Financial Review

The financial results of the Company for the financial year 2017-18 compared with the previous year are summarised hereunder:

(₹ in Million)

Description	FY 18	FY 17	Change %
Revenue from operations (gross)	7,431.4	7,537.2	(1.4%)
Revenue from operations (net)	7,409.2	7,327.6	1.1%
Other Income	88.0	285.7	(69.2%)
EBITDA	1,656.4	1,917.4	(13.6%)
EBITDA Margin	22.3%	25.4%	
Depreciation & Amortisation	191.1	148.0	(29.1%)
PBIT	1,465.3	1,769.4	(17.2%)
PBIT Margin	19.7%	23.5%	
Finance Cost	5.3	3.3	60.6%
PBT	1,460.0	1,766.1	(17.3%)
PBT Margin	19.6%	23.4%	
PAT	982.3	1,161.9	(15.5%)
PAT Margin	13.2%	15.4%	
Other Comprehensive Income (net of Tax)	-1.2	-13.0	(90.8%)
Total Comprehensive Income	981.1	1,148.8	(14.6%)

The aforesaid summarised financial results are based on the financial statements which have been prepared in accordance with the Indian Accounting Standards (Ind AS) notified under the Companies Act, 2013 ("the Act") and other relevant provisions of the Act.

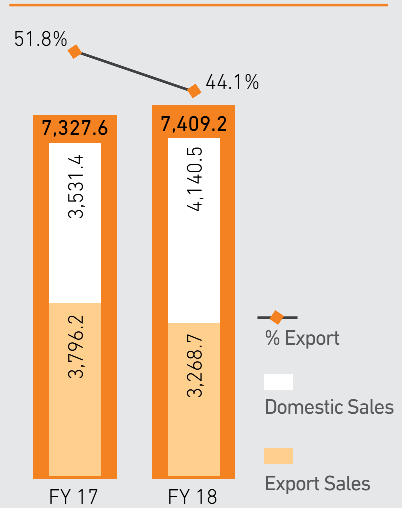
The lower profitability and margin for the year are due to lower foreign exchange gains due to technical reasons (and as detailed under Other Income), higher marketing penetration and efforts in the international market and its associated costs and costs associated with new manufacturing facilities. All these costs will help in securing additional business which will be met through recently developed state-of-the-art manufacturing facilities, including for higher range of turbines.

Revenue from Operations

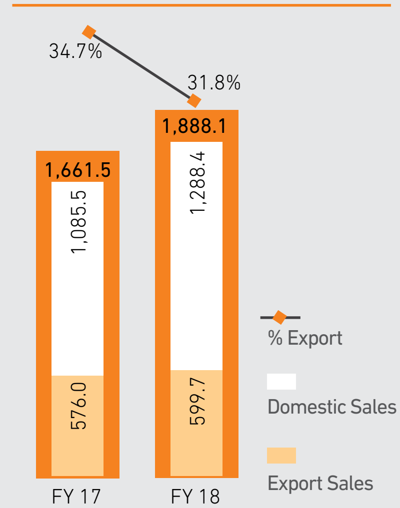
After implementation of Goods and Services Tax ("GST") with effect from July 1, 2017, Revenue from operations is stated net of GST. Revenue from operations for the year ended March 31, 2017 includes excise duty of ₹ 209.6 million for the full year whereas revenue from operations for the year ended March 31, 2018, includes excise duty of ₹ 22.2 million for the first three months only, i.e. till implementation of GST Act. Revenue from operations for the current financial year is thus not comparable with the previous year. Revenues from operations, if considered without excise duty, will be marginally higher by 1.1% over the previous year as against a reported decline of 1.4%.

The growth in Revenues is largely a function of order booking achieved during the previous year and represents subdued business sentiments in the capital goods market, domestically as well as internationally. The business conditions domestically were disrupted by major economic events, such as, Demonetisation which was announced in November 2016 and also during run-up to the new indirect tax regime, GST, from July 2017. However, the order booking has improved considerably in the current year with increase of 18% over the previous year. The domestic market segment, which remained largely flat till third quarter of the year, has shown early signs of revival due to improved business sentiments and tapering of the impact of demonetisation and GST.

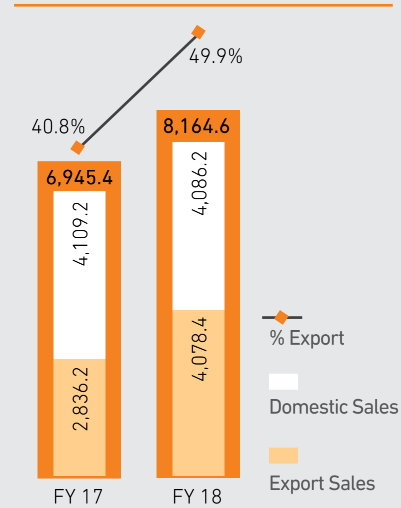
Revenue from Operations (₹ in Million)



Aftermarket Sales (₹ in Million)



Order Booking (₹ in Million)



In view of lead time of around 8-10 months for turbines from order-to-sale, the order booking in the previous year forms the basis of sales during a financial year apart from the possibility of billing orders secured in the first quarter of the financial year and shorter conversion period of 5-6 months for the aftermarket business. In consonance with the order booking, Revenues from domestic sales were 17.2% higher at ₹ 4,140.5 million whereas the Revenues from exports were 13.9% lower at ₹ 3,268.7 million. The healthy order booking position during the current financial year, especially in the export segments, together with 12% higher order book at year end augurs well for future.

The strengthening of aftermarket organisation and aggressive marketing strategy has driven growth of its Revenues by 13.6% over the previous year. The orders in hand at year end of the aftermarket business, especially exports is healthy.

Other Income

Other Income during the year was lower by 69.2% at ₹ 88.0 million as against ₹ 285.7 million in the previous year. The decline is mainly due to decline in foreign exchange gains by ₹ 161.5 million. Consequent to the adoption of Ind-AS in the previous year, all MTM gains on outstanding derivatives had to be accounted for in the previous year, which otherwise would have been booked in the current financial year, thereby leading to higher booking of foreign exchange gains in the previous year and lower booking of foreign exchange gains in the current year. Further, the Company has adopted Hedge Accounting from April 1, 2017 which has enabled booking of MTM gains/losses on derivatives along with recognising export sales. The purpose of adopting hedge accounting is to minimise fluctuations on the financial results due to periodic MTM gains/losses. Hedge Accounting is applied on derivatives which are used to hedge foreign currency risk of the Company.

Expenses

Raw Material consumption

(₹ in Million)

Description	FY 18	FY 17	Change %
Raw material consumption and change in inventories	3,853.6	3,898.2	1.1
Percentage of sales	51.9%	51.7%	

The efficiency of raw material consumption is generally measured as a percentage of sales subject to changes in the product mix. Material cost during the current financial year is at 51.9% of Sales, which is at the same level as in the previous year, indicating that material cost has been well optimised during the year. The Company dynamically strives to optimise material cost through value engineering processes and various supply chain initiatives. The manufacturing process, including that of supply chain partners, is continually improved upon to reduce/reuse of wastes and rejections. However, the product mix can also impact the above percentage.

Personnel Cost, Other Expenses and Depreciation

(₹ in Million)

Description	FY 18	FY 17	Change %
Personnel Cost	796.2	742.5	7.2
% to Total Sales	10.7%	9.9%	
Other Expenses	1,186.1	1,048.7	13.1
% to Total Sales	16.0%	13.9%	
Depreciation & Amortisation	191.1	148.0	29.1
% to Total Sales	2.6%	2.0%	

Employee Cost

During the year, as a part of HR initiatives, the Company has strengthened its organisation structure and recruited talents at senior and middle level management for augmenting its business. The increase in employee cost is due to the combined effect of additional manpower resources and annual salary increase.

Other Expenses

It comprises of manufacturing expenses, administrative expenses and selling expenses. The operations of the second manufacturing plant has commenced during the year leading to higher manufacturing expenses and further, increased level of business travelling and marketing efforts, which are aligned with the business strategy of stronger market penetration, especially in overseas market, has led to increased marketing expenses. Increase in these costs is already yielding higher business, as can be seen from higher order booking in domestic and international market.

Depreciation and Amortisation

The second manufacturing plant at Sompura was commissioned and capitalised towards the close of the previous year and consequently, the increase represents incremental depreciation of the capitalised facilities.

Balance Sheet

Major items, including where significant changes have taken place during the year, are being explained hereunder:

Non-Current Assets

Property, Plant and Equipment (PPE), Capital Work-in-Progress & Intangible Assets

PPE and Capital work-in-progress are the main components of Non-current assets. There was no significant addition to PPE during the year. However, capital work-in-progress increased from ₹ 103.0 million to ₹ 385.1 million on account of expansion of Sompura manufacturing facilities.

Current Assets

Inventories

Total inventory at the year end was ₹ 1,807.1 million, as against ₹ 1,458.7 million in the previous year, an increase by ₹ 348.4 million. Higher inventories are commensurate with the increased orders in hand and have been procured/built up to meet higher production requirements.

Trade Receivables

Current trade receivables are at ₹ 2,058.1 million as on March 31, 2018 as against ₹ 1,489.4 million as on March 31, 2017, an increase by ₹ 568.7 million. Increase in current trade receivable is on account record sales made in the last quarter of the year and some of the sales under Letter of Credit could not be collected by the year end.

Non-current trade receivables, however remains in the same level as previous year, that is ₹ 12.4 million as against ₹ 12.6 million in previous year. These are contractually not due for collection in the next 12 months.

Other Current Assets

Other current assets have increased by ₹ 197.8 million from ₹ 392.3 million to ₹ 590.1 million. The major component of increase is GST recoverable, representing unutilised input credit on bought out material for exports, which could not be utilised as the final export products are not subject to GST. The Company has taken steps to secure refund of such unutilised input credit.

During the year, the Company received a refund of disputed VAT of ₹ 219.3 million consequent to a Court Order in favour of the Company.

Current Liabilities

Current liabilities mainly consist of trade payable for goods and services and advances from customers. Trade payable has increased to ₹ 1,447.7 million as on March 31, 2018 from ₹ 921.6 million as on March 31, 2017 on account of higher purchase of raw material in the last quarter of the year to meet the increased production requirements, which are due for payment subsequent to the year.

Advances from Customers forms the other major component and it has increased by 26.4% to ₹ 1,023.7 million commensurate with increased order booking.

Consolidated Financial Statements

Consolidated financial statements have been prepared consolidating the results of a wholly-owned foreign subsidiary, Triveni Turbines Europe Pvt. Ltd. (TTEPL), UK and step down subsidiaries, Triveni Turbines DMCC (TTDMCC), Dubai and its wholly-owned subsidiary in South Africa called Triveni Turbines Africa (Pty) Ltd (TTAPL), which was incorporated during the year. The Consolidation is made by adding line by line items complying relevant provisions of Ind AS. In addition, the Company has a domestic subsidiary company namely GE Triveni Ltd. (GETL) which, in accordance with Ind AS, been considered as a Joint Venture and accordingly accounted by using equity method for preparation of consolidated financial statements.

Headline figures for consolidated financial statements duly compared with standalone are provided hereunder:

(₹ in Million)

		Financial Statements	
		Consolidated	Standalone
1	Revenue from operations (gross)	7,533.2	7,431.4
2	Profit before tax	1,462.8	1,460.0
3	Share of income of joint venture	-25.0	-
4	Profit after tax	959.7	982.3
5	Total Comprehensive Income	963.3	981.1

Risk Management & Internal Financial Controls

The Company's Risk Management and Mitigation framework is aligned with ISO 31000. The framework is reviewed from time to time to ensure its effectiveness in line with the changing business dynamics. The framework identifies all the possible risks that the Company might be exposed to, including their categorisation based on their severity, for regular monitoring and reporting. The policy identifies risk ownership, accountability and mitigation procedures. It is the endeavour of the Company to strengthen the control environment on a dynamic basis with a view to lower the overall risk profile.

The Risk Management Policy lays down guiding principles, policies, a risk organisation structure and MIS, incorporating the requirements of Corporate Governance as well as some of the industry best practices in order to manage risks. Pursuant to the risk management policy, the Company presents an enterprise-wise approach to ensure that key aspects of risks that have an enterprise-wide impact are considered and contained in its conduct of business. This policy document also serves as a guideline for respective components of risks which have a common resonance across the Company.

The Company's business relates to manufacture and sale of steam turbines which falls under the capital goods industry segment and is closely linked with the country's economic activities, domestic and global, as well as the sectors wherein the Company's products are used. Even though several factors relating to the industry are not within the control of the Company, it strives to mitigate the externalities in the best possible manner by ensuring diversified streams of revenues and avoiding over dependence on any sector/s or geographies.

Further, the Company is responsible for designing and implementation of sound Internal Financial Controls over Financial Reporting. The Company has laid down such procedure and periodically assess its operational effectiveness by conducting reviews of all Risk Control Matrix. This Control System provides reasonable assurance that the conduct of the business is operating in an orderly and efficient manner including adherence to Company's policies, safeguarding assets and prevention and detection of frauds and errors, if any, the accuracy and completeness of accounting records and timely preparation of financial information.