Financial Review

The financial results of the Company for the year FY 16, compared with the previous year are summarised hereunder:

(₹ in Million)

Description	FY 16	FY 15	Change %
Income from operations	7081.4	6255.2	13.2
Other Income	138.7	276.5	-49.8
EBITDA	1693.9	1533.2	10.5
EBITDA Margin	**23.9%**	**24.5%**	
Depreciation & Amortisation	139.9	145.0	-3.5
PBIT	1554.0	1388.2	11.9
PBIT Margin	**21.9%**	**22.2%**	
Finance Cost	3.4	4.5	-24.4
PBT (Before exceptional item)	1550.6	1383.7	12.1
PBT Margin	**21.9%**	**22.1%**	
Exceptional Item	-	28.0	
PBT (After Exceptional Item)	1550.6	1355.7	14.4
PAT	1038.2	910.8	14.0
PAT Margin	**14.7%**	**14.6%**	

Despite challenging business conditions in the capital goods market, the financial performance of the Company has been resilient and it achieved record turnover and profitability. While the domestic market continued to be subdued, the Company's relentless efforts in the international market paid dividends in terms of establishing market presence and penetration which resulted in increased export order booking – exports formed 58.6% of the total order booking during the year.

The highlights of the performance are:

- The total income from operations during the year under review was 13.2% higher at ₹ 7.08 billion. The export turnover during the year was at 35.8% of the total turnover as against 42.3% in the previous year. The export order booking during FY 16 is higher by 52.5% over the previous year, which will result in higher proportion of export turnover in the FY 17. All the sales made to domestic entities, including our subsidiary and JV Company, aggregating ₹ 886.7 million for onward exports have been considered as domestic sales.

- The aftermarket business grew by 6.5% over the previous year, mainly driven by higher export of services.

- PBT at ₹ 1550.6 million and PAT ₹ 1038.2 million increased by 14.4% and 14.0% respectively.

The Company's ambitious strategy to expand the geographical reach and broad-base the market for its products has yielded positive results. The Company believes that the export market offers enormous potential for the products of the Company, including for its specialised aftermarket services. It will be achieved through further penetration of the export markets and by being in the proximity to its customers by establishing overseas presence through its foreign subsidiaries / offices / establishing facilities to undertake aftermarket services.

The domestic market for steam turbines continued to remain flat for the fourth consecutive year. However, the margins and the market share could still be preserved through cost optimisation. With the various policy initiatives being taken by the Government, it is expected that the business sentiments will improve and the investment cycle will commence. The Company is well positioned to take advantage of higher demand through additional manufacturing facilities being set up in a phased manner.

As per the Consolidated Financial Statements for the year under review, the Turnover and Profit after tax increased by 22.4% and 18.9% respectively. The Subsidiary Company, GE Triveni Limited, also achieved record turnover and profitability and has fully wiped out all accumulated losses.

Other Income

The Other Income of ₹ 138.70 million during the year includes ₹ 86.6 million towards net exchange gains. In view of significant exports, the export receivables are much higher than the import payables. It is the policy of the Company to substantially hedge its foreign exchange exposures. While the exchange gains have been classified under 'Other Income' as per the applicable accounting standards, for all internal assessments, the Company considers such gains as operating revenue and it is thus factored in the computation of EBITDA and other profitability ratios.

Raw Material consumption & Increase/ Decrease in inventory

(₹ in Million)

Description	FY 16	FY 15	Change %
Raw material consumption/Change in inventory	3994.3	3647.5	9.5
Percentage of sales	56.4%	58.3%	

The percentage increase in raw material cost was less than increase in turnover by 13.2% and consequently, the percentage material cost to sales is almost 200 basis points lower than the previous year. While the Company strives to continually rationalise material cost through value engineering and supply chain productivity, it also depends on the product-mix (extended scope of contract, extent of aftermarket services etc.) and extent of margins.

Personnel Cost, Administration Expenses and Depreciation

(₹ in Million)

Description	FY 16	FY 15	Change %
Personnel cost	632.0	600.9	5.2
Percentage of sales	8.9%	9.6%	
Other Expenses	904.4	748.3	20.9
Percentage of sales	**12.8%**	**12.0%**	
Depreciation & Amortisation	139.9	145.0	- 3.5
Percentage of sales	2.0%	2.3%	

Personnel Cost

The increase in personnel cost remained normal and was reflective of annual salary increase.

Other Expenses

Increase in Other Expenses were mainly due to following reasons:

a) Increase in manufacturing costs by ₹ 41 million was mainly in respect of tooling and other indirect materials and consumables required in manufacturing higher range and specially designed turbines for catering to export market.

b) Increase in marketing, packing and transport expenses aggregating ₹ 65.1 million relating to exports.

c) CSR expenses of ₹ 26.4 million. As per the guidance available in the previous year, these were considered as appropriation of profits.

Depreciation and Amortisation

Since, there were no major additions to the Fixed Assets Block during the year, there was no significant change in depreciation & amortisation.

Balance Sheet

Share Capital

There was no change in equity share capital of the Company during the year.

Reserves and Surplus

The Reserves & Surplus increased by 29.7% to ₹ 2627.4 million as on 31.3.16 in view of plough-back of profits after payment of tax and dividend.

Loans

The Company virtually remained debt-free throughout the year, barring some vehicles procured on hire purchase terms.

Investments

The increase in long-term investments by ₹ 13.8 million represents contribution to the equity share capital in Triveni Turbines Europe Pvt Ltd, a wholly-owned subsidiary.

Trade Receivables

The Trade Receivables stood at ₹ 1,142 million on 31.3.16 as compared to ₹ 1,534 million as on 31.3.15. The reduction in trade receivables was due to healthy collections at the year end, which also resulted in increased cash and cash equivalent.

Cash and Cash Equivalent

Cash and cash equivalent represents current investment and cash and bank balance. It was considerably higher at ₹ 379.8 million as on 31.3.16 due to aggressive collection drive and substantial collections at the year end.

Fixed Assets

There were no significant additions to fixed assets during the year. However, Capital Work-in-Progress increased from ₹ 61.0 million to ₹ 328.8 million as on 31.3.16 in view of amount spent on the civil and construction work of the upcoming new manufacturing plant near Bengaluru. The new plant is expected to be partly commissioned for production by middle of next financial year and further investments will be made in phases in line with the requirements.

Risk Management & Mitigation

The Company follows a well laid out Enterprise Risk Management (ERM) policy which ensures: identification of all the risks being faced by the organisation; their categorisation based on their severity for regular monitoring and attention; formulation of effective mitigation plans and institution of internal and operating controls to minimise the impact of the risks and to improve the risk profile; to appoint risk owners for proper accountability; to have a dynamic system of receiving feedback on the effective working of ERM system, including identification of new risks and changes in the risk profile of the Company. The ERM policy helps the Company to meet its business objectives without getting over exposed to controllable risks and it endeavours to inculcate a culture within the organisation wherein all business decisions are only taken after evaluating the attendant risks and making robust plans to contain the impact of such risks.

In accordance with the Policy, the Company has developed a comprehensive Risk Management Framework based on the feedback and experiences of all the functional departments, using bottoms-up approach. The Company has a Risk Committee, having all functional heads as its members along with the Executive Director, which oversees the working of ERM system.

The Company's business relates to manufacture & sale of steam turbines which falls under capital goods industry. It is closely linked with the economic activities, domestically and internationally, and the growth of sectors/industries. Even though several external factors having an impact on the operation of the Company are uncontrollable, the Company strives to mitigate the externalities in the best possible manner by expanding its market and product range, ensuring diversified streams of revenues, avoiding over dependence on any sector/s or geographies and by focussing on value engineering to remain cost effective and for margin protection.

Some of the major risks being faced by the Company are described below:

1) Slowdown in Economy & Overdependence on any market

A slowdown in economy directly impacts the demand of capital goods, including the products of the Company. Further, overdependence on any market/s may adversely affect the performance of the Company, if the concerned market gets sluggish due to internal factors.

The domestic market has declined/remained stagnant for several years limiting the demand of the Company's products. Although there is some recovery in sectors like sugar, certain process industries and IPP, core industries like cement and steel, are yet to recover. In order to reduce overdependence on the domestic market, the Company had started focussing on marketing its products in the global market a few years back and in the FY 16, the contribution of exports to the total turnover was 36%, whereas in respect of order booking during the year, export orders formed 59% of the total order booking. The Company is in the process of further extending its footprints in the global market to lessen the risk of overdependence on certain countries/regions. The Company is also leveraging on its international structures to be in the proximity of customers to get better and timely understanding of the addressable market, and its trends and potential, along with the requirements and preferences of customer.

2) Aftermarket Service

It is imperative to provide service support to the customers to keep the products trouble-free and to attend to break-downs in the most efficient manner. Without such support, the Company may not be able to win the confidence and secure orders from customers.

Like in the domestic market, the Company is replicating its service model in the international market, offering its service for preventative maintenance of its products and strengthening its service capabilities to attend to urgent situations in a timely manner. The foreign subsidiaries recently set up by the Company will help in achieving such objectives apart from securing more aftermarket service orders. In due course, the Company may also own, directly or indirectly through joint ventures, service workshops in various geographies.

3) Technology

The Company operates in the engineered-to-order capital goods industry, where product efficiency, critical product features & overall life cycle costs play an important role. The Company vigilantly studies, analyses and forecasts market trends and customer preferences and accordingly develops its R&D programmes.