small order worth ₹ 119 million in the first quarter. I think, however, in the second quarter, you had mentioned that there was no incremental order from that customer. So, what was the situation in the third quarter? What is the cumulative order intake that we have booked from that particular utility-level customer?

Nikhil Sawhney: I think somewhere in the region on this current nine months and somewhere in the region of about ₹ 60 odd crore. Sachin, are you online?

Sachin Parab: Yes. Similar numbers as you indicated, sir.

Nikhil Sawhney: Yeah. But I would encourage you to not look at individual orders because that's not really reflective. We don't have a concentration of customers in both the aftermarket and product categories. And so, our attempt has always been to diversify both geographically between customers and between market segments and industries.

And so very frankly, getting repeat orders is what is important to us because that is a sign of confidence and our execution and the quality of our execution. But really getting repeat orders for the sake of building our order book is really not how we benchmark it. So, we would use our success in the SADC region with other customers in the region with other countries and with other aspects. So, we're optimistic and that joint venture and our presence there has aided in providing that visibility.

Harshit Patel: Sure. So just a bookkeeping question on the same line. So, you've started highlighting the kind of subcontracting cost that you incur as part of the other expenses. So, does this subcontracting cost only on account of this SADC region or that is generally spread across the globe in your aftermarket business?

Nikhil Sawhney: No, I think it's a little difficult to answer that, but it is the reason that we needed to highlight it, as it is highlighted in the notes to accounts. As you can see that was for the SADC region only as what is explicit in that note, because it is material enough for us to disclose. In either case, the fact is that this is a competitive space in a competitive world, so to provide excessive information even on calls like this leads to a degree of disclosure, which my colleagues on the marketing side would not appreciate.

Harshit Patel: Understood, sir. Just a last and small question from my side. So, you have highlighted that you have added 90-odd employees in past one year. So that's a pretty significant ramp-up. So, do we see a further ramp-up from here or the employee strength will kind of stabilize at the current levels in your opinion?

Nikhil Sawhney: No. We would see a similar number of people joining within the next 12 months as well. Arun, can you provide some visibility on the employee recruitment strategy and how we're approaching it?

Arun Mote: Yes. As you know, the volume of the sales has increased, and we needed people for manufacturing and then other activities of the Company also. So, these 90 people have been added across the board from senior level to the trainee level and we expect the similar number to be added in the current year. This will also ensure that our employee expenditure as percentage of sales is not likely to be more. In fact, it will be well within control and there will be a productivity increase also. So, there is no reason to worry about the extra manpower that we will be adding. And there is an attrition in the last one year, which was more, and we expect the attrition to continue, because that's the way the industry is poised for today.

Nikhil Sawhney: To add on to that, the fact is that in terms of specific competencies that we try to add, it's been more on internationalization front, more on execution capabilities, as well as on technology. And of course, everything has to go along. We believe that employee costs as a percentage of turnover will come down in the coming years, and despite the fact that we need to add more capabilities and more technical capabilities.

While the employee cost per turnover is going to come down, the revenue per employee is going to go up and that's a sign of productivity. And so, we're very hopeful that what is basically our front-line in terms of people will be adding productively to our order booking as well as execution.

Moderator: Thank you. Our next question is from the line of Amit Anwani from Prabhudas Lilladher. Please go ahead.

Amit Anwani: Hi, sir. Thanks for taking my question. My first question is about aftermarkets. As we see, obviously, this quarter, it has been contributing very strongly. And what I can see previous quarters, it has been contributing to the average of about ₹ 70 - 80 crore, and you highlighted that at least ₹ 40 - 50 crore extra has been booked this quarter. So, I think, just wanted to ask, is this because of SADC contribution largely?

Nikhil Sawhney: No, that is the one-off, but the segment itself is growing in a very robust manner. That is aftermarket, specifically refurbishment. Now refurbishment for us comprises of a variety of different services. You have, what I would call slightly lower value-added services such as overhaul and higher value-added services such as efficiency upgradation.

And so, it depends on customer-to-customer geography as to how we are able to instil confidence in a customer to be able to avail, for them to buy some of these services. Obviously, the greatest confidence that a customer gets is by having a local presence. And so therefore, given the fact that we have partly through this acquisition, partly through having employees based in the Southern African region, we do have a critical mass to be able to get orders.

And so that as a strategy has worked well for us and de-risks us in a market which is reasonably low in terms of liability. And so, as we look to expand the model out, you'll see this coming from everywhere. In specific in the aftermarket side, yes, in the current quarter, you did have the SADC contribute well, but very frankly if you look at it from a perspective of profitability as well as the focus, it is very widespread amongst all the different customers and geographies that we cater to.

Amit Anwani: Right. And sir, wanted to understand within export, how much would be product and aftermarkets? And any key geographies, which is significantly contributing to export? Obviously, you have highlighted four to five geographies if any percentage range you can?

Nikhil Sawhney: No, we don't give percentage ranges because that ends up giving you the number that the turbine value only. But having said that, we've seen good orders from South America and Africa in this quarter, then coupled with the regular and routine orders that we have picked up from North America and Southeast Asia and Europe. The ones that we would highlight in the larger range, which are closer to what, 30-odd MWs work from these regions. And in a very competitive environment, we have performed very well.

Essentially what we've seen over the course of the past year is that the market has expanded and with that expansion, as well as commodity prices coming down, the booking margins have actually expanded and so we're looking quite optimistically in the years to come. It doesn't mean that it'll all translate down to our bottom line. We have more expenses that we'll incur in terms of our internationalization, but as a company overall, we're very comfortable with our margin profile as well as what we forecast for the year to come.

Amit Anwani: Right. So, my last question is if you can highlight if possible for you, the MW-wise addressable market for you between zero to 30 and 30-plus. And any sense on market share, are you gaining, losing, retaining, any absolute number? And if you can highlight on the capacity expansion, which you mentioned last quarter. Thank you.

Nikhil Sawhney: Yes, on the MW-wise market share, I think you may take it offline and discuss it with Surabhi. But we have maintained our domestic market share and our international market share has gone up as you can see from our order booking. And this is a variety of different segments that you have to look at.

But in general, the performance is based on the fact that in certain market segments, we haven't had a great degree of market share to begin with, such as specifically, in the higher range of MWs, as well as in the API turbines. And so, as we capture more orders, then, of course, our market share will increase.

How to break it down directly in terms of market shares, it is a little difficult. We internally benchmark it based on the enquiries that we have. So, the success rate that we have on our enquiries is, especially in the international market is what is the way that we would judge it. Of course, that is not the entire market. As you would understand, at times, we don't have visibility into a lot of these product segments.

The last question was on CapEx. CapEx-wise, if everything is on track, as we come into the new financial year of FY 24, we will spend a little bit more money on balancing. So, as you would imagine over the course of the year before last, we may have manufactured in excess of 110-120 odd turbines, where this year, we may take that up to 160 odd turbines and next year, it'll be in excess of 200 or well above 200.

And our booking, of course, will be in the higher range of nearly 250-280 turbines. And so, we do have some execution-based CapEx that needs to be done, but the majority of our CapEx is going to go into R&D, into new software and skills and capabilities, new programs that we will be launching along with educational institutions, both in India as well as internationally, as well as a certain degree of internationalization of more service centres, et cetera. So that is where our CapEx is going to be focused on.

A little bit of balancing will have to happen. But in essence, our entire CapEx is quite reasonable. I think when we had expanded our bay, it cost us about ₹ 35 odd crore. So, there may be some resultant CapEx and follow-on CapEx of ₹ 2-3-4 crore, and another ₹ 5-7 crore on fixed asset that may have to be created. And then we will provide more visibility into this as we get into the new year.

Moderator: Thank you. Our next question is from the line of Chirag Muchhala from Centrum Broking. Please go ahead.

Chirag Muchhala: Yes, thanks for the opportunity, and congrats for a very good set of numbers. Sir, so we have seen a very strong ramp-up in our order inflow for FY 23 where we will more or less end the year in excess of ₹ 1,500 crore of inflow. So, over the medium-term of let's say, next two to three years based on the enquiry pipeline and CapEx trends across end user industries and the regions that we operate in, on this base also, we feel that reasonably high growth rate of 15-20% is possible, sir, over the medium term of two to three years?

Nikhil Sawhney: Most definitely. The fact is that you see, one is that we obviously try to aim to beat your order booking number for this current financial year. But that's why we're providing so much visibility on the enquiry book and the growth in order booking also. So that gives you an idea as to how we see the years to come. As you understand that our product execution profile is usually in the range of about eight to nine months for smaller turbines and about 12 months for larger turbines, and services is pretty much always within three to six months.

So, you have a lot of book-and-bill within the current financial year. And so that provides us visibility for sustaining growth. The main question is how are we going to be able to sustain the growth. And so, while FY 24 is pretty much locked in the bag with high growth, this is despite the fact that we will have book-and-bill in the first quarter of FY 24 as well. Going forward to FY 25-26, we do have good visibility of sustaining growth in those years.

Chirag Muchhala: All right. Good to hear that, sir. On the Sompura plant expansion, so that was supposed to be over in Q3. So, any update on that and what would be our total turbine capacity now?

Nikhil Sawhney: Arun, are you online? Can you address this?

Arun Mote: Yes. The total expansion is more or less complete. We have already started using that bay. So partially the capacity is being used. In another one month, it will be complete in all the sense. So, the full capacity will be added. We are looking at the capacity between 250 to 300 turbines depending on the size and also there will be a flexibility. So, we're quite comfortable in meeting the higher demand that may come in the years to come.

Chirag Muchhala: So, Sir, this 250 to 300 is a total of both the plants, right, or only Sompura?

Arun Mote: Yes, of both the plants put together.

Chirag Muchhala: Okay, And, lastly on the API turbines. So, you mentioned in your opening remarks that the government CapEx on fertilizers and petrochemicals is also healthy. So, in API turbines, I do believe that we also have qualification in the domestic market, Indian market. So, any addressable market opportunity for us that you can highlight specifically for API turbine in domestic market?

Nikhil Sawhney: Yes, we refrain from talking about individual customers, and I'll ask Prasad to comment a little bit about this. But the API market segment has two requirements. One is for power generation and the other is for drive. So as long as we keep that in mind, power generation is much like industrial power generation where the turbine will be coupled with the generator. The drive turbines are those that would drive equipment. For the domestic market, Prasad, can you provide a little bit of visibility as to which segments are giving you enquiries of potential order booking in the quarters to come?

S.N. Prasad: Yes, Sir. So, as you rightly mentioned, API market is divided into power generation as well as the drive turbines. We have been approved by major OEs and the EPCs and technical consultants for both. So, the pipeline-wise, yes, there is a strong growth in API enquiry pipeline. Today we address across the globe, all the API enquiry pipeline. There is a considerable growth in that. Going forward, yes, we can see some orders, which we are in advanced stage of discussion, even power generation turbine order from the API apart from drive turbine orders. We're quite optimistic and bullish on this segment going forward.

Chirag Muchhala: Sir, any approximate market size even in MW terms?

S.N. Prasad: Because the API is more stable market, because see, this market is again, one is CapEx growth market, other is a replacement market as the fleet completes its total lifetime. So that way, market size estimations wise probably those things maybe offline we can share with you. But otherwise today, our market share is quite miniscule in that and there is a huge growth opportunity for us. I can put it that way.

Chirag Muchhala: Okay. And sir, last question related to that is that currently, these are serviced by guys like Siemens or any other multi-national companies with an India-based manufacturing capacity or these are largely imported?

S.N. Prasad: This is a mix, even imported as well as India-based, again based on the type of the enquiry requirement or specifications for some of the specifications that India-based competition there. For some specification, where we also approved, this is a multinational competition thing. It is a mix.

Moderator: Thank you. Our next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Sir, thanks for taking my question, and congrats on a good set of numbers. Just to continue with the earlier participant's question. So, the API turbine globally, what is the size of the market? What is our opportunity there, so your broad thought process?

Nikhil Sawhney: Yes, so thank you for your wishes firstly, Ravi. From the API market segment there is no real data, the data is in our enquiry book, again I'm saying. So, when we are looking at market share, we are looking at versus enquiries that we have. There is no third-party data out there, which says how many turbines are being ordered. Post the fact, there is some data that's available in terms of how much is placed. But at the point of time of bidding, it's a little difficult.

But when we look at the API, our market share in the API segment, like Prasad said, it's quite minuscule. And so, when we had said last year, we would get 30-odd orders and this year, we get 70 orders odd and growth for us may be doubling in this market segment. It's still minuscule in terms of single-digit market share globally. So very frankly, there's a long way for us to go in terms of being a significant player here.

Ravi Swaminathan: Got it, sir. And usually, with the turbine sizes on the lower-single digit like three MWs, five MWs, seven MWs, is my understanding correct?

Nikhil Sawhney: It will range from 1.5 MWs to 5 MWs, but it'll usually be in the lower range of 1.5 to 3 MWs somewhere there. They're driving equipment, so they drive equipment such as fans, pumps, blowers, compressors, etc. and might be both API 611 and 612 compliant.

Moderator: Thank you. Our next question is from the line of Nikhil Agrawal from VT Capital. Please go ahead.

Nikhil Agrawal: Good morning sir, and thank you for the opportunity and congrats on a great set of numbers. Sir, a couple of questions. Like coming to your other expenses, do we expect this kind of run rate going forward or was it just one-time for the nine months currently?

Nikhil Sawhney: No. See the other expenses and the disclosure that we made was on the subcontracting charge and other expense. The reason that we did it is because while it wasn't really necessary for us to provide the disclosure, but we thought it will be helpful for investors to see because from a quarterly perspective, there is a big jump over the previous year.

And so, it is for that reason that we highlighted. It'll just provide visibility and a little bit of clarity. I think we're focusing a little bit too much on it because the fact that it's more routine. As we look at it going forward, these are charges which are negligible, a very low liability for the Company in terms of continuing costs. And so, they will be incurred as and when revenue falls. And so, to that extent, we will have the profitability in those quarters as well.

What's important for us is that overall, as a Company, we aim to expand or maintain our margins. We've always said that we would have PBT margins in excess of 20% as a Company. We think that in the environment going forward regardless of what type of refurbishment contracts we take, the team has performed very well in giving visibility that should at least be maintained. We have commodity prices coming down, we have an increased internationalization of our product mix in terms of sales as well as an expanded market and so therefore, more easing of margins in order booking.

So overall, I think that we are in a very comfortable position as a Company. We have tried to provide visibility in numeric terms, and I think we're going to beat all of those numbers that we had given here.

Nikhil Agrawal: Okay, great. So, I mean we do expect other expenses to be within this range, but on the gross profit, on the gross margin side, we expect margins to inch-up going forward. Ultimately, the PBT margins will remain.

Nikhil Sawhney: We have good confidence that there are a lot of reasons that it may inch-up, but very frankly, we also want to be spending money on adding capabilities, where we see future growth, so that we can sustain our growth. Triveni Turbines came off the last seven, eight years with very low growth. And so, while we are facing the growth at this point in time, we want to double down on it to ensure that we can sustain it. But very frankly, margins are not a pressure for us.

Nikhil Agrawal: Yes, great. And, you maintained your guidance of PBT of 20%, but any revision on the revenue front, like you've maintained 35%. So, any upward revision or anything?

Nikhil Sawhney: Well, I mean, what our nine months results are. That's in front of you and we are seeing Q4 being better than any quarter of this year. So, then it gives you an idea that we are quite optimistic.

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

Alisha Mahawla: Hi, sir. Good morning. Thank you for taking my question. Sir, firstly, just wanted to understand, in your opening comments, you mentioned that there is some softness or declines that you are seeing on domestic enquiries, similar comments have been made in the previous quarter also. So, are we now seeing some sort of slowdown in the domestic side?

Nikhil Sawhney: Well, you know we have such a large ramp-up of the enquiry book in the quarters before that that when you see 5%, 5% decline in consecutive quarters, I mean it is a point to be noted. I agree with you, but it's not entirely material. Prasad, can you give some visibility as to how you're looking at enquiries from the domestic market?

S.N. Prasad: Yes sir. Domestic market, even though on the enquiry size, we are seeing a 5% decline, but the way orders getting finalized or the leads what getting generated. Yes, we are seeing still there is upbeat in that. But when it comes to enquiry registration, means RFQs release and all, we have seen a little slowdown on that around 5%, that is also basically from a particular industry segment. When we see in the domestic also, out of 5-6 industry segments, in one industry segment, there is a little slowdown we noticed, but really, we are not worrying on that by seeing the leads what we are getting and finalization pattern what it is happening.

Alisha Mahawla: Can you help us know which segment or which industry that is probably taking slightly longer. And if there is a delay in decision-making, maybe because there have been price hikes taken or in general, there has been a lot of commodity inflation or it's been just that maybe some of the demand is now indefinitely pushed back?

Nikhil Sawhney: No. This is a market segment that you all know about. It is the metal space and very frankly, it is a large contributor towards power generation, but if you look at from aggregate capacity perspective, the country needs to add ample capacity going forward. So, this is a question of moving from quarter-to-quarter because they match their cash flows based on commodity prices. I mean it's something that will come back in the coming quarters and years. So, this demand is not going away. It has to get fulfilled at some point.

Alisha Mahawla: Okay, understood. And with respect to what the earlier participants were asking, the subcontracting expenses are sitting in the other expenses, which means the gross profit has expanded, which is a very healthy expansion. Nine months, it's almost at 46%, significantly above the 44-45% we were doing. Is this almost the same considering the product mix that we have now, the inflows that we are witnessing slightly skewed towards export/aftermarket or what will be the pattern going ahead?

Nikhil Sawhney: Very right. I mean, the way we measure is the other way around by seeing material cost as a percentage of turnover, which is just the inverse of what you are saying. Historically, we have had a material cost somewhere in the region of 52-53% and right now, it's somewhere in the region of about 55-56%. And we see it coming down in the quarters to come and the years to come driven by two factors.

One is we have a better product mix from aftermarket and product. We also have a better turnover mix from international and domestic as well as general commodity price easing and higher margins on products. So, all will point towards a good operating cost. Other expenses may go on with other selling and other expenses that we may need to have. We will incur more expenses on R&D, like I have already said. And those will have to be then factored in, but we've taken all that into consideration and are still optimistic on factors such as gross margins, etc.

Alisha Mahawla: So, you are saying, the 55-56% material costs is what could be expected?

Nikhil Sawhney: No, it should come down.

Moderator: Thank you. Our next question is from the line of Krishna Kansara, an Individual Investor. Please go ahead.

Krishna Kansara: Yeah. So, Sir, you mentioned that you saw a decline of 5% in the domestic enquiry book. So how do you measure it? Is this a sequential decline or is this Y-o-Y?

Nikhil Sawhney: Y-o-Y.

Krishna Kansara: Sir, do you think that this decline in the enquiry order book will accelerate as we move in the coming quarters?

Nikhil Sawhney: No. We're hopeful that it will expand in the coming quarters, the enquiry books on the domestic markets.

Krishna Kansara: Okay. So, this decline is just temporary, right?

Nikhil Sawhney: That's what we're seeing. We'll have to wait and see what actually happens.

Krishna Kansara: Okay. And sir, I just wanted to know your thoughts on the sustainability part of the order inflow. So, do you think that we can maintain this run rate of order inflow or order book?

Nikhil Sawhney: That's what we've been talking about for the last hour to give you visibility as to how we could provide that. So, I think that you have that information in front of you now.

Krishna Kansara: Can we sustain this growth, or it will marginally decline is my question in the order book part?

Nikhil Sawhney: No. The order book growth, we are looking to try and maintain. The turnover growth of 45% odd is something that obviously, it's a very high number, but on a year-on-year basis, the fact is that we will grow very well. And we have the visibility of growth into FY 24 as well and enquiry book suggests the growth that we would have into FY 25.

And so, we're in an optimistic stance. This is not including any new product release in terms of our new developments that we have on either on the supercritical carbon dioxide or on the transcritical carbon dioxide products, which will get released over the course of the next couple of years. And so, we'll see newer revenue streams come into the business. And so, yeah, we look to sustain order booking and therefore, sustain revenue growth on an average basis.

Moderator: Thank you. We'll take our next question from the line of Mohit Khanna from Banyan Capital Advisors. Please go ahead.

Mohit Khanna: Good morning, sir and congratulations for a very good set of numbers here. You actually just answered my question. Just taking this a little bit forward. So, in the terms of the order book and enquiries, how are different sectors now coming in, especially for the domestic market? I mean up till now distilleries has been a good contributor. Do you see any sort of change in trajectory by the distillery companies or other segments that you would like to highlight?

Nikhil Sawhney: So firstly, on the international market, we have a disproportionate order booking, which comes from renewable energy-based power production that could either be directly for independent power production or for captive use.

On the Indian side, markets get split quarter-to-quarter, but if you look at it on an annual basis, you see market segments such as distilleries, cement, waste heat, (metals have come down a little bit), but paper was strong, chemicals, API in that form has done well. And as we look going forward, you would see independent power production on renewable basis in India, both from solid municipal waste as well as biomass pick up, you will find a changing of sugar consumption moving from extraction condensing machines to back-pressure machines, which is a replacement market, which is just so that they can have higher bagasse saving and therefore, more revenue for them. So, demand will change dynamically.

Structurally, like I said, the fact that Triveni operates in two distinct markets. And again, I will just repeat this. It is the industrial heat and power market and the renewable energy-based power production market. On the industrial heat and power market, given that about 50% of end-energy consumption is in the form of heating and cooling, and especially when you look at the industrial and institutional form, a part of that we are heating and cooling is very difficult for that to get disrupted by electricity, be it in the form of renewable or otherwise because it is far less sufficient.

And so therefore, production of heat on-site is something that is necessary, and we cater to that market, which is actually globally expanded by about 5% plus CAGR over the course of the last 10 years despite the fact that the overall utility market has declined considerably to maybe one-third the size of what it was 10 years ago. So, on the industrial side, that's one.

Secondly on the renewable energy power production side, given the fact that waste is available, both in the form of waste heat, waste products such as biomass or municipal solid waste. These are increasingly becoming commercially viable, despite subsidies to be able to be formed by developers.

And I don't know if you had a look at the Inflation Reduction Act and what we're contemplating in Europe as well, but this is all despite the real push that is coming on capital subsidies in developed markets. I'm sure that India will have to do the same at some point to spur growth, which is far in excess of the PLI, because the PLI is more of a production-linked incentive-based scheme. These are more developer-based schemes, which are happening in other parts of the world.

Mohit Khanna: Great. And just the last question. How are you seeing competition? Are you seeing competition getting stronger or with the increasing number of enquiries in the market or it is just business as usual?

Nikhil Sawhney: No. Well, the situation in the domestic market is between Siemens and us, and we have a very healthy competition. It is intense and we compete. And they are of course a much, much larger firm than us, both in India as well as internationally. But we compete as peers and in front of clients. And so that is unique to each order because as you know each steam turbine is customized.

And so therefore, there is a competitiveness level on each model depending on the characteristics that a customer may have. But it's same as it has been. The dynamic is in general, as the markets expand, the need to take orders at lower prices decline. So, the intensity of competition, we have to say, comes down slightly, just because the market has expanded.

In terms of number of players internationally, we've seen it quite constant as of last year. But in general, there has been a declining trend in the number of participants in this market over a period of time. So, we've seen the number of competitors decline over a series of years.

But I think that our push in terms of trying to be the best at what we do, be the best in this market both in terms of cost, as well as technical efficiency, it still doesn't stop. So, we will continue our investments and we know what we are good at and we have to expand our reach in terms of marketing to be closer to customers, have a greater presence because the preference that customers had to place orders is based on the confidence that they have on the aftermarket also.

Mohit Khanna: Great. And what was the attrition rate in the nine months?

Nikhil Sawhney: The attrition rate is somewhere in the region of about 6%.

Moderator: Thank you. Our next question is a follow-up from the line of Amit Anwani from Prabhudas Lilladher. Please go ahead.

Amit Anwani: Yeah. Hi. Sir just wanted to understand the decline in the domestic enquiry pipeline. Is it specific to any industry where we are witnessing this decline?

Nikhil Sawhney: Yeah. It's in metals.

Amit Anwani: Okay. And second question, sir. If you can throw some color on the MW-wise enquiry pipeline, anything of that sort?

Nikhil Sawhney: Actually, we don't give that data, but I'm sure you'll be able see it.

Amit Anwani: Overall, if it is possible for you.

Nikhil Sawhney: I think you can take that offline with Surabhi to see if that information as she gives out, but in essence, we've seen good growth in the market. And so, we're quite optimistic.

Amit Anwani: Right. So last question, in the past, witnessed the low growth phase for at least six to seven years, and now from almost one and a half, two years, we are seeing the robust opportunities domestically and internationally as well. So just wanted to understand till how long we are seeing the sustainable growth in international, domestic market?

Nikhil Sawhney: No. It is a very good question you asked because the fact is that as you can see from our balance sheet, the Company is not really dependent on CapEx to cater towards growth. It is more people-centric, and we need people. And so, the fact that we are continuing to invest in people is a good proxy for how much we can sustain our growth. This is something that we have to internally manage in terms of onboarding these people, finding the right people in all the different capabilities and capacity that we need them for.

So, we are investing in the right places we think, which is something we could afford it in terms of money, but the business couldn't afford it in terms of the sustaining profitability in the past.

Moderator: Thank you. As there are no further questions from the participants, I now hand the floor back to the management for closing comments.

Nikhil Sawhney: Thank you very much and thank you for your good wishes. I think everyone has appreciated the good performance that the Company has put forward. This is really due to the hard work and dedication of all the Triveni Turbines employees from Arun, Sachin, Prasad and the team in Bengaluru. So, we thank you for appreciating that. We look to sustain this growth into Q4, and we look forward to speaking to all of you in May. Thank you very much.

Moderator: Thank you. On behalf of Triveni Turbine Limited that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

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