



Triveni Turbine Limited Q4 & FY 20 Earnings Conference Call Transcript June 15, 2020

Moderator: Ladies and gentlemen, good day, and welcome to Triveni Turbines Limited Q4 & FY 20 Earnings Conference Call. As a reminder, all participant 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 would now like to hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you, Mr. Barar.

Rishab Barar: Thank you. Good day, everyone, and a warm welcome to all of you participating in the Q4 and FY 20 earnings conference call for Triveni Turbines Limited. We have with us today on the call Mr. Dhruv Sawhney – Chairman, Mr. Nikhil Sawhney - Vice Chairman and Managing Director, Mr. Arun Mote - Executive 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 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 will 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 very much. Good afternoon, everyone. And in these very troubled times, I hope that you and your families are well. But firstly, as you all may know, and in the reiteration of the investor brief that we have sent out yesterday, the COVID pandemic is truly a devastating occurrence, and it has impacted not only economy and industry, but all of us as humans as well. So our priority at this point in time for the company has been to ensure the safety and security of our employees and key stakeholders. But more importantly and equally importantly, actually, is to ensure that we are close connect with our customers so that we understand their problems and work with them through whatever issues they may have in their businesses so that we can maintain our life cycle relationship with our customers.

As for the pandemic, we as a business with our global outreach started feeling the impacts of this in late January, early February, where our East Asian customers



started deferring orders or also deferring acceptance of their turbines to the extent that their sites were not ready or there were certain bottlenecks in terms of restriction on movement of people that were instituted by their governments. This further exacerbated in March with most of Europe coming into lockdown, and that having an impact both in terms of dispatches as well as certain order booking. As you know, India went into lockdown in the last week of March, but of course, its impacts were felt from the beginning of March onwards in terms of slowing down of dispatches as well as sentiment in terms of order booking.

I have to say that while our operations were allowed to start in a phased manner from the third week of April, we, in that 1 month while we were off, we were able to work in an extremely digitized format from a work-from-home basis, which has given us incredible learning as to how we can be more productive and leaner in the times to come. In fact, during this one month while we were off, we were able to bring our platforms of design and engineering completely on the cloud to be able to do not only R&D work and simulations, but also detailed engineering on a collaborative mode. More than that, we were able to actually move or institute certain order booking procedures where we were able to gain orders completely remotely and even negotiate remotely with our customers, both in India as well as outside India. And I will touch upon these during the latter half of my opening remarks.

Equally, at the same time, and more importantly, we were able to commission turbines in a remote manner. The way in which we have been able to use augmented reality and virtual reality tools to be able to ensure that we are able to give quality service to our customers, while at the same time, retaining IP has been truly commendable by the team. Having said that, I will touch upon some of these interventions and how they will impact Triveni in the longer term further.

In the investor brief, we have also given an insight into the steam turbine market in general. And I hope that you would appreciate the market position that Triveni shared. While this is for the calendar basis, it is something that Triveni has held a consistent market share over the last 5 years. But according to this market share, Triveni enjoys a 20% market share in the calendar year 2019 as well as for the period between 2015 to 2019 for the units sold in the steam turbine market. While the steam turbine market globally or overall has declined by a CAGR of 13% from 139 gigawatts in 2010 to 39 gigawatts in the calendar year 2019, a majority of that has been due to the fall in the market segment above 100 megawatts, which is the utility scale market. The 5 megawatts to 30-megawatt market as well as 30 megawatts to 100-megawatt market, in which the company operates through its standalone operations as well as through a joint venture, has been largely flat. The below 30-megawatt market has had a change in its mix of fuel source, being dominated now by the thermal renewables segment in which Triveni Turbine enjoys a considerable market share globally.

We also have a situation where Triveni Turbine, as it has turned out, is the largest producer of biomass-based turbines globally. With this market position, it reinforces our value proposition that we've been talking about, that while the market between 0 to 30 megawatt, as well as 30 to 100 megawatts has grown at a CAGR of 3% and 2% respectively over this period of the last 10 years. The market has significantly moved from a fossil-based market to renewable energy, which is where our style and value proposition of a value-for-money turbine benchmark technologically with the global best really does compete extremely favorably.



Let me give you a little bit of idea about the performance of the company over the past year and this past quarter and give your insight into our views on the year to come as well as the future:

For the financial year ended 31st of March 2020, the net income from operations for the company on a consolidated basis stood at ₹ 8.18 billion, which is a marginal decline of 2.6%. And we had a record PAT at ₹ 1.22 billion, which is a growth of 21.5%. Domestic sales showed decline of 4.5%, while export turnover of ₹ 3.92 billion was lower by 0.5%. The total consolidated order book stood at ₹ 7 billion as of March 31, 2020, which is lower by 3% as compared to the previous year closing order book. There has been a significant reduction in the manufacturing cost on account of cost reduction and value engineering undertaken in the manufacturing processes. Similarly, there will be a reduction in certain administration expenses, including travel as well as others.

In the domestic market, our order booking has shown a growth of 8%. And while the domestic market may have de-grown, we believe that it will rebound in the second half of this current year. The domestic market inquiries were from cogeneration for about 70%, while about 20% have come from the waste heat recovery segment. In the domestic market, the company witnessed certain postponement of finalization of orders towards the latter part of Q4, which resulted in a lower order intake by 32% over the corresponding quarter of the previous year. The main segments we saw traction were sugar co-generation, including distilleries in specific, biomass IPP, food processing and waste heat recovery in a variety of different industries.

On the export front, export order booking was lower by 23%, which was impacted by the entire months of February and March. We were anticipating certain large orders to come in, in the latter half of Q4, which have unfortunately got deferred due to the pandemic. The thermal renewable segment was a majority contributor, 48% of the total export inquiry base, while process co-generation contributed about 32%.

On the order bookings from international market, the Asian countries of course, started feeling the impacts from February, while Europe felt it from March onwards. And some of the export orders on the execution front, while some of the export orders were impacted because the lockdown in India, which led to certain orders being stuck at port and therefore, lack of revenue recognition. We worked with the majority of our clients from February onwards to ensure that we could defer their orders to a point in time where they would find it acceptable for them to accept it. As you must remember, we follow a very strict policy in terms of receivables. And we would not dispatch orders regardless of what our customers may ask unless we are able to get payment security. And so really looking after our customers' financial health as well as their payment ability, we have to work with our customers to ensure that we come to a very reasonable solution in terms of when we would be able to provide them with the product and the commissioning services.

On the aftermarket side, during FY '20, the aftermarket registered an order booking of ₹ 2.17 billion, which is lower by 4%. Again, this was significantly impacted by the last 2 months of the quarter. The aftermarket turnover itself was ₹ 1.86 billion, which is a decline of 10% over the previous year. The share of aftermarket sales in FY '20 was at 23% as against 25% for the financial year FY '19. The performance of the aftermarket during Q4 FY '20 was restricted by international travel, which also resulted in a lower aftermarket business for the quarter by 25%. Our joint



venture, GE Triveni, which operates in the 30 to 100 megawatt segment, received orders during the year accumulating to ₹ 861 million. This was a near 80% increase over the order booking of the year FY '19. We received orders from both the international and domestic markets, and the inquiry base remains strong. This joint venture currently has certain litigation between the partners, but the business is continuing. Orders are being quoted for and being received.

One of the things that we have been able to differentiate ourselves versus our competition has been our design and engineering. The company has a very strong focus on technology and dedicates a significant market with resources in terms of personnel towards this endeavor, both from a perspective of upgradation of current models and building our technology to further our efficiencies, but also newer projects. The cost control and value engineering efforts that we started this year already showing results from the reduction in costs as well as in terms of increase in efficiency that we are offering our clients. These will further improve in this current financial year.

The company has also undertaken a very novel research and development project, which I'll be happy to explain to all of you. This is in the field of supercritical carbon dioxide. We believe that the chemistry of steam turbine would be disrupted in the years to come, especially for applications which require a condensing mode. We think that Triveni Turbine is at the forefront of global research in this front. And we, with our partnership with Indian Institute of Science, which has already been signed and formalized over the course of the past year, will move forward on this as a war footing. We believe that this will increase the value proposition to our clients by not only reducing the cost of the overall system, but also increasing the efficiency, which could lead to a near 30% to 40% increase in the life cycle benefit to a customer. Of course, we believe that the commercialization and pilot of this is something that we need to work on very quickly. And we believe that in FY '22, we should have a very strong value proposition to take to the market.

We've also done certain capacity enhancement in terms of our R&D from an infrastructure perspective, in terms of installation of a load test facility with a dynamometer, these investments will help us in terms of becoming more efficient in our R&D to be able to meet the market, which we believe still exists out there.

But in terms of outlook, while some revenue has been deferred by customers from Q4 FY '20 to both Q1 and Q2 of this current year, we believe that there will also be certain orders which will be pushed out from this current financial year to FY '22. But with a strong order inflow that we anticipate and we already have within Q1 of this current year, which should exceed Q4 of the previous financial year, we believe that this current year will still be reasonably good. I'll provide some insights into where we think the risks may lie towards a little bit later.

The impacts of revenue from the uncertainty in terms of travel and commissioning we have factored in to give guidance, which for the very first time, we are able to give to our investors in a manner to give them a little bit of confidence about where we see the market and where we see the company going forward. In anticipation of what we are hearing from our customers today, which is reasonably pessimistic in terms of their acceptability, we believe that the company would still be able to register a minimal de-growth in terms of turnover regardless of the impact that we may have in terms of revenue in Q1 and Q2. As we would imagine, revenue in Q1, we are anticipating to be better than the revenue in Q4 of last financial year. But we believe from Q2 onwards, we should see a pickup. This is not counting any



significant amount of book and bill for this current year, which we believe should still be possible as we approach even the end of Q2.

As you know, the company has orders and installations from over 70 countries. And our focus on newer markets of oil and gas etc. also leads us to have confidence in the fact of getting orders from the international markets. The domestic market seems to be showing a great degree of weakness from an order booking perspective. The international market is significantly better for us. And we believe we are optimistic in being able to get some of these orders in the next couple of quarters. In fact, while under lockdown, we have been able to secure orders from countries such as Italy for the city of Milan for waste heat recovery projects and other countries which were in the middle of lockdown as well as with high degree of COVID cases in their countries.

While this impact will last, we believe from Q1 and Q2, as we open up more as an economy and as a Group, we think that we should be able to garner all the pent-up demand which we are following up on a regular basis with our customers. The digital format in which we've been able to engage with all our customers and clients and consultants and EPC companies has truly put us in a more confident position in being able to project the long-term growth of this business. We believe that our strong order backlog not only provides visibility for this year, but any carry forward provides us greater visibility for the years to come. The significant reduction in establishment costs, both from perspective of salary as well as administration, which comes to total overhead, we believe will be well mitigated with our efforts towards digitization. Therefore, on the worst case scenario, we believe that while we may see revenue decline in this current financial year of between 10% to 15%, of course, our attempts are to see a lower degrowth than that, we believe that the profit degrowth may be also at the similar lines. This is driven by the fact that there will be significant cost reductions, but also, there will be certain reversal of provisions that we have taken during the previous year in terms of a variety of different factors which can get alleviated in this current financial year.

With that, I'll be happy to take questions. I'll leave it over back to you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: First of all, if you can give more color on individual geographies as to how the demand, say, inquiries, ordering is panning out? Geography-wise, it will be really helpful. For example, Europe, which is a sizable segment of exports for you, where the pandemic has hit those geographies hard. Similarly, Middle East also, given the fact that falling oil prices have been there, how has Triveni Turbine demand panned out? And if you can touch upon Southeast Asia also, it would be really helpful.

Nikhil Sawhney: So I have to tell you that India has possibly the greatest and most stringent lockdown that we have seen in any of our global markets. And so therefore, you can't use India as a proxy in terms of how work has been happening in other countries. Having said that, for the financial year FY 20, we saw significant orders coming and a significant increase in our orders specifically from the Latin American market, as well as certain parts of Turkey and Europe and Southern Europe. We believe that as you know, our markets change depending on requirements of our customers. The current inquiry book seems to suggest a strong order booking from Southeast Asia, which we were not able to garner in Q4 because that was the first



to go under lockdown. And our indications, as we currently stand, is that these are reviving quite quickly. Having said that, our market segments which rely mostly on thermal renewable as well as on process cogeneration, more tuned in the export market towards thermal renewable, has very strong incentives from a climate-change perspective, which is a more macro trend in terms of investments into these sectors. So as we look forward, our international order booking will be stronger driven by Southeast Asia. We believe that Europe, which has already contributed to our order booking in Q1, would still remain strong because of heavy investment in the waste-to-energy segment. These are geographies and market segments, yes.

Dhruv Sawhney:

Yes. And Nikhil, I'd like to add a few points to that if I might, on the market. One segment that we have found actually which is going against the trend is in the oil and gas segment. We are getting a lot more inquiries than we got in FY '19. And you might ask, how is that the oil price is down? Actually, oil companies are looking for better deals. And where they were having difficulty in establishing and taking our credentials, they've all opened up. So the number of inquiries, firm inquiries we are getting has almost doubled from what it was in the past. So we are getting very good traction in oil and gas. You will notice that we have a very small market share in the oil and gas drive market, extremely small. So we see a good growth of orders in that segment. Of course, it is not very substantial, but a very good growth compared to FY '19. The second place which we are seeing very good traction is with consultants. We managed to have a lot of very good webinars, and they have come back to us with this online format much, much better than we had ever got when we were visiting them physically. So we believe that this is an opportunity that the new way of working that we had sort of got serious inquiries from these areas in various different places, South America, Central America, in Southeast Asia as you said, it's much more than we had before. How much will we actually turn into orders in this year is something that we'll have to see. But we are quite happy with the marketing efforts that we've put in in the last 2 months during the lockdown.

Nikhil Sawhney:

I'll just add on that is the fact that one is an order booking and the other is in terms of execution of orders because customers still have confidence in us to be able to execute. As you know, the orders that we take for the product as well as the supervision of erection and commissioning. And while we do this supervision of erection and commissioning, both from a physical basis, the confidence that we have to do it on a combined physical as well as remote basis has actually led to a very apt solution for our customers who find it actually a very compelling value proposition.

Ravi Swaminathan:

And my second question is with respect to the turbine pricing, currency depreciation and lower raw material costs. So, do currency depreciation and the lower raw material costs translate into better margins for you given the current situation? And whether is there any pricing pressure from the customers and that can offset the benefits that you can see from currency depreciation and lower raw material costs?

Nikhil Sawhney:

We are a customized product, and so there's no menu price for us from a customer perspective, any currency depreciation benefits us. To the extent of raw material, again, we are customized. And so we are not raw material buyers. We buy from our vendors as well as subcontractors. And so therefore, there's limited raw material benefit availability, I think, in our system because we have longer-term rate contracts. There may be certain costs out that we may be able to get just based on efficiency and scale. From a perspective of market pricing, we do not see



current pressures, and we are continuing with what we believe are appropriate pricing for customers in different segments and geographies.

Dhruv Sawhney: And if I can add, that because of these cost reductions and increased coverage, we think we'll be able to balance the expected possible drop in turnover with these cost reductions. And so not have much effect on the margin.

Moderator: Thank you. We'll take the next question from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: I have 2 questions. Sir, one was you mentioned that, for inquiries, the outlook for export market is much better than domestic. So I just wanted to understand this expectation. Has it changed post COVID in terms of potential orders? Or you still are having the same level of discussions and the discussions you anticipate to materialize into orders? How has the outlook changed post COVID?

Dhruv Sawhney: We are having a very strong inquiry. And we're having a much closer interaction with our customers at very high levels, as mentioned just previously. We don't feel that there will be a drop in orders. What we are expecting is that the delivery will go into FY '22. So that's the risk factor for the current financial year, not order bookings domestically, that they will place but they may, because of their own problems in other areas such as not financing even, but in getting the project off and getting the site managed because of the various restrictions that have come about because of COVID-19, that it may take longer for them to implement the project on their own. So while our deliveries, we can actually take it quicker, the project may not come off in FY '21, but order booking even domestically will not be too bad in the year FY21.

Anand Bhavnani: Okay. And sir, if I see your inventory levels, now the inventory year-on-year is down by 20% to ₹ 173 crore. And if I were to reduce the inventory for the delay in shipment due to COVID, you said about ₹ 50 crore worth of revenues was missed. And with a gross margin of 50%, adding more ₹ 25 crore from the inventory to normalize it for COVID. So normalized for COVID, the inventory is about ₹ 148 versus ₹ 217 crore last year. So these low levels of inventory to me indicate that there is a lot of deferral for the year. Otherwise, we generally ship in 3, 4 months.

Nikhil Sawhney: Actually, the reason is as we've talked about over the course of the past year, that there was a significant attempt to reduce and streamline our manufacturing operations to get it more modular, to get it in a manner where we can reduce cost. We've continually talked about how we can reduce our manufacturing cost. One of the outcomes of manufacturing cost reduction is a greater degree of standardization amongst our profile of products that we sell. So therefore, the inventory does come down to the extent that we don't have so many unique pieces out there. This has been a concerted attempt to bring it down. And this is something which will be sustainable and does not give a direct inference in terms of revenue going forward. But though you are right that there was a carry forward of orders from Q4 to Q1 of about ₹ 50 crore, but at the same time, like I said, once we started getting indications from customers of deferral of orders, we also slowed down our production cycle. So therefore, orders which may be actually placed or executed in Q2 of this current year, which may have been executed earlier, we think that we would be able to minimize that impact on our inventory levels.

Anand Bhavnani: So sir, the changes that you have done standardization to reduce number of SKUs, as compared to let's say, previously held inventory levels, what should be the new normal? Should the inventory level be 10% lower? 20%? 25%?



- Dhruv Sawhney:** I think it's impossible to put a figure on this. It's difficult to put a figure on this, but I can tell you that this exercise, which has been a 2-year exercise where we go into this third year now. But as you know, our R&D is developing more cost-efficient, and both from the efficiency and cost standpoint, models and variants, so the standardization process is both what we have and what we are introducing. So this is a dynamic process. So it's difficult to just give a standardized reduction answer, except to say that the cost reduction is an ongoing process.
- Anand Bhavnani:** And lastly, sir, we have had excellent cash flows in the year and this cash is built up. So what is the plan with this cash?
- Nikhil Sawhney:** So a very good question. We have about ₹ 195 crore in cash and investments as of the end of Q4. And we believe that this will only build up in Q1 and Q2 going forward as well. The Board didn't consider anything in this current board meeting because we believe that until we will come to grips with the entire situation in a practical manner, we could then take decisions. We think ultimately, matters which would be considered by the Board would take the form of what they've considered in the past, in terms of being able to give money back to shareholders.
- Moderator:** Thank you. We take the next question from the line of Harshit Patel from Equirus Securities. Please go ahead.
- Harshit Patel:** Sir, my first question would be, earlier, you have mentioned that the domestic 0 to 30-megawatt market was around 740-megawatt in FY '19. So sir, could you give us a flavor of the market size of FY '20? And if you could give us a little bit more flavor on how was the market for different segments such as sugar, process cogeneration, biomass, waste to energy, then that would be very helpful.
- Nikhil Sawhney:** Okay. So we don't give market breakups. I think you can do some research. But the market in India was approximately 1,000 megawatts, a little bit shy of that in the below 30-megawatt segment.
- Dhruv Sawhney:** As you know from the other industry that you've been looking at, it's extremely difficult to tell what the market is and the timing of the market in the segments which we operate in the year FY '21. So we are just growing on our inquiry base without having, we are not worried too much about the market. We feel that our domestic market share is going to be better in FY '21 to what it was in FY '20.
- Nikhil Sawhney:** I just want to say one thing. I do have to say something. A market segment for us, which is a very large segment globally, which is the waste-to-energy segment, which constitutes solid municipal waste incineration market, is very small in India. We do have 3, 4, 5 projects that come up, but nowhere near what we need in terms of the size and scale for a country of our size. To put it in parallel, China had nearly 60% of its orders that were placed in this segment in the last quarter placed only in the waste-to-energy, solid municipal waste incineration segment. So that is a growing market globally. As you know, it's something that India also needs to do, but there are reforms which are necessary before that market can develop.
- Dhruv Sawhney:** The second market which is growing, which you keep hearing about is the ethanol, the distillery ethanol market and the biofuel market. And there, we have a very prominent position. And how that's going to grow will depend on government policies on that. But the plan is, of course, to move from our current 5% to 10% and then further on to 20% fuel. So there, both medium term, long term, there's a very good future.

- Harshit Patel:** Understood. Sir, my second question would be, our aftermarket order intake was around ₹ 2.2 billion in FY '20. Sir, could you split it between domestic and export? Approximate numbers would do fine, sir.
- Nikhil Sawhney:** It will be about half. It will be about 60%, 40% domestic to export.
- Harshit Patel:** Sure. And similarly, for the outstanding order book, what would be the split? I think our outstanding order book was ₹ 1.2 billion on the aftermarket front.
- Nikhil Sawhney:** No. You see the aftermarket, I don't think that's relevant in terms of what the aftermarket order book is because, very frankly, these are very short-duration execution projects, and so they will all get executed very quickly. In fact, our largest book and bill happens in the aftermarket segment, as you can imagine, leading all way up to Q3. Q3 order intake on the aftermarket segment gets executed within the year. You bring up a very important part, which is the fact that we have order booking somewhere in the region of ₹ 2.2 billion annually, which is only increasing with our greater installed base. This is a market segment that also provides us in excess of contribution or PBT in a level of blended in the region of about 35% to 40%. And so very frankly, we are extremely pleased that this is a growing market segment. And our international presence from the aftermarket side is also only growing. The cash generation is over ₹ 100 crore just from this market size annually.
- Dhruv Sawhney:** I'd like to just add here, that some of the investors have asked us that, you've had fairly flat growth in the last 2, 3 years. And what do you see medium-term going forward? What this COVID lockdown has shown us is that, in certain segments in the aftermarket internationally, the scope is enormous. I just take one as the refurbishment segment. The sort of inquiry we are getting from customers because they are looking to get better value adds, quicker returns, so they're going for refurbishment rather than new projects. And the scope here, the market would be 5x, 10x. It's that substantial. We have customers internationally who are saying, "Why are you only doing it on steam turbines? Please start looking at compressors and pumps here. You're very active with your way of operations remotely". And so that is a segment we are suddenly feeling, actually, our order booking in that in the Q1 is going to be more than it was in the other quarters of FY '20. So there are some areas that we are feeling that entirely have a high growth, such as oil and gas and the aftermarket internationally in the refurbishment area.
- Moderator:** Thank you. We take the next question from the line of Kirthi Jain from Sundaram Mutual Fund. Please go ahead.
- Kirthi Jain:** Sir, in terms of Q1, you highlighted the order flows have been good. Sir, any quantification can you do? And what are the segments from there you are getting orders? And also in terms of FY '22, how do you see the order booking? And where are the areas we can see if you can highlight, that would be helpful, sir. That is the first question. And second question is, sir, given that over the last 2 years, we have done an incredible performance in terms of the cash flow from operation. What is the plan in terms of bringing new adjacency product? Or what is the plan to add products into our basket? Any other engineering product? Are we planning in the Triveni Turbines entity? If we can highlight, that would also be very helpful, sir. These are the 2 questions from my side.
- Nikhil Sawhney:** I'll take your second question first, if that's fine. I wanted to just touch upon the fact that, very frankly I think the greatest challenge that we have is how do we expand our market so that we can provide a sustainable visibility to revenue growth. And



therefore, not only are we looking at internal R&D processes, but we are also looking at R&D-based projects outside to cater to greater and bigger markets. These will, of course, be in mechanical equipment line, which utilizes not only our capabilities from a design engineering perspective, but also manufacturing. And so we keep all that in mind while looking at new product lines etc. But we believe that we have to be technology leaders in the field. And so therefore, it closes many options which the market may perceive to be routes for Triveni's growth. But this is something that we look at consistently and constantly. Our efforts in terms of being able to do this on a product basis, such as our developments in the supercritical carbon dioxide line, as a market, which is enormously large. More than that, on the aftermarket side, actually, it presents many, many different opportunities. These are not capital-intensive. And also, I think that touching upon the previous question that the previous investor's question that we talked about aftermarket. We've talked a lot about augmented reality and systems such as that. But really, what we've seen with Triveni Turbine over the last couple of months is that there is a changed normal. The way in which we do work has fundamentally changed, but we talk about augmented reality, the team has really pulled up itself and come up with very novel low-cost solutions where we can provide with a high degree of confidence and capability, accuracy in being able to garner refurbishment-based solutions on these formats. So we are quite confident that product lines will grow both naturally as well as laterally. From a perspective of order booking, yes, the order booking moved from Q4 to Q1. The market segments in India that we see comes from, like the Chairman talked about ethanol in India as well as certain other waste heat recovery based segments, which are the largest contributors. We believe the carry forward with the orders which were not booked in Q4 would translate into Q1 of this year. I do have to say that in this entire period of Q4 of the last financial year and Q1 of this year, we would probably lose about 2, 2.5 months of both order booking and revenue. And so if we normalize that over the course of the year, we have to work very hard to pick up on the demand that is there still in the market.

Dhruv Sawhney:

I'd like to just add to this. But important question of what were you looking at, this was being considered at our Board level just recently a few days ago. And the Board has cleared a substantial increase in our R&D expenditure, something over 50% to maybe 80% over FY '20. In this time, because we find that there will be great opportunities of diversification in the mechanical space that we are in, not just in the areas of refurbishment, which I told you, but in the associated product lines that are coming out to our CO2 program. So we are looking at this much, much more positively because of the fact that we have a good cash flow base and we have a very stable market and increased reception from our international customers in all these lines. So the company is taking a very positive and maybe even slightly aggressive look at the diversification possibility.

Kirthi Jain:

Sir, in terms of order flow, will we be able to reach ₹ 800 crore kind of order flow for the year? Or would it be challenging to reach to ₹ 800 crore kind of order flow for FY '21, sir? What is your thought on it?

Nikhil Sawhney:

I know we're talking about order bookings. Like I said, I think that over this period, we may have lost on a steady-state basis, a couple of months over Q4 and Q1 and so that will definitely have its impact. Aftermarket, we are definitely looking at the growth year-over-year because Q4 was subdued and there was a spillover of orders coming in. On the product side, while we are confident of certain orders coming in through H1, we really need to see to what extent the virus lingers on in the second half of the year and to what extent it actually impacts business. But having said that, we should be not more than 5%, 10%, around that number that you gave.



- Dhruv Sawhney:** To add to your, I'm looking around at the other industry and the sort of response that we get in forums such as CII and others, some other things, we are much more positive about FY '21 order booking than most other segments seem to be in the capital goods space. Now how much confidence to have, it's very difficult to say as Nikhil Sawhney mentioned about H2, but we believe we will get very good visibility by the time we have Q1 investor call.
- Nikhil Sawhney:** But more than that, I think we will have a higher opening order book in 31st of March 2021 than we did at 31st of March 2020.
- Kirthi Jain:** Sir, in food industry, like a lot of companies are making good profitability in the recent times. Are we seeing a good traction from the food processing industry?
- Nikhil Sawhney:** Yes, we are. Food, food processing as well as the allied segments of other processes, such as chemicals and even fertilizers etc.
- Moderator:** Thank you. We take the next question from the line of Manish Goyal from Enam Holding. Please go ahead.
- Manish Goyal:** Just you did talk about, like in terms of new initiatives in aftermarket. Just want to get a sense that, aftermarket is more personalized and team-driven market, so now we're still not able to travel or we'll probably have some kind of a restraint in personal contact. So how do you see that market changing for you or will you be able to grow it well?
- Nikhil Sawhney:** No. This is exactly what I was trying to allude to. When we talked about how our augmented reality solutions are working out, we are surprised ourselves as to how effective this can be to provide customers confidence for us to deliver our solutions on this front. Of course, we need on-the-ground channel partners which network already provides. So where we already do have a network of physical on the ground, though you are right, we still have to have a certain degree of physical presence in front of the customer, and we are working through all of that and our current estimation is that by the latter half of the year, there should be some easing of travel and that we factored in into our estimations when we look at. Really, very frankly, until even the end of Q2, we are not looking at any travel, and so all of this will be met through digital means, which our customers are quite open to accepting.
- Dhruv Sawhney:** One more thing I'd like to give. We have reoriented our thinking. And now we are going to have our engineers travel for longer periods overseas. So they'll spend more time there rather than making quick trips back and forth. One, it is much more stable to do. And two, they'll be able to have much more coverage, i.e., if they go to Europe and they have a Schengen visa, then they can cover many countries rather than coming back to India. Also, it takes care of the 14-day periods and all the sort of problems that this may happen. So our people are all geared up to do so. And we've tested it on customers and they are more than happy to give us both compensation and facilities for us to stay there. They are saying that you're one of the people who have given this initiative uniquely. And they are very pleased that this is coming from a developing sort of nation like ours because they're not having the same sort of, certainly not having it from China or from Japan and not even from Europe. So it's being taken very well, our service initiatives. And so we now said, we will do this, but we want them to stay longer. They said; please do that, whatever you want from us, we are willing to extend it.



Manish Goyal: Sure. And just wanted a clarification. In the opening remarks, it was mentioned that, on contrary, we are getting a lot of inquiries in oil and gas sector. Is it for the drive turbines?

Dhruv Sawhney: Yes, for drive turbine.

Manish Goyal: So if you can clarify?

Dhruv Sawhney: Yes, drive turbines.

Manish Goyal: What was the reason for that?

Dhruv Sawhney: I'm saying 2 things. One is it's a long process to get qualified on places like SABIC and others. So this has now come through in the last half of FY '20. So once you get qualified, then you are allowed to quote. And so you get the inquiries. So we are getting a much bigger inquiry base. The second is that, earlier, getting the brand of Triveni into oil and gas was not easy. Now they're looking at a value proposition because of the oil and gas market. The pricing having gone down, they want a value proposition. And with the fact that we've already got orders and we have executed orders, they are much more confident of looking at us. So the consultants are on board, and this is very consultant based as well as the customer. So that is why. And during the lockdowns, these are quite hot discussions going on.

Manish Goyal: Sure. And last question, on the new supercritical carbon dioxide technology. So is it that it's going to be a completely new set of customers for us? Or is it that we are probably going to leverage all existing customers and existing facilities? How would it work?

Dhruv Sawhney: There will be a new list of customers and the current list of customers. It has even got a very good defense requirement. We are in touch with the defense forces on this, the CO2 right now. And we are right there with the top international companies in the whole space and we have a very good partner, as you know, in defense side. So I think it's a good initiative. It's a little early to say when we are going to be flooding the market, but we have accelerated this program in the last few months.

Manish Goyal: And ideally, the application would be for power generation and all the process?

Dhruv Sawhney: Yes, power generation and processes.

Manish Goyal: Small power generation?

Nikhil Sawhney: No. It is for all types of power generation. Essentially, if you look at a condensing mode of steam turbine, it is for applications, that can apply.

Moderator: Thank you. We take the next question from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: So my first question is, when I actually look at, you have a commendable performance on the cash flow front, but you have actually skipped the dividend for this year. I would actually appreciate your thoughts on this.

Nikhil Sawhney: I think we tried to allude to it because another gentleman had asked the same question. The Board didn't consider it at this point in time because very frankly,



they want our perspective and forecast of business to sort of come through. And it's just trying to be a little bit more conservative. Ultimately, as you know from the previous years, we believe that it is important for Triveni Turbine to maintain its high return on equity, etc. And therefore, if we are not able to spend the money, it should be returned to shareholders. The philosophy remains the same. And I think we can provide better visibility as we go through the year in terms of what this cash will do on Triveni's balance sheet or not.

Bhavin Vithlani: The second question is, when I actually look at some of your competitors, they're focusing more on design engineering outsourcing. And you have a very strong R&D team. So any thoughts on the outsourcing of design engineering which can actually add to your revenue streams?

Nikhil Sawhney: We believe that we want to be technology leaders ourselves. It's the same thing as being outsourced manufacturers. It is the low end of the value chain. There may be a margin in there, but it's not sustainable margin in terms of the business going forward. We think it is better spend for us to use our design and engineering as well as manufacturing expertise to work on products in which we have a control over or service in which we have a control over.

Dhruv Sawhney: And the second major question, because we've now been able to benchmark our R&D with international firms doing it in a global market, and our costs are something less than 1/5th. So they need outsourcing, we need more in-house. It's much better quality, it's quicker, and it's more customers oriented. So we do outsource a bit, but our costs are so much less than international R&D in our line.

Bhavin Vithlani: And just last question. You mentioned about the Board actually approving a significant increase in the R&D budget. So if you can throw more light on this in terms maybe numerical terms? If you could highlight it?

Dhruv Sawhney: Well, no. I think when you see the figures in our annual statements; you can make your own assumptions from there.

Bhavin Vithlani: Sure. And how large would be your R&D team? And are you planning to increase?

Dhruv Sawhney: Yes.

Bhavin Vithlani: Okay. So how large would be your R&D team currently?

Arun Mote: Yes. The total engineering strength, we have about 70. Out of which, the development, which is R&D, is about 25 to 30, depending on how it's done. And the balances are for engineering and the team is also for taking into account the reverse engineering and the refurbishing portion. So that's how the total engineering strength is.

Bhavin Vithlani: So about 20-odd is for new product and...

Arun Mote: 25 to 30 is for the new product.

Bhavin Vithlani: And balance actually is engineering and aftermarket market?

Arun Mote: Yes, absolutely right.



- Dhruv Sawhney:** But as a percentage of our total strength, it's quite large because the worker strength is less than 100. So you can see where we are going.
- Moderator:** Thank you. We take the next question from the line of Charanjit Singh from DSP Mutual Fund. Please go ahead.
- Charanjit Singh:** I just wanted to understand in terms of the new orders from the international market, how are those? And in terms of the payment terms and the execution timing? Are there any changes you are seeing now after this kind of a scenario changed now globally?
- Nikhil Sawhney:** The payment terms, we don't compromise on, the commercial terms, which basically are minimizing any liability that we have, but also maximizing and ensuring that we have 100% payment security before it's dispatched from us. So that is something that we will not accept in any manner. But very frankly, those have not changed significantly from previous to now. These are well-established norms. And I think that we are fully capable of meeting them and happy with them. I don't know if the Chairman wants to comment.
- Dhruv Sawhney:** No, I think that's correct. Is that so? I think we have our President, Marketing in there. That's right, Prasad?
- S N Prasad:** Yes, sir.
- Dhruv Sawhney:** Good.
- Charanjit Singh:** And sir, now as international markets continue to be a focus area for us, now incremental pipeline where you have talked about the sectors. But like what are the kinds of these customers? Who are? And how is their financing for these projects?
- Nikhil Sawhney:** They're very good. No. I don't know if you had the opportunity to read the investor brief, but very frankly, our market segment and specifically, our customers are heavily in our interaction, are largely in the thermal renewable segment. A thermal renewable has financing available. They may not have incentives depending on geography to geography, but that balances out over the course of several years. Germany may have a strong waste heat recovery and renewable focus currently and they move to Italy and Portugal next year, and in certain parts of Southeast Asia, maybe picking up based on their own push towards having more processing of urban municipal waste. So the funding, I think, for the segment exists. The demand exists because there is that much waste available. So I think the market is steady and is sticky for us. I think another point that you have to keep in mind is that international orders, typically for us, are much firmer in terms of delivery and shorter. So very frankly, international orders that we would get in Q1 would be executed within the current financial year.
- Charanjit Singh:** And another thing, sir, on the aftermarket, now what's the portion which you'll be doing for our own turbines? When this kind of a scenario has emerged, their travel is becoming more and more restricted, while it may become normalized in next second half. But still customers might try to look for some of the options which are more local in nature. So how you are seeing that scenario in the aftermarket specifically going forward?
- Dhruv Sawhney:** If I could just answer that. We've adjusted to this and customers have adjusted to this extremely well. They're paying us very well for an hourly and daily basis



remote, and so they are willing to have us there. We are training them. So, rather than them going to local people, they are very happy with paying for training of their own site staff and having us supervise this remotely. And as mentioned by Vice Chairman, with AR and VR and new tools coming in, this is a much more efficient system and a much more cost-effective system. And for us, the revenue stream could actually be much more rather than less. And the margins are very good. So it's a win-win for both the customers and us. And on the local side, we are using our agents who have the facilities of providing local support in the various areas of electromechanics.

Nikhil Sawhney: So as you must remember, you see even in all international contracts, we only do the supervision of erection and commissioning. So the actual physical labor for the erection and commissioning is provided by the customer or through our agent network. And so it's the same way now. From a perspective of spares, these already designed well known by us. So really, we don't even need to visit site for installation of spares. The service revenue moved into online mode. So therefore, there's a different form in which the delivery of that service is happening. From the refurbishment side, as we were talking about, very, frankly, the tools that are now available at a low-cost basis with augmented reality allow you a certain degree of precision and being able to actually work on overhauling and taking dimensions from a remote area such as Bangalore with sites as far as Europe, and it's working reasonably okay. Of course, we will get better as the value proposition will further strengthen, but it really changes the way in which we do business. And that is what I think that we've been trying to say is that the way that we are going to be doing business is different. We're going to see how this moves. But the indications are that it will truly transform the way in which our company currently operates.

Dhruv Sawhney: And as you know, 2 years ago, we started on remote monitoring. We have thought of that as a big opportunity of enhancing aftersales, spares, and service and remote monitoring. We've already started on that. So that has been very useful. And we have the instrumentation facts ready. We have the software. And we're increasing the best part of this R&D, moving into another phase of remote monitoring and analysis of the future of the installations that we have. And this is being much better taken in by the customers now that they have to go on a remote mode in any case.

Charanjit Singh: If I just may squeeze in one more question. So I just wanted to understand about the domestic market. So while you gave an understanding in terms of domestic market presently, so one is in terms of any kind of order cancellations you might envisage in terms of your discussions with the customers. Plus now, the revival of the domestic market, I know it's too early, but the entire CAPEX cycle would have got pushed out now to a longer timeframe. So how do you see that recovery happening in the Indian market? Yes. That's all from my side.

Nikhil Sawhney: So if I can just take that. The greatest degree of order booking which we may have in Q1 paradoxically maybe from the domestic market. But as we look at the full year, and this is primarily driven by the pushover from Q4 to Q1 as well as some pent-up demand. But as we look forward, the inquiry levels that the domestic market have and our interaction with customers seem to suggest that they may be pushing these further out. And so therefore, the lack of confidence comes from our current estimation of speaking with customers as to where they stand. But having said that, very frankly, from the renewable, biomass, bioenergy segments, which we have already talked about, the value proposition is quite consistent because we do need to implement some of these. From the captive CPP market, the captive power plant market, in areas such as chemicals, pharmaceuticals, food, food processing, there's a very strong demand. And equally, is the expenditure that is



going to happen in the PSU segment from fertilizers and oil and gas. So all in all, the demand will come. It's just a question of timing. We are not able to give consistent timing at this point in time because we believe that, that is going to be really back-ended towards the year and maybe even falling into FY '22 for a significant amount of growth.

Dhruv Sawhney: I think we've covered everything.

Moderator: Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

Nikhil Sawhney: Well, thank you very much, ladies and gentlemen. I hope all of you are well and families are well. This is a very concerning time for everyone. We believe as a company, we have showed certain resilience. And the management team and the entire team actually at Triveni Turbine has been working very diligently and in a safe manner to ensure that we are able to meet the expectations of our customers firstly and then also first to our investors and the larger stakeholder group. We believe that we are in the process of a great transformation within Triveni Turbines which will position us very well for the years to come. So we are quite optimistic as to where we stand right now. We look forward to giving you further updates over the next quarter call, which should be towards the end of July, beginning of August. Thank you very much.

Moderator: Thank you. On behalf of Triveni Turbines Limited, this concludes this conference. Thank you all for joining. You may now disconnect your lines.

