



## Triveni Turbine Limited Q2 & H1 FY15

### Conference Call Transcript

November 13, 2014

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**Moderator**

Ladies and gentlemen good day and welcome to the Triveni Turbine Limited Q2 and H1 FY15 Earnings Conference. As a reminder, all participant 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 '\*' than '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 and good day everyone. A warm welcome to all of you participating in this Q2 and H1 FY2015 Triveni Turbines Earnings Call. We have with us on the call today Mr. Dhruv Sawhney – The Chairman and Managing Director and Mr. Nikhil Sawhney – the Vice Chairman and Managing Director and other members of the senior management team.

We would like to mention before we begin that some statements made in today's discussion may be forward-looking in nature and a statement to this effect have been included in the conference call invite which has been email to you earlier. We would also like to emphasize that while this call is open to all 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 where you can discuss your views and key issues. I would now like to hand over to Mr. Dhruv Sawhney to share some perspective with you with regard to company's operations and outlook. Over to you sir.

**Dhruv Sawhney**

Thank you very much Gavin. Good afternoon everybody, welcome to the Q2 & H1 FY15 conference call. I welcome you with some very good results for the quarter and very good results of the half year FY15. I have been mentioning in previous conference calls, the quarterly performance goes up and down so, while we have had an exceptional performance, I would encourage you to really look at our H1 results and going forward on a cumulative basis. This is where we are very confident and as a result we have marked a turnaround. In Q2 FY15 we delivered very strong sales growth, margins and PAT. Our H1 revenues have gone up by 19% and with the PAT having gone up by 34%. We delivered good margins in H1 and we are confident of over 20% margin levels going forward.



We have a good order intake and that is a very encouraging factor. While the domestic market has been sluggish, there has been a small increase in new enquiries but we do not expect anything to come to before the fourth quarter of FY15 or either in the first quarter of FY16. Our market share in H1 has gone up to over 70%, but the volumes are what they were previously. Our key performance has been the sustained push that we have been giving to the export markets, especially in the last two years and that has borne fruit for the performance in the first-half and in the order booking in the first-half. Our order book in the second quarter was very good, it grew by 47% over last year and about 35% over last year for the first-half. This has something to do with our export order bookings and here as we look at the figures in products, our order booking is about 60% from exports and 40% from domestics and this is the first time that the switch has occurred and we will probably see this ratio changing a little bit, but if it moves to 50-40 once the Indian market picks-up, we feel that we will still be primarily a global company and more export oriented company than we have been in the last few years. With our change in export and with the increased competition from Japan, from India and from EPC suppliers, we have been able to preserve our margins. Our competitiveness has been due to a very sustained effort in R&D and value engineering that we do year-on-year and an extremely agile supply chain. Our manufacturing processes have been tuned for all the new models that we are bringing in to satisfy new customer need in our key segment.

Our key segments globally are in the bio mass line - sugar and biomass, we have done well in the lower ranges of palm oil starting from almost zero few years ago, to over 25% market share. We are encouraged by the orders that we have executed for waste to energy especially in the UK meeting the EU norms. Further, the third plant is going to be commissioned in the next few months, this is going to be the largest car waste plant globally and converting that into energy. That is another sector in the developed nations which we feel is encouraging.

We have some traction domestically in sectors like cement and little bit internationally as well, but the second area which is very encouraging is our joint venture with GE. GE Triveni has also turned the corner and we expect the year for the first time to break even independently based on the estimates turnover etc. Order booking has been good and the enquiry book and the forecast for FY16 is even better, we would expect substantial increase in turnover for the current year over the last year in the joint venture and this will sustain to increase further in FY15-16 based on the orders we have on hand now, which is pretty much due for delivery next year and going forward which we see this sustaining in the order booking in FY15-16 so that our dispatches in FY16-17 are encouraged.

To give you some idea of our export portfolio, in the range from 1 to 30 MW, we have enquires from over a hundred countries and that is a big milestone and we have installations in over 50 countries. One of the greatest achievements in the first-half has been our hit ratio. The enquiries to order ratio has become much better and we expect this to slightly increase or at least sustain itself in FY15-16. The enquiry base is growing because we are going to more countries and if we can achieve our hit ratio enquiry to order, then we will preserve this growth in export that we have got in FY14-15 into FY15-16's order booking so that we have increased turnover for the next couple of years.

As I said about margins, we expect to sustain these margins. One of the initiatives that we are going to take up in the next six months to supplement our export efforts is by opening service centers and we are primarily targeting four locations - Africa, UK - European market, Central America and Southeast Asia, these service centers will also help our sales efforts and we have got very good partners there, but being close to our customers is something that will carry us very far and will help us to be at par with our competitors who have been in these areas for quite long. One of the fortes of Triveni domestically has been service, we have far outstretched our competitors in our service

sector and we will be able to replicate this in the export market as well in a year. Refurbishment business in after markets has already started showing results. We have had a break through internationally from South Africa and where we are air freighting rotors for refurbishment and giving them back, these are very good margin orders and have a different type of competition, there is no OEM competition here, it is the question of to take time to create this market all over, but there is an existing market which is better than what it is in India, overseas for refurbishment. Our complete customer care, where we include spare and refurbishment is where we feel where we are going to take up a higher percentage in the future as to what we will have in the current year. Our aftermarket business grew by 35% in H1 and the aftermarket sales to total sales has increased from 23% to 26%.

On a turnover basis, export turnover has gone up by 22% and its proportion has also gone up marginally from 31% to 32% but we expect this to be much more than what orders we are currently executing on hand. I am going to leave much more time for you to ask questions and I would like to end my opening remarks by saying that we are happy that our export efforts and the efforts of the joint venture both domestically where we received several order again and on the export side where we received an order from the joint venture from Vietnam and we expect more, have been the reasons for our success. Thank you.

**Moderator**

The first question is from Manish Goyal of Enam Holdings.

**Manish Goyal**

It was really encouraging to hear about your aftermarket services which we are probably pursuing in international market. What kind of opportunity do you see there and what are the lower hanging fruits for the refurbishment order in Africa and how do you see this evolving?

**Dhruv Sawhney**

We will be in a better position once we are on the ground. To open these centers, the first few orders that we got without having some firm presence there. Now, the first step which you will notice will be from an organizational basis rather than just go ad-hoc here and there. We have done that because we feel that this is a good market and expanding market and the competition is really from the smaller players not from OEM, but they are on the ground. This business is not capital intensive, it is just people intensive, where we have very good sales people, we were having a lot of people in our training center which is one of the best in the world, our clients are very happy too that we have taken 35 people this year, they go through this two year training program mainly to start at all our centers in India and overseas for refurbishment. Our refurbishment needs a design input too, that is why it has a margin and that is why it takes so much time. You not only have to just sell it but you also have to go and measure up things, but our customer has a very good ROI after refurbishment, bottom-line is that he gets a payback within two years.

**Manish Goyal**

Would you require local partners to carry on the business or what would the structure evolve like?

**Dhruv Sawhney**

If it will evolve, it will be a combination of sales and partners and every place may have its peculiarity, but we are looking at overall currently.

**Manish Goyal**

What is the opportunity size you see in this?

**Dhruv Sawhney**

This is too early currently, we do not have a clear picture, but we are just going with the flow and our focus is to generate more enquiries right now in this line and just as in products have taken us two years, we have firstly concentrated on getting numbers of countries, a large enquiry base than a higher rate of converting enquiries to order, the same thing will follow here. We are not looking for great jumps in the few months, all we are looking for is for sustained good growth.

**Manish Goyal** On the order inflow side we have already reached the last full years number, how will order inflow look like for the whole year?

**Dhruv Sawhney** We expect the order inflow for the current year to be higher than last year even though domestically the market maybe about the same or slightly less than last year, the order on hand at the end of the current financial year is expected to be higher with a higher turnover in the current year.

**Manish Goyal** What is the order intake break-up for products for Q2 and order book outstanding excluding aftermarket?

**Dhruv Sawhney** We had 60-40 order intake in the first-half.

**C.N. Narayanan** In H1, we have around ₹ 90 crore of order inflow in the domestic market and ₹ 130 crore in the export market and the balance ₹ 60 crore in the aftermarket. All put together we have ₹ 290 crore or order booking in H1.

**Manish Goyal** The outstanding order book stands at ₹ 600 crore which includes aftermarket. How much is aftermarket and what is the break-up between domestic and international?

**C.N. Narayanan** Less than 10% is aftermarket, the balance is products. 60 for domestic.

**Nikhil Sawhney** For the products in the aftermarket there is not much on the international front.

**Dhruv Sawhney** In the domestic existing order book, we still have a fair amount which is being overtaken by the exports. Once the domestic market turns around you will see something very substantial, but as you know we need crystal ball to really know when that will happen.

**Manish Goyal** Is 60% of the outstanding order book domestic?

**Dhruv Sawhney** Yes, at the moment. Even though order booking in H1 has been 50% export.

**Manish Goyal** What is the order book outstanding excluding after market order book?

**Dhruv Sawhney** ₹ 550 crore.

**Moderator** The next question is from Pawan Parakh of Dolat Capital.

**Pawan Parekh** In your opening remarks you mentioned something on Japanese competition and domestic orders. Can you elaborate something on that?

**Dhruv Sawhney** No, we find no competition with Japanese in domestic orders. Internationally, we have been able to effectively compete with the Japanese. As you know, the Yen has gone down by about 20%. We have been effectively able to compete with them all over the world and there they are our main competitors besides Siemens because of the initiatives in value engineering and supply chain and hence I conclude there is no competition from them domestically.

**Pawan Parekh** What is the size of the new Vietnam order and the sector from which you have got this order?

**Dhruv Sawhney** 30 MW order from the sugar sector.

**Pawan Parekh** Could you provide a year-on-year comparisons for the revenue break-down in domestic and export in aftermarket for the quarter?

**C.N. Narayanan** Q2 dispatches last year was ₹ 123 crore out of which ₹ 94 crore was products and ₹ 28 crore was aftermarket.

**Pawan Parekh** What is the breakdown in domestics and exports for products?

**C.N. Narayanan** It is 70-30.

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

**Kamlesh Kotak** What was the order intake and order book in MW terms?

**Dhruv Sawhney** In terms of MW, it varies a lot and is probably not useful to take it in MW because the scope varies from country to country, sector to sector, a 20 MW order in one sector in one country can be very different from a 20 MW order from another country. For example, in our GE Triveni JV in Indonesia, we have got a 35 MW order which is a huge book value because it is as good as an oil and gas order, but it is not a very sophisticated.

**Kamlesh Kotak** Is ₹ 290 crore order intake for the standalone entity?

**Dhruv Sawhney** Yes

**Kamlesh Kotak** How are the margins in aftermarket overseas and the product business overseas and how is it panning out now considering that we have got series of orders?

**Nikhil Sawhney** The margins have doubled from the domestic market to the international markets in both segments - product and aftermarket.

**Dhruv Sawhney** Yes, but the aftermarket export is very small at the moment.

**Kamlesh Kotak** Would the margins be much better than the domestic market.

**Dhruv Sawhney** Yes, that is correct.

**Moderator** The next question is from Nirav Shah of Geecee Investments.

**Nirav Shah** We had a revenue growth guidance of 35% and we have achieved 19% in the first-half. Do you expect 45%+ growth for the second-half?

**Dhruv Sawhney** It was a consolidated figure that we talked about, I do not give a guidance and it was in general because in this business to give a guidance on quarter to quarter basis is very difficult, as some order slipped into the first quarter of next year but I do not know whether we are going to end up in 25% or it is going to be around 30%, but on a consolidated basis we will see a substantial growth versus last year.

**Nirav Shah** What is the revenue target for the next three to five year period from aftermarket sales including exports and domestic?

**Dhruv Sawhney** As I said earlier, when we set-up these centers, we will be able to establish the market. At the moment there is no published information on these things. This needs a lot of grass root work of visiting people. There are no journals. There are no agencies and there is no way you can go and buy this data so we have to create the data for

ourselves. It is quite a tedious process. But all I can say is that where we go and once we have it, we are having a pretty good response.

- Nirav Shah** How much will we spend on setting up these service centers annually for the next three years?
- Dhruv Sawhney** Very small amount.
- Nirav Shah** What is the execution period for this aftermarket order book?
- Dhruv Sawhney** It can vary between six to nine months and we are able to satisfy customers with the margins and delivery times including air freighting rotors all the way back to India.
- Moderator** The next question is from Devam Modi of Equirus Securities.
- Devam Modi** The JV's outstanding order book is ₹ 240 crore. The difference between consolidated and standalone is only ₹ 170 crore, so is the set of ₹ 70 crore due to a back to back order and the remaining will be the marketing margin and the manufacturing done by the JV?
- Nikhil Sawhney** You are right, it is exactly that.
- C.N. Narayanan** It is a back to back order, the flange-to-flange manufacturing order, that is the common element in both the order books.
- Devam Modi** What was the domestic market size for less than 40 MW in FY14 and what do you estimate for FY15?
- C.N. Narayanan** In FY14 market was about 700 MW. We do not expect a significant rise in that.
- Nikhil Sawhney** We are expecting same sort of price level this year also compared to last year.
- Devam Modi** Wasn't this market about +1500 MW in 2012?
- C.N. Narayanan** It was about 1,100 to 1,200 MW.
- Devam Modi** What was our market share in FY14 of the 700 MW?
- C.N. Narayanan** Our market share last year was 65%. It is over 70% in H1.
- Devam Modi** That would be basically because of some concentrated orders and we have managed to breakthrough on those.
- Dhruv Sawhney** Yes, the market is so small that if you lose one, it goes up a bit and if you win one you go down a bit. And we are not taking up some of them because of the margins. We refused a couple of domestic orders to our competition.
- Devam Modi** Will the domestic margin be in the range of 10% to 12% or slightly higher?
- Dhruv Sawhney** Approximately in that range, but it is surprising how competition is wanting to in some places go down where we feel that with our exports we do not need just sacrifice domestically just for the sake of turnover.
- Devam Modi** Are export margins almost double of the domestic margins?

**Nikhil Sawhney** Yes.

**Devam Modi** On the product side, out of the total order book of ₹ 600 crore, product is ₹ 550 crore wherein domestic is 50% and exports are 40%?

**Dhruv Sawhney** Yes.

**Devam Modi** On the order inflow front, ₹ 60 crore is for domestic, ₹ 43 crore is for exports, and remaining ₹ 38 crore is for aftersales plus refurbishment?

**C.N. Narayanan** Correct.

**Nikhil Sawhney** A little bit more than that.

**Dhruv Sawhney** Are you seeing Q2 or H1?

**Devam Modi** I am seeing Q2. I just deducted the Q1FY15 numbers from that.

**Dhruv Sawhney** Okay.

**Moderator** The next question is from Ranjit Shivaram from B&K Securities.

**Renjith Sivaram** Can you throw some light on the order pipeline looking for second-half and going forward in FY16. How do you see the overall scenario? Are you seeing some traction or when are you expecting traction in the domestic market?

**Dhruv Sawhney** In the domestic market, the enquiries are coming in. There are better enquiries in the first-half, but I am not putting any bets on when they are going to be converted into orders. People are waiting for interest rate. I do not know why, but it will take a few quarters. We are not planning them in our budgeting cycle, but our export enquiry based in the first half is huge. We have got additional enquiries for 2,500 MW in the first half internationally. We are getting it from a 100 countries, there is a strong enquiry base means while budgeting, people drop it, then they delay it but still the spectrum is large.

**Renjith Sivaram** What kind of an order book are we looking at for the end of this year? Will it be around the same range or are you seeing some more uptick?

**Dhruv Sawhney** We expect an increase in our order booking versus the second-half of last year.

**Renjith Sivaram** Will the execution period continue to be the same?

**Dhruv Sawhney** As earlier.

**Renjith Sivaram** Can you see some good traction in the coming year too?

**Dhruv Sawhney** Yes we have plenty of capacity availability for taking substantial increase in turnover.

**Moderator** The next question is from Swarnim Maheshwari of Edelweiss.

**Swarnim Maheshwari** The gross margins have come down year-on-year from around 46% to 43%, while we have recorded expansion in the EBITDA margins. Looking at the other operating expenses, they have gone down, but the raw material expenses have gone up. Why

are other operating expenses constantly coming down? Is there anything structural to this?

**Dhruv Sawhney** No, depreciation is higher because changes in the depreciation rule, there have been some adjustments in depreciation.

**Swarnim Maheshwari** Would depreciation be below EBITDA?

**Dhruv Sawhney** Yes.

**Nikhil Sawhney** No, you have changes in quarter-to-quarter, but if we have the highest turnover and an operating leverage, it is more important because it gives us a better utilization of overheads.

**Dhruv Sawhney** And a favorable revenue mix also.

**Nikhil Sawhney** The material cost changes from quarter-to-quarter. If you look at it on a short duration point of view, we are quite confident of maintaining material cost as a percentage of turnover at a constant level on a year-on-year basis.

**Swarnim Maheshwari** What is the current capacity utilization of existing plant?

**Dhruv Sawhney** About 65%.

**Swarnim Maheshwari** Can you update us on the new Turbine facility and the Capex for it?

**Dhruv Sawhney** At the moment we are thinking a bit more on the fact that it is going to be way under ₹ 50 crore for the year and we are just building a boundary wall at the moment, but that's got a capacity of eventually doubling what we have in Peenya. We don't really need that. The first thing we will do is to put up the assembly and testing facilities to take on more of the larger range of the joint venture turbines going up to 100 MW. So we will be having high returns but the capital cost is small.

**Swarnim Maheshwari** What kind of Capex are we looking in next two or three years?

**Nikhil Sawhney** About ₹ 30 to 40 crore next year.

**Moderator** The next question is from Mansi Verma of Karma Management Advisory Services.

**Mansi Verma** I was looking at the improvement in your EBIT margins and that is very encouraging; would the EBIT margins be sustainable?

**Dhruv Sawhney** At a PBT level of around 20% is sustainable and with the increased turnover, the mix of export and domestic, considering the competition today and increase service sales, we are concentrating with the 20% PBT margin going forward and we feel confident of sustaining those levels.

**Mansi Verma** Why has the debt level come down and why is there slightly more cash versus the income?

**Dhruv Sawhney** Yes, we are completely debt free. The small Capex is some car loan. And all the Capex that we are thinking is easily covered by internal generation and we also paid dividend this quarter, so the cash flow has been impacted that way.

**Moderator** The next question is follow-up from Devam Modi of Equirus Securities.



**Devam Modi** What capacity utilization can we operate at going forward and what is it currently?

**Dhruv Sawhney** We are a little over 100 turbines, we can do 150 turbines, so we were at about 65% capacity utilization.

**Devam Modi** Will they be similar in terms of value?

**Dhruv Sawhney** Could be. We have this new facility coming out for the larger range at minimal cost. We can very easily take up extremely high increases in turnover in the next two to four years.

**Devam Modi** Will the new facility double the entire capacity.

**Dhruv Sawhney** Yes, it will double and it can triple going forward.

**Devam Modi** Will doubling require only ₹ 40 crore more Capex and tripling part will probably require more Capex?

**Dhruv Sawhney** Yes, this is only for the assembly part, but we looking at a year at a time.

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

**Kamlesh Kotak** We received orders in domestic and overseas markets from which sectors?

**S N Prasad** In domestic market, we received orders from process co-generation that is basically chemical, pharmaceutical, paper, textile industry along with sugar co-generation industry, which are basically co-generation plants in sugar - these are the positive sectors. In biomass plant, we are not seeing that upswing but there is an enquiry pipeline on that. In international markets, sugar is one of the strong segments for us followed by biomass, waste to energy markets where we are quite strong and it is basically a combine cycle on the engine based port line, these are the three major segments for the international markets.

**Kamlesh Kotak** Which geographies can you identify?

**Dhruv Sawhney** It is all over. From Turkey, Vietnam to Central America. We are also in Southeast Asia. Pakistan also, but in Indonesia we have been quite successful. We are not willing to limit, we have gone over in focus. We are now building up capabilities of going into 5 to 10 countries every year and for a serious marketing push.

**Moderator** The next question is from Deepak Agrawal of Elara Capital.

**Deepak Agrawala** What is your thought process in terms of revenue expectations for the domestic market?

**Dhruv Sawhney** For FY15 over FY14, we are looking at preserving growth for FY15 and preserving the margins as well. FY15 will be on a higher base.

**Deepak Agrawala** What has made this kind of sudden increase in the number of export enquiry levels in the first and the second quarter?

**Nikhil Sawhney** It can be attributed to higher coverage, but more in terms of just physical spend and travel, in fact our total spend on administration cost, travel as well as personnel was more for the first six months than for the full last year and we have continued to maintain that.

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| <b>Deepak Agrawala</b> | Any comments on the order inflow pipeline for the JV?  |
| <b>Nikhil Sawhney</b>  | We cannot provide any great guidance on it, but as it was said earlier, the growth that we are anticipating this year is quite evident from our order book which is to be executed within the next two months as well as very good growth going forward to the next year based on the enquiry pipeline and on the probability of success of closing further orders in the next two quarters. |
| <b>Dhruv Sawhney</b>   | And the pipeline in order closing in the first-half of FY15, we have the visibility for a year, where we are seeing serious negotiation and good chances as well.  |
| <b>Deepak Agrawala</b> | Can you quantify or give some number to this?  |
| <b>Dhruv Sawhney</b>   | It is difficult to give numbers for the GE because they have large quantum orders and large megawatt orders and they vary in scope. We are going to have a better growth rate going forward than we have had as of now.  |
| <b>Deepak Agrawala</b> | What is the capacity utilization?  |
| <b>Dhruv Sawhney</b>   | We are at 65% now which is reflected in our turnover increase. We have got at least a third more in terms of megawatt and rupees that we could add on in the current facility besides the first phase of the new one which will be ready by September 2015.  |
| <b>Deepak Agrawala</b> | The assembly and the testing that you were just mentioning.  |
| <b>Dhruv Sawhney</b>   | Yes.   |
| <b>Deepak Agrawala</b> | How has the Company done in Q2 & H1 in the spare part business?  |
| <b>C.N. Narayanan</b>  | Aftermarket in the first-half has grown by 35%.  |
| <b>Dhruv Sawhney</b>   | The aftermarket as a percentage of the total sales has also gone up from 23% to 26%. 23% of the total revenue which was in the H1 FY14 has now become 26% in H1 FY15 and in has grown by 35% in absolute terms   |
| <b>Moderator</b>       | The last question is from Nidhi Agrawal of Sharekhan.  |
| <b>Nidhi Agarwal</b>   | Can throw some light on the order book that is pending in the JV.  |
| <b>C.N. Narayanan</b>  | It is close to ₹ 240 crore.  |
| <b>Nidhi Agarwal</b>   | Why has the other income increased this quarter?   |
| <b>C.N. Narayanan</b>  | Yes, this is due to foreign exchange gains which is in the other income.   |
| <b>Nidhi Agarwal</b>   | How much are the foreign exchange gain?  |
| <b>D K Sen</b>         | About ₹ 3 crore.   |
| <b>Nidhi Agarwal</b>   | GETL JV has turned around this quarter?  |
| <b>Dhruv Sawhney</b>   | In first-half.   |
| <b>Nidhi Agarwal</b>   | Can we see a ramp up in the profitability of this JV in the second-half?   |

- Dhruv Sawhney** I actually said that FY15 will be a turnaround versus FY14 because we present those results on an annual basis.
- Nidhi Agarwal** What can we expect FY16 onwards?
- Dhruv Sawhney** Better performance than FY15.
- Moderator** Thank you very much. Would you like to add closing comments?
- Dhruv Sawhney** Yes, thank you. Thank you everybody for joining this conference call and for the support for Triveni Turbines. I am encouraged to have presented these results to you. In this business we really look at sustained growth, we always look at cumulative figures so the next quarter we may grow up and down individual quarter but the future is extremely robust and in our range of turbines internationally and in the joint venture's range, both domestically and internationally and capacities are therefore extremely large increases in turnover. So if you look at the slightly medium-term of FY15-16 and FY16-17 while the India market turns around and with our growth in the international market, as I explained both product and service, I expect this Company to be doing extremely well in the next few years and thank you very much.
- Moderator** Thank you. 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.