



Triveni Turbine Limited Q3 & 9M FY2015

Conference Call Transcript

February 11, 2015

Moderator Ladies and gentlemen good day and welcome to Triveni Turbine Limited Q3 & 9M FY15 Earnings Conference Call. As a reminder all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your Touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa of CDR India. Thank you and over to you, sir.

Gavin Desa Thank you Inba and good day everyone. A warm welcome to all of you participating in this Q3 & 9M FY15 Triveni Turbine Earnings call.

We have with us on the call today Mr. Dhruv Sawhney –Chairman & Managing Director and Mr. Nikhil Sawhney–Vice Chairman & Managing Director along with members of the senior management team. We would like to mention before we begin that some statements made in today's discussions may be forward looking in nature and a statement to this effect has been included in the conference call invite which has been e-mailed to you earlier.

We will also like to emphasize that while this call is open to all the invitees it may not be broadcast or reproduced in any form or manner. We would like to start the conference call with opening remarks from the management followed by an interactive Q&A session wherein you can discuss your viewpoints on key issues.

I would now like to handover to Mr. Dhruv Sawhney to share some perspective with you with regard to the company's operations and outlook. Over to you, sir.

Dhruv Sawhney Thank you, Gavin. Good morning everybody and welcome to the Q3/9M FY15 investor call. I would like to take you through our 9 months' performance and share with you the outlook of FY15, FY16 and beyond.



The 9 months net revenues are ₹ 4.3 billion, which is a growth of 14% and EBITDA of ₹ 1 billion with 25% growth. PAT has grown by 35%. Some orders were slated for delivery towards the end of December and they got postponed by customers to the first few weeks of January and that is why you had a slight dipped growth in topline. But they all have been delivered now.

Even with these results, the EBITDA and PAT numbers are extremely good. We have had a PAT margin of 15.7% in Q3 which is little higher than what it was in Q2 and a very strong export order booking. Our export order booking for 9M FY 15 stand at ₹ 2.4 billion which is a growth of about 130% and the total order booking for the same period is about ₹ 4.6 billion. Consolidated order book with TTL and GE Triveni of ₹ 7.7 billion give us confidence for FY15 and FY16.

The domestic market has not shown growth and we are not expecting much growth in the first half of FY16 or Q4 of the current year. Enquiries have started coming in and there are more but the customers are actually waiting for placing orders and giving the first advance. We do not want to start taking them in our projection.

With strong growth in the next few years, we have adequate production capabilities today. We have done balancing of our plants at very high levels so this is not a constraint and does not require any Capex.

'Make in India' which is our Prime Minister's very strong hint to the industry, we are one of the companies that have actually put this into effect. We have become probably one of the two largest suppliers of steam turbines to the renewable sector globally and that is a very encouraging fact. At the moment, we are exporting to 54 countries in the world and we have enquires from about 117 countries. Our range of countries in the export market are all over and we have supplied to 12 countries in Africa, 19 in Asia, 13 in Europe and 10 in South America and in Central America.

There were 20 more countries in Asia that we got enquiries from. There are a lot of countries in Africa, 29 of them a have given us big push in Africa as well as Europe. In various sectors that we are concentrating on, they are not so depended on the economies of the countries. For example, the waste to energy sector in Europe is still quite buoyant, it takes a little time for finalization but those revenues are still there, the budgets have not been cut and the environmental concerns are very high. Similarly, Biomass IPPs are gaining importance in the global markets where our credentials are extremely good. In the industrial sector across India and elsewhere people want to setup captive generation units. The whole scope of distributed power is coming into prominence more than it had a few years ago and this is the main driving force in our products.

Our R&D efforts have been good and this is one of the reasons for our success. We have successfully forecast the future needs of customers in the specific sectors that and product development is one of this. We have been able to achieve comparable efficiency levels at a much better deal for



the customers compared to global competitors and this strong R&D and value engineering efforts is in fact increasing. We have tie-up continuing with design houses in the United States and with engineering institutes in India, we have started some long-term research programs with them and have established our IP both in India and in many countries overseas.

On the domestic market, we feel that the sugar sector which we cater to is still needing a bit flip from the Government to stabilize, we have seen traction but to have substantial growth, we will have to have a stability in the sector with the cane and sugar pricing and that is why we are not taking it into our forecast. Similarly, with the Steel sector till the issues of the coal blocks and the iron ore blocks are sorted out, we do not want to start projecting that into future orders in any time span. Some cement and paper sector enquiries are picking up. Enquiries are also picking up from other process industries.

One of the sectors globally where we have made a tremendous foray in the last 18 months is the palm oil sector. We started from almost zero base four years ago and we are now in Indonesia and Malaysia with about 25% to 30% of the market share and that sector is a very big growth sector. The worst slowdown in the economies in the west has troubled a number of capital goods companies but not us as we are in this niche market of Renewables and steam turbine for the renewable space.

For the end of the year, we are seeing a record fourth quarter for the company in terms of sales and profits. Normally I do not give out guidance but we are half way through our quarter 4 and so we are fairly sure of where dispatches will happen in the next couple of months and we know the results of that. We should end the year with a consolidated growth of about 30% in turnover and a profit growth of 35%. We frankly expect these numbers to continue in FY16 and FY17. This is the forecast of our Management Team and we have geared up ourselves organizationally to take advantage of these opportunities especially globally. Our Q-o-Q EBITDA margin has gone up by 1.7%, it is 25.5% versus 23.8% last year for the quarter and 24.2% for the nine months versus 22% for nine months in FY14.

We are able to preserve the competition domestically and in certain sectors overseas and increase our business share. The aftermarket space has tremendous potential especially in the export market where we are getting very good margins, in fact better margins than India. We have booked more dispatches in nine months than what we did last year. This is also the case of our export and we expect this to continue. For this we have organizationally setup a Company in the UK - a 100% subsidiary of Triveni Turbines Europe and one in Dubai to exploit these export opportunities for both products and services especially in the refurbishing area. We have received a substantial order from a very large country in Europe where we are flying the rotor back to India and flying it back with a substantial margin and with the customer having this a few times and being quite confident of our capabilities. This is a great opportunity because when people are in a cash crunch, they do not want to take up new projects and we are offering



them a solution of refurbishment in quick time with equally good manufacturing facilities as if they have in new products.

The share of export turnover has gone up to 28% in the aftermarket and the mix between the products and aftermarket in turnover has also improved from 21% to 25%. We have a trend now that in summary is moving more to export and to services. This is a solid space for getting the growth factors which we have been forecasting for the next three years. The product portfolio is continually changing and now we are much better in various niche markets, we were not able to cater to substantial margin markets but more importantly certain countries where we were not able to enter especially in Europe which is now expected to pick up in FY16 and FY17. These are quite successful R&D efforts where we have been able to dispatch a few Turbines too.

GE Triveni in FY15 is going to have a very substantial growth over last year and it is also expected to breakeven for the first time. We have ₹ 6.1 billion orders on hand in Triveni and ₹ 7.7 billion on a consolidated basis, so GE Triveni is going to see substantial jump not just in FY15 over FY14 but in FY16 over FY15 both in terms of our turnover and profit. The joint venture is going well in establishing its products and once our turbines in FY16 gets commissioned, we expect a very exponential growth in enquiries and those to be turned into orders because they are just looking for the facts that they want to see one of these things outside India. Our turbines in the steel sector have been commissioned and they are running very well, one in the order that we have commissioned with Usha Martin, it is very satisfactory and a few more domestic ones will be commissioned in the next six to eight months. We have both the legs of Triveni, the standalone and the joint ventures are looking forward to a good and profitable future. Thank you.

- Moderator** The first question is from Ankit Fitkariwala of Jefferies India.
- Ankit Fitkariwala** What is the current standalone as well as the consolidated backlog and order inflow for this quarter?
- Dhruv Sawhney** ₹ 6.1 billion for standalone and ₹ 7.7 billion on a consolidated basis order backlog. That is Rs. 770 crore and Rs. 610 crore.
- Ankit Fitkariwala** And the fresh orders that you have booked in this quarter you do not give them out?
- Dhruv Sawhney** Well, I can give you. If you look at the fresh order, our orders on hand right now at the end of the third quarter are about 5.4% on standalone more than what they were at this quarter last year. We have got a growth in quarter. In the next quarter, we are going to have a record sales and profits; we expect to keep the same to book enough orders to keep the same orders on hand at the end of the year.
- Ankit Fitkariwala** And sir, this 5.4% is on a consolidated basis?



Dhruv Sawhney No, standalone.

Ankit Fitkariwala My second question is regarding the product in the aftermarket business that you mentioned and also including the refurbishment business. So if you get a typical order of refurbishment what is the cycle of completion for that order if you can give a ballpark idea?

Dhruv Sawhney Larger ones are 7 to 9 months and the smaller ones are 5 to 6 months, we are even turning it around in 4 to 5 months. We are 25% to 30% quicker than other OEMs.

Ankit Fitkariwala Who will be the typical competitors for you in this market?

Dhruv Sawhney At the moment, there is not much OEM competition and the small operators in the various countries do not have the design or the manufacturing facility to come up to our level and this is not a very big market that our OEM competitors are concentrating on and they are much more expensive.

Ankit Fitkariwala What is the typical size of orders?

Dhruv Sawhney Up to couple of million dollars.

Ankit Fitkariwala Can you give the contribution of these orders in the revenue for this quarter or this year?

Dhruv Sawhney That is a little granular now.

Ankit Fitkariwala Is the products in the aftermarket business about 25% for nine months?

Dhruv Sawhney Yes.

Moderator The next question is from Manish Goyal of Enam Holdings.

Manish Goyal Certain order dispatches were delayed to January, what was the quantum of orders we have got?

Dhruv Sawhney There were three orders worth ₹ 30 crore.

Manish Goyal Were they largely domestic orders?

Dhruv Sawhney Yes. The customers they have taken them 10 days later and we have very strict revenue recognition norms so we do it as per the new accounting code.

Manish Goyal The domestic product inflow has been at a very low end in the Q3 as I am getting about ₹ 18 crore for the product and what could be the reasons for such a decline?

CN Narayanan Q3 domestic order in-take is about ₹ 50 crore which is slightly lower than what we got in Q2.



Manish Goyal Does this ₹ 50 crore include aftermarket?

CN Narayanan No, this is product order.

Manish Goyal What is the breakup in order intake for domestic and international and then separately what you give out for aftermarket order inflow for Q3?

CN Narayanan ₹ 53 crore in domestic market order product. ₹ 64 crore of exports and ₹ 38 crore of aftermarket.

Manish Goyal Does aftermarket include both domestic and international?

Dhruv Sawhney Yes.

Manish Goyal Will we see record order inflow in Q4?

Dhruv Sawhney No, record sales and profit.

Manish Goyal What is the breakup between domestic and international standalone order book outstanding?

CN Narayanan ₹ 60 crore of aftermarket.

Dhruv Sawhney Aftermarket deliveries are much shorter.

CN Narayanan ₹ 200 crore of export product order book.

Manish Goyal Did we have some Forex gains as other income was higher during the quarter?

Dhruv Sawhney We had some hedging gains. We hedge almost 100%, so when it realized we booked, it is actually to do with the product but it is booked under other income. This is all on the product this is on hedging when we have the advance.

Manish Goyal How is the enquiry flow in the JV if you can highlight in both domestic and overseas?

Dhruv Sawhney The enquiry flow in the larger turbine is better in the JV than it is in under 30 which is surprising but we have got some good enquiries in the JV. Internationally we have 1.5 GW.

Manish Goyal What is the enquiry level for the less than 30 MW?

Dhruv Sawhney 6.5 GW, but when you are looking at this enquiry it looks very big some of them get delayed; some of them are budgetary but now we have enquiries from 117 countries. The more spread we have, the less our risk factors of meeting the growth rate. We were earlier dependent on one or two countries and where we were very well-established and if the markets went down on those countries then we were exposed two years ago. We have



not taken a view in our export strategy of only focusing on few countries. We try to go for as many and where the larger markets we would focus that is why we are opening the subsidiaries. Of the 117 countries, we have enquiries from, 31 countries in Europe; 20 in Asia and 29 in Africa. This is a large spread.

Manish Goyal Are you expecting 25% compounding growth for next couple of years, and then you probably need to look for capacity buildup, do you have any plans for that because we had bought a land?

Dhruv Sawhney Yes, we have already got the possession and all the permissions and we are going to be putting something up in the year.

Manish Goyal How much would be the Capex?

Dhruv Sawhney About ₹ 50 crore. It is not very capital intensive.

Moderator The next question is from Nirav Shah of GeeCee Investments.

Nirav Shah On the aftermarket front, for the order book of ₹ 60 crore does it include any orders from more than 30 MW?

Dhruv Sawhney No.

Nirav Shah For 30 MW, will it be booked in the standalone entity only or in the JV?

Dhruv Sawhney They are booked in the standalone for non-JV range.

Nirav Shah In terms of revenue, will we initially only do the turbines that the JV supplies or we have already started pitching for the servicing with our existing clients for more than 30 MW?

Dhruv Sawhney We are already pitching for the aftermarket work for over 30 MW globally. In fact, we have got orders for some which are in Triveni Turbines.

Nirav Shah Can you quantify that?

Dhruv Sawhney It is not so significant to quantify that number. It is a very big opportunity in fact, we have only made those breakthroughs with one of them in the last quarter.

Moderator The next question is from Devam Modi of Equirus Securities.

Devam Modi Could you provide some color on the EBITDA margins of the international aftermarket?

Dhruv Sawhney It will be higher than the domestic market. We have not going into that split of domestic but the EBITDA margin, you are seeing it as a whole and it varies from country-to-country and it varies from opportunities. We are looking at it very positively because in the domestic market there are a



number of small operators and customers are not looking at the same quality of service. Spares are fairly the same and the other services are higher margins.

- Devam Modi** Will the component of exports in the aftermarket continue to remain around 25% to 30%?
- Dhruv Sawhney** Because we are looking for fairly substantial compounded growth on the product also because we are reaching new markets in overseas territories so we expect the ratios to be about the same may be slightly higher. We have now come to very good level and we are looking at overall growth now for both.
- Devam Modi** Given the currency variations in €, does it impact any of our earlier export order bookings that we have done and how are we managing this risk going ahead?
- Dhruv Sawhney** We are all hedged. We are fully hedged and we hedge it straightaway as we get our order so we are fully protected. We have not got any orders at a lower rate to what we had put in our costing. In fact they were at the higher rates.
- Devam Modi** Do we sort of enjoy a cost advantage over some of our competitors in the international markets and are we seeing any pricing pressure over there?
- Dhruv Sawhney** The Japanese Yen as you know has gone down substantially, there is some pressure from the Japanese manufacturers but it is okay now. We have still managed to get our export bookings that is how we have the orders on hand of ₹ 7.7 billion.
- Devam Modi** When you say that domestic market is not looking good due to ramp up in first half of 2016, does it mean that 2016 will probably be a stronger year for exports and the JV but otherwise it will be more or less the same at 2015 level?
- Dhruv Sawhney** No, in 2015, we expect the same growth rate that we had in 2015 over 2014.
- Devam Modi** Have you seen any book and bill orders in 2015 that we have been able to book?
- Dhruv Sawhney** Yes, we have quite a lot of book and bill from the first quarter and we expect the same in FY16.
- Devam Modi** I was asking this was because when you say that your turnover will come to around 25% growth, it implies that you will be managing only around ₹ 40 crore to ₹ 50 crore of book and bill within the year because our closing order book was roughly ₹ 580 crore at the end of Q4FY2014?
- Dhruv Sawhney** Correct, may be more than that figure in our book and bill.



Devam Modi Do we see any potential of book and bill in FY16 and how much would that be?

Dhruv Sawhney It is the same level as FY15.

Moderator The next question is from Kamlesh Kotak of Asian Market Securities.

Kamlesh Kotak Could you provide the breakup of the standalone, domestic and aftermarket for consolidated numbers?

CN Narayanan The standalone order book is ₹ 610 crore and the consolidated is ₹ 766 crore. There is no aftermarket order book in the JV. The aftermarket order book of ₹ 60 crore is in TTL.

Kamlesh Kotak Any new orders at GE Triveni that you are seeing in Q4?

Dhruv Sawhney Yes, we are expecting some orders to get closed in the Q4.

Kamlesh Kotak Would it be domestic or international?

Dhruv Sawhney The active ones are both but in these big orders something that slated for March it goes in to early April. If you go in to a new financial year even though it does not affect us in the long term they are all pretty active. If I had to give Q4 and Q1 we definitely expect orders in both domestic and international in the JV and of course in standalone. **Kamlesh Kotak** You guided for 25% growth for the current fiscal or the next fiscal?

Dhruv Sawhney Both.

Kamlesh Kotak Both the years you are expecting similar growth of 25%?

Dhruv Sawhney Yes, even up to 2017.

Moderator The next question is from Kapil Agarwal of Max Life Insurance

Kapil Agarwal In FY14, we did substantial amount of order booking from the JV, do we believe that the entire order book booked in the JV last year will be delivered this year or could spill over in the next year?

Dhruv Sawhney Some of it is going in FY15 but a substantial amount is going in FY16.

Kapil Agarwal So this year will be very less out of that order booking in FY15?

Dhruv Sawhney Yes.

Moderator The next question is from Bimal Sampat of Sunidhi Securities & Finance.

Bimal Sampat Apart from GE, do we have some kind of good orders from any big international?



Dhruv Sawhney GE is doing our marketing for the JV and GE does the marketing for the JV globally. We do it domestically and in some sugar industries internationally but really GE does the global marketing.

Bimal Sampat How much business should ₹ 1 crore Capex for the turbine business generate?

Dhruv Sawhney There is no correlation, this is not a capital intensive business. It all depends on where you do it. It is a technology business. That is why we are really debt free.

Bimal Sampat I mean a part like ₹ 1 crore to ₹ 20 crore?

Dhruv Sawhney No, you could have ₹ 1 crore to ₹200 crore. The capital expenditure is not a driver and even when we are putting up a new facility is very small Capex.

Moderator The next question is from Devam Modi of Equirus Securities.

Devam Modi What is the cash balance at the end of December?

Deepak Sen Cash investment is about ₹ 10 crore.

Devam Modi Is there any stress on the working capital?

Dhruv Sawhney Not at all.

Devam Modi Will it be negative working capital?

Dhruv Sawhney Yes.

Moderator The next question is from Manish Goyal of Enam Holdings.

Manish Goyal With so much volatility in currencies globally and the € has also depreciated. For a project to be set up in Europe and if they are importing turbines from us, will it be more expensive, are you seeing challenges on the costing front?

Dhruv Sawhney At the moment our exposure is about 30% from € and balance in \$ of all the orders on hand. Going forward, we don't really expect that. When we are quoting, when we give our final pricing this is quite close to when we get the orders and hedges. We are fully covered in this currency fluctuation.

Nikhil Sawhney Our prices are still very competitive, so it really does not make much of a difference.

Manish Goyal The € in rupee terms has appreciated more than 10% and you are doing a lot of business in Europe and some projects which are coming up there. Are you seeing challenges because you may probably have to quote a higher price in € terms?

Nikhil Sawhney The market can accept it.

Dhruv Sawhney We have the advantage of already having some good references. We are not seeing any margin pressure. We are not forecasting that in the next year FY16.

Manish Goyal In African or Southeast Asia countries at least on currency front you are not seeing any fluctuation

Dhruv Sawhney There we are in \$ terms.

Moderator The next question is a follow up from Ankit Fitkariwala of Jefferies.

Ankit Fitkariwala The guidance for full year FY15 is 30% revenue growth and 35% profit growth?

Dhruv Sawhney 30% on a consolidated basis.

Ankit Fitkariwala Revenue.

Dhruv Sawhney Yes.

Ankit Fitkariwala And 35% profit on a consolidated basis ?

Dhruv Sawhney Yes.

Ankit Fitkariwala And FY16 will be similar growth?

Dhruv Sawhney Yes,

Ankit Fitkariwala And standalone revenue will be?

Dhruv Sawhney 25%.

Ankit Fitkariwala When you say that your aftermarket piece is growing very well, what will be the typical margin difference between your regular orders and aftermarket orders?

Dhruv Sawhney About 20% between a product and aftermarket.

Moderator The next question is from Pawan Pennada of Unifi Wealth Management.

Pawan Pennada Can you throw some light on the Capex plan?

Dhruv Sawhney The Capex that we envisaged for which we have already started and which we will complete by March '16 it is about ₹ 50 crore.

Pawan Pennada What is the present capacity utilization?

Dhruv Sawhney It is about 70%, we have got a lot more to go in the current plant.

Pawan Pennada It would be 70% utilization at present and after ₹ 50 crore Capex is completed, the capacity utilization would be further lower, right?

Dhruv Sawhney Yes, but we subcontract quite a lot. There are plenty of very good subcontract facilities around Bangalore and also in the neighboring states. There is no capacity problem even three years later if we double our turnover. We have done a planning up to FY17-18 and there is not much capacity problem in reaching this growth rate going up to FY17-18 from a production standpoint.

Pawan Pennada Are you saying that you have already taken most of the Capex plans and you are going to benefit from this Capex already undertaken for the next two-three years?

Dhruv Sawhney Yes, full next year and some small Capex may happen the year after.

Moderator The next question is from Nidhi Agarwal of Sharekhan.

Nidhi Agarwal On the execution cycle of JV orders, we had an order book of ₹180 crore at the end of FY14. What is the execution plan for these orders?

Dhruv Sawhney Some of them are quite long leap, the ones in Philippines are 14-18 months so that's why they are going into FY16 and that's what the customer wanted and some of the JVs domestic ones are around a year.

Nidhi Agarwal How much are we booking in this year?

Dhruv Sawhney We expect to book some more in Q4.

Nidhi Agarwal Can you give the quantum of the orders booked?

Dhruv Sawhney I will not be able to say what is my expectation level of order book in the next quarter in exact in this current quarter but we are expecting to keep orders on hand stable even though we are having the 25-30% growth in sale.

Nidhi Agarwal What is the maximum revenue potential we can achieve with the current capacity in the JV?

Dhruv Sawhney JV does not have a manufacturing assets, so it is not constrained by capacity. And it is very difficult to estimate what is your capacity because you have another sub-contract capability. As I have mentioned that we have no problem doubling this turnover.

Moderator The next question from the line of Bimal Sampat of Sunidhi Securities & Finance.

- Bimal Sampat** Since we don't have any major Capex for the next three years, we will be throwing up a lot of cash, how will we use that cash?
- Dhruv Sawhney** We will have to put it to the Board. I cannot tell you before they consider it but right now we are concentrating on product development. There will be cash surpluses which the Board will consider.
- Moderator** Thank you. Ladies and gentlemen that was our last question. I now hand the floor back to the management for closing comments.
- Dhruv Sawhney** Thank you very much and I am thankful for your support. As I wanted to summarize, we expect to close FY15 with good growth in sales and profitability both for the Standalone Company and even better for the consolidated results. And with our orders in hand and with our now expanded geographical reach and organizational capabilities we are expecting to preserve this growth rates of sales and profit in the next couple of years at least. That's the far we can see it so we are confident that now the company is on the path of putting forth this accelerating growth all the way up to end of the FY17. Thank you.
- Moderator** Thank you very much. Ladies and gentlemen on behalf of Triveni Turbine Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.