Triveni Turbine Limited

Q3 & 9M FY 19 Earnings Conference Call
February 12, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Triveni Turbines Q3 and nine-months FY 19 earning conference call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishab Barar of CDR India. Thank you and over to you, sir.

Rishab Barar: Thank you. Good day everyone and a warm welcome to all of you participating in the Q3 and nine-months FY 19 earnings conference call for Triveni Turbine Limited.

We have with us today on the call, Mr. Nikhil Sawhney – Vice Chairman and Managing Director, 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 the 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 invite 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 Rishab, Good Morning ladies and gentlemen and welcome to the nine-month Q3 Conference Call for Triveni Turbines. We have some good news to report to you and of course some explanations that we need to make. The good news of course is a fact that we have the highest turnover in the nine months that we ever had. The disappointing news and the news that we need to actually explain is the fact of our margins.

But let me begin with some of the operating results:

The net income from operations of the Company for the nine-months has been ₹ 6 billion which is a growth of 18% over the previous nine-months. The PAT stood at ₹ 720 million which is a growth of 19% over the corresponding period of nine months.

There was a 13% growth in the total order intake which was at ₹ 6.45 billion for the nine months versus ₹ 5.71 billion in the corresponding period. The nine-month period also saw an increase in the order inflow in the domestic market by 26% and the mix of the domestic order booking in the nine-month has gone up to 51% of our order booking as compared to 46% during the corresponding period of last year.

The product order booking in the domestic sector has been 40% higher in the nine months and overall there has been a growth of 10% in the product order intake during the nine-month period. The aftermarket segment has also performed very well with the growth of 23% over the corresponding period of nine months in FY 18 and in terms of order booking but while sales have grown by 14%. During the nine-month FY 19 period the mix of exports in total sales has increased from 44% to 51% while the mix of domestic sales has decreased of course from 56% to 49%. The share of aftermarket in total sales is at 27% as against 28% in the nine-month period even though the aftermarket sales have increased by 14% overall to ₹ 1.59 billion from ₹ 1.39 billion.

The overall consolidated closing order book is at ₹ 7.53 billion during the nine-month period which is 8% higher than as compared to the previous year and 6% higher than at the beginning of this financial year.

The buyback as you know has been very successful and has been completed and all the shares which were bought back have been extinguished on the 5th of February 2019.

In the domestic market during the quarter and nine-month, the total market enquiry book has been at about 1.5 gigawatts which is healthy, and we have seen a good traction in this nine-month period to date. There is certain circumspection over the next preceding months in terms of volatility given the impending elections. But we are confident that the overall growth in the market for the full financial year and leading into this financial year for the domestic market will be robust. Of course, it will not approach the markets back in 2010-11 but having said that there will be a double-digit jump in the market over the last financial year.

On the export market; the product order intake has been healthy. Though of course it is lumpy from month to month and we are confident that in the full financial year we will have a very good performance in terms of order intake, covering a broad segment of operations from waste to energy, sugar cogeneration including other process co-generation applications and geographies which are also equally wide. In terms of the international data available Triveni Turbines has emerged as a leader for the supply of SteamTurbines into the Biomass sector globally and we are very proud of that fact and I will delve in it further as I conclude my remarks.

The order inflow on the quarterly basis has been lumpy as I talked about and we believe going into the next financial year the strength of our order book as well as the order intake augurs very well for the visibility that we have until the nine-month period, one year forward which is going to FY 20 and this growth in order book is what is leading to an increase in sales. Equally at the same time we have had a decline in gross margin and increase in raw material as a percentage of sales to approximately 57.6%. This is a matter of concern for us and this is something that is way beyond any expectation that we may have.

As we have confirmed to our investors in the past, our expectation of the profit before tax margin is a number that we looked at internally and our benchmark to keep it around 20% or above that has of course been missed to a large extent in this current quarter. This is due to new models that were introduced into the market which had a slightly higher cost than what was expected which led to approximately 300 to 400 basis points in terms of raw material consumption. The balance of it was due to a product mix in terms of what was sold to the market from both an export to domestic perspective as well as in terms of the balance of plant versus the product of flange to flange which was sold into the market.

Having said that we are confident that going into Q4 as well as the visibility of our order book into the first nine months of FY 20 that this temporary movement on increase in raw material which has hit us all at once in this quarter would-be normalized back to our normal expected margins. So having said that we believe that even Q4 would have a reversion to our norm.

Now on GETL:

The overall performance of GETL for the nine-month period has been much below our expectation, both from the perspective of order intake as well as revenue. The JV continues to have a significantly lower than expected performance and this is largely driven by deferment by customers for taking delivery of their order as well as in terms of placement of orders. We are of course constantly and continuously engaging in the market to ensure that we are able to capture as much value as we can from this segment which we believe to be an extremely lucrative market and something that we will be paying a greater attention towards. The JV itself has registered in the nine-month, revenue of ₹ 358 million with the profit of ₹ 22 million. And similarly, on the order booking front also the JV pipeline of enquiries which are in advanced stages of finalization which were finalized to the extent of ₹ 440 million in the nine-month period.

The design and development program of the company has been the core of the value that we have been able to create, the position that we have in the market and the leadership that we have in certain segments and geographies. We continue to invest in creating new IPRs, new models and continuous value engineering. The increasing cost that we had which was driven by certain new model introductions included one-time cost in terms of learning as well as tooling, including certain mistakes which may have been made in terms of getting the products to market. Having said that the learning have been internal highest. We have a full grasp of the situation and there have been remedied already to ensure that Q4 can present a much better picture than we have done in Q3.

Having said that given our growth in order booking and our conviction in getting good orders in Q4 as well, our visibility for the next 1 year which includes up to nine months FY 20 augurs very well. I will be happy to take questions from investors now.

Moderator: Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Sriman Dudhoria from Unifi Capital. Please go ahead.

Sriman Dudhoria: My first question is on our product mix. You mentioned that the product mix has led to lower margins, so can you elaborate a bit more on that? What percentage of our revenue was from these new products which have lower margins and is that mix likely to remain going forth and more so if the margins are lower in these products are these products more of commodity in nature?

Nikhil Sawhney: No, this is not a question of commodity in nature. It is a question of actually translating the new design developments on to the shop floor, the learning that happens on the shop floor, the conversion of raw material at the shop floor level as well as an installation of the products. Our new product developments are technological intervention into the market, so these will continue. We continuously introduce between 5 to 7 new variants and maybe 4 or 5 new product itself into the market every year and so we are quite confident on that strategy. It's just that certain models which had a very large increase in efficiency led to a higher cost which we have tried to identify and have a mitigation strategy towards and that's why we believe that this to be temporary. No new products always comprise of a larger segment of sales continuously as we go forward because our endeavor is to continuously improve on not only the efficiency front but also to actually give a better value proposition to our customers. So, from that perspective new products will always and continuously have a high percentage share in terms of turnover of product.

Sriman Dudhoria: So if I were to ask you to quantify a number in absolute growth which would have been the one-off expense.

Nikhil Sawhney: So like I told you if I look at the material cost at 57.6% and a normal being somewhere around the region of 51% then about 4% or 400 basis points could be attributed solely to this criteria and about 1% or 2% was based on the change in from quarter to quarter a lumpiness has happened in terms of product versus aftermarket dispatches as well as the mix in terms of what exactly is getting dispatched. So that will get evened out towards the end of the year.

Sriman Dudhoria: So this 4% would not be repeated going forward, would that be the right way to think about?

Nikhil Sawhney: Exactly you are coming to the point that I alluded to that we believe this to be a one-off and temporary in nature. We believe that by Q4 you will already see a reversion back to normal and going forward into the next financial year these same products would be reverting back to the normalized margins structure.

Sriman Dudhoria: On that a follow-up, you mentioned that we continuously have newer products coming in and it is kind of a continuous process, why is it that in this particular quarter we have had an impact on raw material, is it that the number of products introduced was way higher?

Nikhil Sawhney: No I think you have to say that this was a mistake made by us and the fact that we have realized this consistently and adopted it into our system and practice. The fact that this happened by itself is something a matter of concern for us. It is also driven by a certain cost increases that happened as you can see because the majority was exported by local manufacturers which was also been absorbed into the system and new products which have been quoted are already been increased in terms of our cost base, so we are assuring margins on that front. So I think the factor as far as the Company is concerned we are quite confident that this blip in terms of margins structure for the product or new product introductions would be taken care of going forward.

Sriman Dudhoria: On GETL front I see that there is a stark difference between 6 months and 9 months numbers so it seems that in Q3, was there a one-off kind of a thing because the profitability for Q3 in isolation seems to be quite high based on the 9 months number that you shared in the 6 months number that you shared previously?

Nikhil Sawhney: Yes, GETL has two components of sales, one is the product itself which is directly related to the order book, the other is services and the services of course carry a much better margin. Those are not reflected fully in the nature of the order book as you would understand but of course they are very profitable and these services are provided to GETL customers only.

Sriman Dudhoria: So it's kind of around ₹ 66 million of revenue for like ₹ 30 million of profit, the numbers are not erroneous, right?

Nikhil Sawhney: No, it's driven by high margin execution as well as the certain reversion of provisioning that has happened in the past and so this may happen in the future also where you would see certain profits being written back just because due to conservativeness we may have actually taken certain write-offs based on assumptions on the customers or just on project execution.

Moderator: The next question is from the line of Kirti Dalvi from Enam Asset Management. Please go ahead.

Kirti Dalvi: My first question is on GETL itself; given our performance for now almost years in GETL what is our next strategy in this JV and where do we see this JV from growth perspective leading us into new markets?

Nikhil Sawhney: I think that our expectation on the joint venture from the beginning have always been very high. We believe that the market between above 30 to 100 megawatt is equal if not much larger than the below 30 megawatt and so therefore that we wish to create is equal if not more than what we have created in the below 30 megawatt space. So you are right that there may be an under performance in this segment but we are very conscious of that and conscious of the interest of everyone on the call. We will of course keep you informed every quarter as the matters progress. But we are pushing very hard to our partners for a continuous and aggressive push of all the products of the joint venture and in all the markets. We will revert back to you of course like I said it is also below expectations; the total growth. But if you look at it in terms of return on equity and the amount of money that the company has put in there, it has been sufficient.

Kirti Dalvi: But any kind of restructuring we can see the future in this JV because we have been strong in our market, below 30 megawatt and there were quite high expectations about 30 megawatt given GE's tie-up and it has not yet fructified till date. That's the only concern we have.

Nikhil Sawhney: I think there is conversation that happened continuously, there is never a stable form of any partnership because it has to react to the market, it has to react to circumstances and I think that we are continuously in dialogue to see how best we can create value for our shareholders and that is what is a concern for us to see how best Triveni can approach the market, how it can participate in the market and how it can be a leader within this space. Of course, we have a very amicable and very close relationship with General Electric and so we are in continuous dialogue to see how we can adopt and adapt this joint venture to see how best can we be on a high growth trajectory how we can actually realize more profit and ultimately create the market share and sales.

Kirti Dalvi: The last question again harping on the operating margin part. Is it particularly leading to any export kind of product or was it product related to domestic market itself?

Nikhil Sawhney: Product development. I think that it was not unique to where the client was or what the application we have been. The learning was from a perspective of new technology introduction into our product line which we have not only internalized and got the cost structure understood, there is a mixture of many costs that go into, it is not only a onetime design development cost that was built in. There was certain learning cost that also factored in into the manufacturing process and so we believe that lot of that has been internalized and we will see in Q4 that is the result that we will have to wait for to show you.

Moderator: The next question is from the line of Ruhal Gare from Kotak Securities. Please go ahead.

Ruhal Gare: Can you throw some light on the domestic market like what is driving the degrowth, is it the co-generation part of the business?

Nikhil Sawhney: You have many different segments which are performing at this point in time, you have the largest segment of course which has gained a lot of traction in the news but may not be providing absolute value in terms of revenue is the Distillery market which is where we have got 50 new enquiries totaling in excess of 200 megawatts of enquiries in last nine months. So that's a very robust sector which of course comes along with the sugar co-generation market but equally you have the paper market, the waste-heat recovery market in cement you have the waste to energy market which has lumpy orders. But all in all from a market perspective we have increased our market share in the nine months period but the market has increased slightly. But we are of expectation that given our enquiry book that we can see some good growth of maybe 10%-15%-20% in the coming year.

Ruhal Gare: And similarly on the international market as well because we have seen a bit of a volatility in crude prices, especially in last one-year, so is there anything internationally demand linked to this weather in Middle East or some other parts or any change in trend that you are observing because our Q1 was quite robust in that sense.

Nikhil Sawhney: You are right because you know our total turnover, the fact is that it's lumpy in terms of getting orders in international market. The trend is of course quite clear. But as I alluded to earlier the real strength that the company has and what has been recognized even by international agencies is its leadership in the Biomass segment which is renewables which includes waste-to-energy specifically sugar, sugar co-generation and other projects which are renewable in nature which don't really follow the same CAPEX trends which are related to Oil.Those are mainly funded based on availability of raw material and funding. And funding is actually quite available for these renewable projects. On the broader process co-generation markets those of course are subject to the CAPEX cycle and of course those will be lumpy because of that. But having said that our focus is largely on the Biomass market and we are very successful in that space. We are able to provide the distinct value proposition to our customers and back it up with a good degree of service because as we have noticed that our international aftermarket has increased quite conspicuously and we feel that this will continue in the coming quarters and we would be able to add to the growth that we were seeing in the total aftermarket segment which is extremely profitable to us.

Ruhal Gare: So internationally Biomass would be what close to 85% of the product sales I mean ex-service business in the international arena?

Nikhil Sawhney: It's significant, maybe somewhere around about what you are saying. It of course changes quarter to quarter.

Moderator: The next question is from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.

Anupam Goswami: You talked about 50 new enquiries coming from Distillery segment. I wanted to know any of these enquiries have turned into order for you?

Nikhil Sawhney: Yes many have, I don't think we can go to the numbers exactly, but many have. We have a very strong market share in this segment.

Anupam Goswami: Next thing is if sugar mills are expanding its distillery specially by 100 KLPD and an investment of maybe ₹ 60 crore, how much percentage would come for you guys, what is the scope of Triveni?

Nikhil Sawhney: That's what I told you the fact is that even though 50 new enquiries may have come, the total megawatt of the enquiries is about 200 megawatt so the fact is on average it is 4 to 5 megawatt per distillery and so on average it's a 60 KLPD or 80 KLPD Distillery so that gives you an idea of real strength.

Anupam Goswami: Can you quantify the amount what would like 4 to 5 megawatt be for you guys, what kind of order size?

Nikhil Sawhney: I think you're talking about ₹ 2 crore approximately ₹ 3 crore somewhere around that. Like I said the volume is good but values are low.

Anupam Goswami: What kind of the growth are you looking at from the domestic market as you can see and you said with paper and cement industry is also growing at that level, so how is it sustainable you are looking at?

Nikhil Sawhney: Our strategy has been quite clear, is to maintain our market leadership in the Indian market and to continuously grow our international and export markets to be able to have a greater presence have a greater absorption of overhead have a greater scale of operations and then also of course get better margins. The international markets really do offer us that. The domestic market is important in terms to be able to ensure that we are competitive in what is the lowest price market globally. So very frankly we are present in every sector and face every enquiry that comes into the market and so we are fully aware of which segments and which sectors have enquiries and which are ordering. Given the status of our enquiry book we are optimistic that there will be growth. We are over from the bottom of the market but really we are not looking at rapid growth of 50%-60% come into the market anytime soon.

Moderator: The next question is from the line of Abhishek Pamecha from Vibrant Securities. Please go ahead.

Abhishek Pamecha: My question is regarding the EBITDA margins; if we see on financial year 2016-17-18, the margins have ranged between 21% to 22% however the gross margins have been between 43% to 48% there has been wide variation in that. So, is it because of the product mix in different markets food as well as domestic, can you comment on the margins which are there in these segments, on ballpark basis?

Nikhil Sawhney: No I think it is better not to get into those numbers because firstly you will hold us to those numbers. But having said that it's also very competitive in nature to give as you know investors aren't the only people who attend these calls. But having said that international markets are substantially better in terms of margins than the domestic market, aftermarket is substantially better in terms of margins than the product market. Also you bringing up the question of EBITDA and gross margin, what you would see is that given an increase in operation and turnover the fact that we have been able to maintain and contain our overhead is also been something that we have shown coming into this quarter. We believe that going forward the increase in our turnover would be maintained at the same overhead level. But more than that is that the depreciation of all our plants etc. more be fully taken into those numbers at this point in time. So even from a net margin level we see reversion back to 20% norm is what we have plus is something that is in our calculations.

Abhishek Pamecha: Going forward if we are going to see double-digit growth in the revenue front then our costs are not going to increase that much so we are going to see better margins?

Nikhil Sawhney: The fact is that we have to continuously spend on sales and marketing and administer overhead with regard to making sure that our presence in international market is consistent and able to get is the orders. Now there is a certain degree of fixed overhead and certain variable. But having said that you should have a better absorption is what I alluded to.

Abhishek Pamecha: We have basically moved to hedge accounting and because of that we have said previously that it is going to basically make our margins the FOREX gain and loss which we see would be more normalized, can you comment on that how do we see that?

Nikhil Sawhney: In fact actually if you see our results right now you would see other comprehensive income of about ₹ 8 crore odd in our numbers which lead to a total comprehensive income somewhere in the region of about ₹ 31.3 crore from PAT of ₹ 22.8 crore and these are the unrealized gains on hedge which will come as part of income going forward, of course they will take new contract as we go forward and so this number will continue to remain as other comprehensive income and then would be regularized into our profit once it's realized.

Abhishek Pamecha: On a realization basis it will come into the P&L otherwise it would've come into the other comprehensive income, am I correct in my understanding?

Suresh Taneja: All this MTMs which are getting into OCI as of now will become a part of the operational revenue as and when the product to which it pertains to gets dispatched.

Abhishek Pamecha: So we are not going to see difference in the margins?

Nikhil Sawhney: No, in fact actually the fact is that if you look at it we run a hedge book, now of course the fact is that the rupee is already that we're executing right now for export were hedged at a level which we have been done nine months to a year ago. The depreciation in the rupee has largely happened in the last six months which should be captured in the orders going forward.

Moderator: The next question is from the line of Amit Mahawar from Edelweiss. Please go ahead.

Amit Mahawar: I just have one question on the new models we've carefully launched in last couple of months, how does the addressable market change for us both in India and export market because I'm sure we amortized most of the developmental cost following a conservative approach but how will it help in terms of adding the addressable market for us?

Nikhil Sawhney: Amit as you know we continuously add new products. If you are talking from a perspective of the increase in cost and the lower margins on these specific products which have impacted our Q3 results those would be absorbed and wouldn't impact. Even though the same products would be dispatched and sold and a part of our order book right now. The cost structure has been revisited and has been normalized back to the margins expectation that we have from regular product lines. This is and in fact actually the same products would by and large have if not the normal margins could even have higher margins going forward.

Amit Mahawar: I understood that and I appreciate that's not my concern. The only thing was just wanted to understand does it add to your addressable market, can we say that after….?

Nikhil Sawhney: There are 3 or 4 points to this, all technological developments as you know our In-Turbine is a customized product and the multiple variables that you have to consider with the client is considered as part of these operations. But paramount amongst the everything else which concerns the Company is two things – for the customer's perspective is the robustness of the product and reliability and secondly is the efficiency. From the Company's perspective of course is the cost and the delivery structure by which we can install and erect the product itself. So very frankly developments which happened for condensing needs are different to what it is for extraction needs. But the new development is that we do come out with incrementally either addressed on newer market that we can cater to which will be niche such as the API developments which is the Oil and gas market or certain other drive market segments which we have talked about or could actually expand in terms of higher efficiency market which allow us to compete more effectively versus our competition and eliminates well we always consider Siemens to be our primary competition and that's what we benchmark versus.

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

Ravi Swaminathan: Just wanted to know how the pricing environment is there in the domestic market given the fact that market has seen some growth, has it improved compared to last year?

Nikhil Sawhney: Pricing is unique. It's a customized product so it actually changes from customer to customer. In general what we're trying to say is that in the domestic market it is a lower priced market than we find in actually every other export market that we have. We of course benefit from the fact that we have certain exports incentive that comes through to us but even then the domestic market is by far the lowest priced market between segments and actually within industries you can have a wide variation in prices. Within Sugar two customers can order very different pricing so it's very difficult to comment on what is the price level but as a whole it is a low-priced market.

Ravi Swaminathan: Compared to previous year has it improved? Generally, when the pie expands?

Nikhil Sawhney: But the pie is not expanded substantially, if we look at it in terms of year-on-year and capacity that exists I think like we have told you in the past, in the below 30 megawatt segment the peak that we may have seen was about 2000 megawatts back in 2010-11 and the markets that we have seen over the 3-4 years have ranged between 600 megawatt odd to 750 megawatt odd may be going to about 800-850 so really we are quite a way away from any peak capacity which will allow us to expand pricing. But having said that of course as you would understand getting product pricing, we are in product margin is quite unique to Triveni in the rotating equipment space because of course once you do have a customer you get substantial revenue from them from a life-cycle of between 25 to 35 years from the aftermarket.

Ravi Swaminathan: In terms of expenses related to after sales which we were doing outside India, so basically past 1-2 years we have expanded in terms of offices etc. What have you planned to do with those expenses?

Nikhil Sawhney: Yes, we will not see any increase in those expenses. In fact we will see better scale going forward because we will have better revenue and order booking from those markets and so we will have better absorption but quite optimistic on specially the aftermarket segment from the International market as you have rightly point out that is a market which takes more time, our enquiries are quite robust specifically on the refurbishment segment and our offerings there have also have expanded and our reach into different customers has also expanded and so we are quite optimistic that we should have good successes coming to the next year.

Ravi Swaminathan: Any new offices we have opened over the past 12 months?

Nikhil Sawhney: We think our coverage is good now; we feel that we had always liked to be conservative and make sure that our competitive advantage and having a low overhead cost is maintained versus our competition.

Moderator: The next question is from the line of Abhishek Pamecha from Vibrant Securities. Please go ahead.

Abhishek Pamecha: My follow-up question is regarding the capacities which we have, so at the current capacities how much revenue can we do?

Nikhil Sawhney: We have actually expanded capacity quite significantly with our new facility at Sompura which gives us the flexibility to manufacture somewhere in the region of about 200 odd turbines a year from about 120 earlier. Now having said that so on the capacity utilization basis we would say that we are in the region of about low 50%- 60% somewhere between that and so that answers your question. But of course, we get about 25% to 28% of our revenue from the aftermarket which is not really constrained with this capacity. So, you have to look at our infrastructure from the perspective of products sales which comprised about 75% of our turnover.

Abhishek Pamecha: So, in that way this 50%-60% is lesser than that. This 50% 60% you are basically telling me about the current numbers which we are having, correct which includes everything?

Nikhil Sawhney: Yes, our current sales is at this level of capacity utilization.

Abhishek Pamecha: The capacity I should see from the product segment itself and in the aftermarket also the spare segment?

Nikhil Sawhney: Yes, you will have to add that, the whole aftermarket. But that's a potential I think that you would you should largely see that this business is not either capital intensive nor capacity constraint. It is a technology business and it is an investment into technology which will further grow the business and the sales of the company. One of your colleagues had earlier pointed out as to why new products are being sold and this is largely because customer requirements are also changing and so we have to continuously stay on the ball to ensure that we are able to meet customer requirements and are able to do that quickly and deliver it within the time span that is required.

Abhishek Pamecha: On the services front it would be basically peoples' capability only?

Nikhil Sawhney: There's software and there's certain infrastructure that we put up for testing, but it is largely people and it is manpower and skill dependent. So, we do have a very elaborate and a very thought through training program at all levels within the organization and we have ensured that everyone is competent and of course similarly it is with our hiring practices as well.

Abhishek Pamecha: The future capacity expansions which are going to be incremental only because we have set up a new facility and therein, we are just now established one-line, single line?

Nikhil Sawhney: Yes, you are right. Two bays are open in the new facility and the flexibility is therefore another three to be opened.

Abhishek Pamecha: So, there investments are going to be very incremental and ROCs are going to be much better on those investments?

Nikhil Sawhney: Exactly, you see the fact is our plant is come on line with the last year, year and a half and so you have seen the depreciation that being taken right now. Over a period of time we are confident that the utilization of the new facility will also allow us for better absorption and so only once we reach certain level of capacity utilization in this plant; in the first bay, would we even think about going to the next and then your question comes up in terms of incremental investment and higher return on capital invested for the new lines. Until then I think we can see a better performance on both metrics and return on equity, return on capital.

Moderator: The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: With regards to our order book if I were to see quarter-on-quarter addition in order book in Q4 FY 18 it was 257 then Q1 it was 240, Q2 it was 260 and Q3 it is 189. The trend has been down for three quarters in a row, order book addition so are we seeing some overall deceleration in business environment and is that the cause or is it seasonal, it is kind of lumpy and it can be explained entirely by lumpiness?

Nikhil Sawhney: Yes, it is entirely lumpy actually, if we look at our expectation of Q4 order booking it's substantially better than Q3. If we look it on year-on-year basis that's really the way that we should look at it because the order book is built up through the year for execution in the following year. I don't see that as a trend whereas you are seeing I know the numbers are pointing to that.

Anand Bhavnani: This 257 number Q4 '18, can we see this kind of number anytime lesser like once 2 years, I think the right number we have ever recorded in a single quarter so is there any possibility if the business momentum strong enough for others to get to that number?

Nikhil Sawhney: No, I don't think that is a difficult number to achieve so our expectations have to exceed that most definitely and while we wouldn't be setting our capacity if it wasn't for our expectations on market. We know that the Indian market really hasn't reacted that strongly and there is something that we will be poised at and let's keeps getting deferred so it's poised for more substantial growth and we believe our penetration to the export market is continuously expanding and so therefore we will only get better traction there and better order book.

Anand Bhavnani: Secondly all GETL, the order which is pending at the end of Q3, it's I think the same order that was spending at the end of Q2 and we thought , there might be some uptake in that order in Q3 itself. So, given that this recurring lag, just wanted to understand from a business perspective do we have ability to then charge extra for these kinds of orders where the customer is delaying in his deliveries?

Nikhil Sawhney: Of course, quite substantially.

Anand Bhavnani: Lastly, globally we are aiming at Oil and gas as a segment to penetrate. If you can give us some color on, if there has been any customer addition or any enquiries or any breakthroughs in our efforts?

Nikhil Sawhney: I'm very happy you asked about that because currently Oil and gas and Drive has a very low percentage of our order book and we have pushed quite aggressively into that segment and we are poised quite well to actually take good orders within the segment going forward. As you know the Drive market in Oil and gas is pretty much of the size of below 30 megawatts segment and power generation and so that would allow us to actually compete very effectively. The problems that happen in the Oil and gas market as you would understand is that you have very large consolidated buyers who have very set practices in terms of how they procure. They really are not cost buyers and that's why this market is very lucrative so therefore there actually; to get in from a registration perspective takes longer and we have been quite successful in these registrations with very large customers and so now we are getting very active enquiries from them and so it is the matter of time before we face some success.

Moderator: The next question is from the line of Chirag Muchhala from Nirmal Bang Equities. Please go ahead.

Chirag Muchhala: Primarily, firstly can you comment on our current working capital position post the end of 31st December specifically our inventory and debtor levels?

Nikhil Sawhney: As I told you the certain, actually there are 8 turbines in inventory as finished goods going into Q4 of which 6 have already been dispatched 1 is in the process and 1 is for GETL. So very frankly the working capital is well under control. We had some good refunds from GST etc. in this quarter so that is being well expected even though it was deferred for some period. But our working capital is fine, it's all within control, we have no debt in the company.

Chirag Muchhala: The receivable cycle and all, right now there is no stretch we are seeing that?

Nikhil Sawhney: Largely from receivable we run a policy whereby we take full payment on dispatch, either through cash of through LC. Our receivables on our books those are always backed by some form of guarantee and definite times where we do not have that security it's been only been in the aftermarket segment which has such high margins that those have already been factored into when you have actually taken the orders.

Chirag Muchhala: Is it possible to quantify the order book of GE Triveni JV currently?

Nikhil Sawhney: ₹ 164 crore.

Chirag Muchhala: On the domestic market, any outlook on the large value products that we use to get in the waste-heat recovery space especially from Steel and Cement sector, do you see them fructify anytime over the next year or so?

Nikhil Sawhney: The Cement sector is seeing growth. It's coming up lumpy right now but the market is quite large so I think that we have tapped maybe 10% of the market right now. I think that will have a good market going forward. It's of course driven by their capacity expansions also which I think will come about over a period of time so it will be a consistent market for us. In Steel and Sponge Iron we have not seen the waste-heat recovery market pickup at all. In fact over last year it has declined but they are of course sporadic orders based on certain capacity increases that people may see.

Chirag Muchhala: Finally on the key International markets for us, how is the demand outlook guiding into next year FY 20?

Nikhil Sawhney: It's actually quite strong. If we look at it in terms of specific geographies very strong and you would be quite surprised that even Europe has a very strong market for us in certain areas. As I told you as I said earlier, our key focus is of course in the renewable side of steam turbines and our applications there and so you would have to look at geography as where that is being pushed.

Moderator: Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you.

Nikhil Sawhney: Thank you ladies and gentlemen. We look forward to speaking to you in the next quarter as well. I think what you can take away from this call is that we have a robust order book and confidence on an increase in sales not only this year but next year as well. We are also quite confident that the lapses that we may have had in terms of margin for Q3 would be significantly remedied by Q4 and normalized getting into next year and so we look forward to addressing you in the future. Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Triveni Turbines, that concludes this conference. Thank you for joining us and you may now disconnect your lines.