Triveni Turbine Limited

Q2 and H1 FY 18 Earnings Conference Call Transcript
November 09, 2017

Moderator Ladies and Gentlemen, Good Day, and Welcome to the Triveni Turbine Limited Q2 and H1 FY 18 Earnings 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 this conference call please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gavin Desa of CDR India. Thank you and over to you, sir!

Gavin Desa Thank You. Good Day, Everyone and a Warm Welcome to all of you participating in the Q2 and H1 FY 18 Earnings Call for Triveni Turbine Limited.

We have with us today on the call Mr. Dhruv Sawhney -- the Chairman and Managing Director; and Mr. Nikhil Sawhney -- Vice Chairman and Managing Director along with other members of 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 Conference Call Invite which has been e-mailed to you 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 would like to start this conference call with opening remarks from the management following which we will have an interactive Q&A session. I now invite Mr. Dhruv Sawhney to share some perspective with you with regard to the operations and outlook for the business. Over to you, sir.

Dhruv Sawhney Thank You, Gavin. Good Afternoon, Everybody for the Q2 FY 18 Investor Call. I am going to take a few minutes longer than normal, just to give you a better idea of where we are now and where we expect to be in the next few quarters and the next year.

Our net income from operations is at ₹ 3.41 billion as against ₹ 3.64 billion for the half year. Q2 has been flat. Really the reason here, delay in making up for GST, we find is taking longer than we had thought. Our suppliers and their sub-suppliers have had tremendous problem especially the medium sized ones in getting raw material and processing them.

Our material receipts have got delayed. Fortunately for us, there is no exposure in terms of our customer orders and, so we are not exposed to that at all. There are some delays from the customer side. But what it does means is that we expect this break-up which we thought would have happened in Q2 to go on till Q3, Q4.

The suppliers and all are positive, the customers are positive with us because they are also having pains in adjusting to the new regime of GST.

Our PAT at ₹ 412 million as against ₹ 611 million, is a reflection of this makeup taking longer.

Very positive side in Q2 and in H1 FY 18 is the strong order book. And I will just spend a few minutes on this in a little more detail. The domestic market has unfortunately let us down. The market has seen a decrease of 15% during the half year, our market share is about the same. But while one was looking at some upturn in the domestic market six and nine months ago, we have actually seen a decline. If you ask me what I am foreseeing for Q3, Q4 FY 18, I will now not plan on any growth till I actually start seeing something happening. So, the market which is lowest for the last five years domestically, augurs very well for our strategy of having gone into the export market very strongly in the last two years, and I am going to spend a little time on that in a few minutes and incurring the costs and incurring the risk mitigation measures of going through many geographies together.

So while we have a slight upturn in domestic enquiries especially in Co-generation, I have told our team that do not bank on this you have to concentrate on the export orders because the conversion into orders is taking much longer and PPAs are taking longer to be signed, etc.

But it has brought very strong competition in the domestic market and it has affected prices and margins domestically. So the export push where our pricing and margins are much better is even more important and that is where we have scored well in the quarter and in the half year.

Export booking for the first half year is up by 92% over last year. In Q2 as an example, we booked ₹ 139 crore versus ₹ 45 crore last year. So we do not expect that sort of growth. But the exports which were not well in last year's Q1, Q2, Q3, and have given us the large percentage increases now are going to have every good effect in the latter part of the current year and especially in FY 18 - FY 19. These results you are seeing now is from order bookings in the FY 17 conference calls especially of Q1, Q2, Q3.

Our export service revenues, I will spend a minute on this, as taking time to build up. But we have got very good strategies in place and I would like to share with you some of these. Our six locations, two or three are giving extremely good results in terms of product for example, Turkey and Europe has been much better than last year. SARC and Southeast Asia market have been very good. While central America has not gone as good as last year.

Now our strategy of having not concentrated on a few markets and taken the risk and sweat out through all the markets and put up good local relationships has borne fruit as a risk mitigation measure. So while we may have some increase in expenses on personal and administration, the increase in revenue especially in exports would not have happened if it is not for this and we would have had nothing to counter the unexpected delay in the revival of the domestic market.

We are going to pursue this strategy. So while we have enquiries from a 130 countries and we are exporting to 70 countries, we are not proposing to open any more offices immediately, till we have a very good stabilization of the current six offices in terms of service revenues which are as you know good margin. And also in our push on the product sales in new sectors tying in with my new product development efforts which I will again cover in a minute or two.

The accounting for our hedge account, we have changed to hedge accounting on foreign exchange and we are now doing it in accordance with the Ind AS which is the Indian Accounting Standards, so this is the explanation for the difference in revenues of other income last year and the current year. Now we do not expect such large variations going forward and this is the law and it has taken a while to get the hedge accounting implemented and I must complement our team now for having this. So we will have a much more stable other income going forward. We cannot start speculating on the rupee, and we do not really do any speculation on this, we hedge very large extend of our orders.

But I can say one thing that on the exchange rates of what we have orders on hand, today's rate is better. So we have a profit in hand as to when we will realize it when they get executed.

Our salaries, one might see that Q2 figures are different to last year but please look at the H1 figures. And at the last conference call I mentioned that we had a different accounting of the variable salary expenses. We are now in future going to provide it on a consistent quarterly basis, so you would not find these differences between Q1 and Q2. But the bottom-line is that H1 is flat versus last year. So please view it from that context.

Our mix of turnover in terms of domestic and exports is different to last year because of the order booking in FY 17 which had more domestic orders than export orders, now we have a very different mix of export orders and domestic orders.

So the turnover is higher by 9% but on a half year basis is lower than last year because of the catch-up taking longer. The share of aftermarket is 28% which is good. The overall closing order book is at ₹ 7 billion after H1 FY 18. And we consider that a very good starting base for the future.

The outstanding order book is a growth of 15% from last year and is about 11% higher than the 1st of April 2017 when we started. So, we are pretty much on target as where we are wanting to have our expansion in orders and the good thing is that the orders are coming from overseas and where the price competition is more but not as intense as it is domestically.

I would like to take you through GETL (GE Triveni). We recorded sales of ₹ 803 million with the PAT of ₹ 66 million, please look at the half year results. Even though the JV did not close any orders in the first-half and this is primarily because we are having internationally delays in the closing of IPP projects and some delay in also closing biomass and other projects. This is the market situation but there is a very strong enquiry pipeline and we are expecting finalizations in the next few quarters.

The execution of our large size turbines is on and you know commissioning takes time depending on the client's own circumstances. So these are underway and we had expected them to finish in the first-half of this year, it is going to the second-half but that augurs well for our track record especially in Southeast Asia.

We are increasing our focus on product development while these are areas where we are not restricting expenses and we see this is the bed rock of the company for the future and its competitive position and dedicated design and development team is succeeding quite well in a subjective improving efficiency and making our products more cost competitive. But we are also having new product serving new markets such as the oil and gas market in MENA and the waste to energy market in Europe. So the portfolio of IPR, internationally is building up in a consistent basis. The models that we are developing are in the forefront of competition today. So we are doing it as per what the customer needs, which is different to what they use to be going forward and so in the R&D and product development we are in fact wanting to increase expenses rather than restrict them because that is the future of your company and that is your competitive future in terms of margins as well.

With a strong H1 order booking the company is confident in the subsequent quarter that the turnover and profitability is expected to improve and as we progress with FY 18 expect a higher turnover than last year while the margin will reflect the sales mix between domestic and exports and the product and aftermarket.

I talked about the spread of export or orders booking in different geographies, similarly our offices are now taking traction. It is taking longer for us because we have found a very good niche in all these markets where it is between local suppliers of aftermarket services and the OEM. But it requires us to develop strong local partnership of organization and that is not something that happens overnight. But we are well positioned to have these coming about and in the year 2018 - 2019 we expect a very radical increase in order booking. But we are on track, we have got good customer feedback on our initiatives, they are very happy that we are there because as you know a customer in South Africa or a customer in Europe is not going to say that he is going to wait for someone from Bengaluru (Bangalore) to arrive especially with the Visa problems**.** So we are well positioned to cover both product sales in these geographies and service revenues for both our turbines and all our competitors' turbines which are of a much higher volume than ours.

The aftermarket business as I mentioned is also looking at refurbishment which is refurbishing turbine which is going to be send back to Bengaluru (Bangalore) and this is helping our capacity utilization of the new factory Sompura, high speed tunnel of which is taking us all the way up to 130 MW in terms of capabilities and will be operational in Q3.

I would like to just end by saying that our current orders on hand are mix of orders on hand especially the products orders which augurs well for the next few quarters and next year. We have pressures in execution of the current year owing to both the environment domestically in terms of Government changes of GST and otherwise and customers taking selectively a little longer to finally take deliveries. But on a longer-term basis and on a consistent basis we are seeing an upturn in the company in the future; in both turnover and profitability. Thank you.

Moderator Thank you. Ladies and Gentlemen, we will now begin with the question and answer session. First question is from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.

Dhruv Bhatia One question was regarding your installed capacity for all kind of turbine including at the subsidiary level that the GETL is.

Dhruv Sawhney Yes.

Dhruv Bhatia So you have an order growth of 15%. How much time or how much free capacity do you have before you will need to infuse capital again to enhance capacity?

Dhruv Sawhney It is a good question. This is a line**,** just for information where you use good suppliers and you concentrate on assembly and top of the line testing which is why I talked about the high speed balancing tenure. If you ask me, we could increase utilization by 40%; 30% - 40% more we could take without having to have another bay. The expansions in the new plant can easily double the capacity at very minimal capital expenditure. So capacity utilization is not a problem for enhanced order booking.

Dhruv Bhatia And when you enhance utilization what will be the impact on margins say if you go up by another 20%, is there a change in margin or there is not that much operating leverage?

Dhruv Sawhney Not that much because we have no debt and we put the facilities up at very economic capital costs. But it does help in terms of purchasing. The more orders you have, you are able to bargain better with sub suppliers. It does help in productivity of course. So there is a help in margins, very definitely. But not so on classic CAPEX utilizing some fixed tax it is financially in terms of interest and depreciation. It is more on productivity in manufacturing and productivity in supply chain.

Dhruv Bhatia So say at 20% more will that be for another 200 basis points or something like that?

Dhruv Sawhney That is something that we find difficult to forecast. We concentrate on getting the orders.

Dhruv Bhatia The next question, is there any significant trend for setting the products on the order book because your change in this geography has been significant move now to Southeast Asia, Europe, etc., from India this is much more export rate performance. So just a change in regular mix or there are two - three trends like for example, you mentioned sugar in your press release, are there any significant trends that we see order book and therefore, sales increasing more significantly in the next two years?

Dhruv Sawhney Yes, one or two things I might mention, India has not moved into the waste to energy line. Municipal waste to energy while we do have a real problem in the country, we are not doing it while this is there internationally, and this is one of our good product lines. The second is that India's renewable is looking at solar and wind, not as much on biomass and sugar as in other countries. There they are looking at all types of biomass and those capacities coming to our line. Most of them coming to the Triveni Turbine lines, some will come into the GE Triveni line. But it is covered by us and we have got very good products efficient competitive products for this line. So these are the two big places, internationally that give us a potential. Now, the geographies what we found is actually all over. So it is not just in the developed parts of Europe, it could be in Southeast Asia, the same things happening, it could be in Africa, it is happening in Latin America, North Asia, and then we have now got some orders from EPC contractors in places like South Korea. So having spread out we are able to go to people who are doing the engineering of these things and in other markets. So you do not approach Africa from only Africa, you approach from where the EPCs are and they are outside Africa, in Europe but also in North Asia and Southeast Asia.

Moderator Thank you. Next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan Sir, I had read the commentary in the Press Release regarding the domestic market, can you just give a brief outlook on how the scenario is currently in terms of demand from captive power facilities and waste heat recovery from cement plant, etc., so how big is the market and what is the opportunity over two years to three years period if you can tell that it will be really helpful.

Dhruv Sawhney Yes. Actually, I would not mind some investors telling me because I have been waiting for this upturn for the last 18 months. And now, I said this last year half year quarter has been the lowest for five years. So I expect it has to happen. We have to come to some waste to energy, there has to be some waste heat recovery in process plants to increase the overall efficiency because the ROIs are very good. So I am not a cement plant owner but I would think of all the steel plant owners but I would be thinking of putting your money at some point. It is taking longer that the way the thing is. So really cannot give you all, what we are doing is that we are concentrating on exports.

Nikhil Sawhney The enquiry conversion is very slow. And without giving too much confidence on the domestic market, our enquiry book has increased by about 15% but that still should not actually, it does not give us but insight because we believe the conversion rate if it stays at the same we would have seen the bigger domestic market this year. But very frankly, we have to wait and see as to how that develops.

Ravi Swaminathan Got you, sir. And from a layman perspective, just wanted to understand, if there is a waste heat recovery which is good for cement plant. Will there be a requirement for a captive power there I mean is it like the heat can be used into that captive power plant?

Dhruv Sawhney No, there is a waste to energy separate from the waste of the plant, the waste of the plant in many cases do have steam generation capacity which brings us steam turbine. So that is the short answer. Some do and some do not. If you go by the international experience of similar plant, it is a good market.

Ravi Swaminathan Got it, sir. And in terms of GETL, sorry, I joined late in the call. What was the order book during this year?

Dhruv Sawhney Yes, I said that we have very good enquiries on hand, even though our enquiries, we have not completed any orders, but I just wanted to mention and I did not cover it in my opening remarks, so I am glad you asked it. You see one good thing that has happened with GETL is we are combining very well with GE Power for combined cycle which is gas, turbines and steam turbine. In fact, we have got an order from a Chinese EPC because they wanted to have this combination of GE gas and a cheaper steam turbine then coming through Europe. So the package is good and technologically we are in these areas. Some of these Chinese EPC's are selling in Africa and as you know they have got all sorts of financing and other things in place. But the product offerings we have is not very strong with GE and about 40% - 50% of the global market in this GETL range is in combined cycle. So we are well positioned, these are taking time but that is a global phenomenon, they come in lumps but they are quite large when they do come. We also mentioned while you were not on the call that our commissioning of the current orders in Southeast Asia in the next few quarters will give us another step-up.

Ravi Swaminathan Got it, sir. And sir, you had also mentioned that you are seeing traction from Europe and Southeast Asia, so from which segments are these coming? And is it that because of demand improvement is there an improvement in the pricing that is also being seen because over the past three years to four years we would have seen lack of demand and pricing pressure also would have been there. Is there reversal?

Dhruv Sawhney No, there is no reversal, let me tell you there is longer capacity with our competitors as well and some of them localized in India as you know. So we are meeting competition I think with much higher final margins.

Moderator Thank you. Next question is from the line of Ashutosh Adsare from Sharekhan Limited. Please go ahead.

Ashutosh Adsare Sir, to continue on the previous question, so which are the other geographies you are looking for apart from Europe and Southeast Asia?

Dhruv Sawhney I mentioned in my call that we are seeing extremely good traction in sectors in MENA, Middle East North Africa and in (SADC) Southeast Asia Development Community because we have two offices there very good staff there which has now expanded. Some of these expenses are start-up expenses we might say. Our start-up is people and not capital equipment and but the customer response in many cases you have to go and register which takes time for example in Southeast Africa there is SASOL, and many-many big customers are there**,** I visited myself, and they are appreciative of both our product range, our quality, and our local service presence now. That is the big difference that we are hoping that new markets will come in, a local presence to give confidence to the customer that he does not have to rely on someone coming from South India if there is a problem.

Ashutosh Adsare Okay. Sir, can you update on the sugar industry, the Indonesian order which were supposed to be getting 70 turbines or any update on that, sir?

Dhruv Sawhney That thing got cancelled. They lowered the pricing for power and we have got some orders but that is one of the big places where our expectation that were there have not been coming through, they say that it is going to come through in the next year and the factories have been asked to give a new project report. But the market is there, it just got delayed. As you know Indonesia is large importer also.

Ashutosh Adsare Okay. Sir, if I squeeze in last question, you had mentioned that the domestic product market declined by 15% but still you have managed to grow 35% in the order inflow term, so can you tell us the reason has your market share improved in domestic product segment or it is something else?

Nikhil Sawhney Yes, slightly. Our market share has improved but really, you should not take it as an indication because the market is so small right now.

Ashutosh Adsare Okay. Sir, if I am correct, you had mentioned 80% market share in Q1.

Dhruv Sawheny It is 60%, take these average levels because one time you may go down and then one time you may go up. So we may go to 60, we may go to 63, we may go to 58. But we are retaining what we have.

Moderator Thank you. Next question is from the line of Pawan Kumar from Unifi Capital. Please go ahead.

Pawan Kumar Sir, my major question is about the order book ramp-up. We were at around ₹ 6.3 billion at the starting of the year now we are at around ₹ 7 billion. So for us to actually meaningfully grow for even at 10% rate, we require a significant order growth, so should we assume FY 18 to be may be at least de-growth in terms of revenue and even FY 19 in a similar fashion?

Dhruv Sawhney No, I think, FY 19 definitely with this order book is very easy to see when you compare with the last year and these order books are good orders. I mean, these customers are with advances, we do not take it if you do not get any money; we do not recognize it as order. We had that experience in the past and we are quite scrupulous about that now. So FY 19, I see a substantial jump. The second is that our hot enquiries what we call are pretty good today. So I expect good order bookings in the next few quarters.

Pawan Kumar Can we at least expect somewhere the order book for the current year to close at least around ₹ 8 billion or ₹ 8.5 billion?

Dhruv Sawhney I would not like to give any guidance on these numbers quarter-to-quarter and when orders come one month and may not came in next month it may be exceptional, like Q2 we have exceptional jump over last year. But if you ask me to think, I do not even want to take any credit for this huge jump because in the next quarter an order can get postpone by one month or prepone by one month. So as I am saying, we expect rise but I do not want to be able to start giving a figure for that, a rise between now and the end of the year. So I do expect a rise.

Pawan Kumar Sir, GETL side, what is the order book currently?

Dhruv Sawhney ₹ 145 crore.

Pawan Kumar ₹ 145 crore, okay. And one question on your costing side, so should we expect the run rate on employee expenses to continue what it has been this quarter for the entire year or was there any kind of extraordinary even on the other side?

Dhruv Sawhney Yes, I said that if you look at H1 FY 18, Q1 FY 18 was much lower than last year. So please take H1 versus last year H1 and you will see it is almost the same.

Pawan Kumar You said for the whole year it will be the same, H1 will be equal to H2?

Dhruv Sawhney Around the same, if you take H1, please take H1.

Pawan Kumar Okay. H1, we can double.

Dhruv Sawhney We could have some marginal increase but nothing like what you are seeing for Q2. I have covered Finance change in some detail a little while ago.

Pawan Kumar Okay. Sir, given that we are in the second month of the third quarter, what has been the order book trend in this quarter was it better than what was done last quarter?

Dhruv Sawhney October was okay.

Pawan Kumar Okay. But nothing special so are we going to see any traction in the next two quarters?

Dhruv Sawhney As I said, we expect a better closing orders in hands today.

Moderator Thank you. Next question is from the line of Swarnim Maheshwari from Edelweiss Securities. Please go ahead.

Swarnim Maheshwari Sir, my first question is what would be the reason of losses at GETL in this quarter?

Dhruv Sawhney Yes, it is a question of dispatches, there are times when you are dispatching certain equipment which has got flange to flange turbine which has the margins and when you are dispatching bought out equipment which you do not have that is the real reason. But you must look at the half year. Please do not look at quarter-to-quarter especially in GETL which is dispatching few turbines, it is not like Triveni where the numbers are large. There the megawatts are large but the numbers are small. So quarter-to-quarter comparisons are little misleading, even if they are extremely good, we do not like to take that and the delivery of any particular equipment customer may want the ship to come later, he may postpone it so these things happen. And please look at the H1 expenses and H1 results.

Swarnim Maheshwari Yes, sir. Sir, actually what we see is that there is like decline of around 25% sequentially on the top-line from ₹ 46 odd crore to ₹ 35 crore. But you know there is a big swing in the PAT just I was not able to figure it out.

Dhruv Sawhney Yes, that is happening because of the type of delivery.

Swarnim Maheshwari For the type of delivery.

Dhruv Sawhney Yes. And same thing as Nikhil said export in domestic and also BOP and flange-to-flange**.** In the GETL the BOP that is the balance of plant is about 45% to 55% of the total order and if they will dispatch you see lovely volumes but they are not flange-to-flange where the margins are higher.

Swarnim Maheshwari So, in Q1 BOP revenues would have been higher.

Dhruv Sawhney Much higher.

Swarnim Maheshwari Right, sir. Sir secondly, you did mention about your change in hedging policy which has actually led to the drop in other income substantially in this quarter, so what is exactly the change?

Suresh Taneja You know as a matter of fact in order to avoid fluctuations on profitability from quarter-to-quarter when we take a forward exchange contracts for a particular project, in that case, all MTM gains and losses are withheld and these are recognized at the time of booking of revenue on that particular project. So basically as long as you are maintaining your effective hedges there would not be any fluctuations on account of foreign exchange gains and losses.

Swarnim Maheshwari So in this quarter particularly what will be the kind of MTM FOREX loss?

Suresh Taneja FOREX loss is approximately if you look at the H1 it is approximately about ₹ 1 crore. But having said that whatever is the forward exchange premium that would be recognized at the time of booking of revenue.

Dhruv Sawhney Yes, so the same order which will have a profit when we deliver may had an MTM loss in the H1 end. Because if I had hedged but it was 63 when we booked it and it is at 64 today. So you will recognize that but you have already got hedging for the date when you dispatch it at 65. So you will book the profit then.

Moderator Thank you. Next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan Just wanted to know what is our enquiry pipeline both in domestic and exports in terms of gigawatts, how much will it be?

Nikhil Sawhney Ravi, the enquiry pipeline in the international market is still hovering around 5.5 gigawatt and the domestic is also close to 1.82 gigawatt. But there is no change there.

Dhruv Sawhney You know 1 point something gigawatt domestically I would not look at the conversion rate of that.

Ravi Swaminathan Okay. But this 0 to 100 megawatts, right? Or is it 0 to 30 megawatts?

Dhruv Sawhney No, this is up to 30 megawatts.

Ravi Swaminathan 30 to 100 how much it will be, sir?

Dhruv Sawhney Also about 3 GW internationally.

Ravi Swaminathan Yes, okay. And there has been a steady rise in input cost across all commodities, I mean, so there has been rise in input cost. So how are we hedging that and is there any price variation clause with our end customers?

Dhruv Sawhney No, but we are taking into account in our new quotes and in the earlier quotes we had contingency built in. It has not gone over that and we are still able to negotiate well because of the volume.

Ravi Swaminathan Got it. But during our negotiation with customer both international and domestic is there any PVC clause?

Dhruv Sawhney No, we do not need it. because see, you order out everything the moment you take the contract within a month or so, there is no risk factor, it is very little between the time you are doing your costing for bidding and the time you will be ordering these raw materials which is casting and forgings.

Moderator Thank you. Next question is from the line of Ashi Anand from Allegro Capital Advisors. Please go ahead.

Ashi Anand I had a couple of questions on the domestic market. Firstly, we have seen the strength in wind power where SEBs is not singing new PPAs with wind power with wind turbine generators because of the crash in solar prices. Is this something similar happening on the sugar Co-generation kind of market because SEBs are no longer as aggressively signing PPAs we have seen slowdown in this market. And this is something which is structural?

Dhruv Sawhney The fortunate thing for us versus the other renewable markets, the sugar Co-gen is a way for the factory to have diversified income and without that he is not able to pay the farmer. And we have 50 million farmers which politically ask questions. So people say fine you are not going to sign the PPA or you start renegotiating, I cannot pay the cane price. And the Rangarajan Committee and all these committees that have done for cane pricing which is very politically sensitive with the state governments have taken diversified revenues, the cabinet has just increased the price of ethanol for sugar, so they are now going to start decreasing it with something else like power. If you ask me the rise in PPA cost is happening? No, it is going to be kept as ₹ 5.60 or something ₹ 5.70, so it is not a bad price by the way.

Ashi Anand But has the interest kind of changed or according to you is as strong as it was earlier?

Nikhil Sawhney It is okay, if you have the raw material it makes sense.

Dhruv Sawhney Yes. People are going for the ROIs at this pricing, because one, the sugar industry has now made money. Firstly, there was no appetite whether there was a good ROIs, it was difficult for getting the funding. Now the sugar development fund is giving money at 6% for Co-gen. So I am just giving you one indication.

Ashi Anand And there is no issue with relation to PPA signing, right?

Dhruv Sawhney No, the project would not even start without that. I do not find that as a published thing right now because the enquiries are still there.

Nikhil Sawhney In fact, we see revival of enquiries in sugar specifically because of them.

Dhruv Sawhney In fact some of the people who had given us sort of LOIs, we will be having that in Q3 where we have not recognized that as an order but it is coming in.

Ashi Anand Okay, excellent. The second question I had is you mentioned in your Press Release about increased competition in the domestic market that having some kind of impact on pricing and margins. I just wanted to actually understand how is the balance 40% of the market really split between different players? You did mention that some of them are now localizing.

Dhruv Sawhney No, they are international players who have established their Indian operations recently.

Ashi Anand So approximately how many players international players would be operating in the market?

Dhruv Sawhney Mainly one, which is the largest player globally.

Ashi Anand Okay. And did not have a localized plant for the turbine generation.

Dhruv Sawhney No, they are concentrating more on doing it from India.

Ashi Anand Okay. So is there a big shift in the kind of market in terms of their pricing and how aggressive they are or is it more because the market?

Dhruv Sawhney I would say big shift but there is when you have a limited market everyone is wanting to get some orders. When the market growth does happen, with India you cannot be having market which is lowest in five years carrying on in the future, it is going to pick-up. So this is temporary. But I was asked a question as of today if you expect me to have especially two years from now, no.

Moderator Thank you. Next question is from the line of Vaibhav Kapoor from PPFAS. Please go ahead.

Vaibhav Kapoor Sir, I just wanted to understand the margin profile how does it vary between the domestic and the international segment for the product portfolio as well as the aftermarket segment? And a small subset of that question is how does the margin vary from product to product from waste heat recovery or Co-gen or waste to energy in terms of margin.

Dhruv Sawhney Yes, some of this is sensitive information but I can say that the margins are higher in service than they are in product and they are higher in export then they are in domestic by substantial degree.

Nikhil Sawhney The fact is that every order is unique and therefore the profitability in every order is different. We also have high margin orders in India. But very frankly, on average what we see is that the domestic margin is much lower than what we get as export margin. And the highest margin contributor is the aftermarket.

Vaibhav Kapoor Sorry, which is half of what you get in the aftermarket.

Dhruv Sawhney Yes. That is a very approximate figure.

Vaibhav Kapoor Okay. And sir, in terms of the international segment, does the margins really depending in the country?

Dhruv Sawhney Yes. See, it is impossible for you to have a model.

Vaibhav Kapoor No, I am not having a model, but I want a broad color in that sense, sir.

Dhruv Sawhney Well, let me tell you that Europe is a better margin then it is in SARC, Bangladesh but you can have orders in SARC also in certain sectors which are extremely good let us say the oil and gas sector. Of course there would be a difference between let us say the oil and gas sector and the sugar sector everywhere.

Nikhil Sawhney In general, the more sophisticated the customer generally you end up getting a better margin.

Vaibhav Kapoor In oil and gas sector you are saying is because I think there are more compliance norms?

Nikhil Sawhney Yes the more sophisticated the customer, the more specifications, the higher the margin.

Vaibhav Kapoor So I get more difference between the oil and gas?

Nikhil Sawhney Similarly, with geographically the customers and their profile and the regulation that they have to be compliant with also allow the same.

Vaibhav Kapoor Okay. That is why there is a difference between margin and SARC and what you are saying?

Dhruv Sawhney Yes. And the technical spec.

Vaibhav Kapoor And what about product wise waste heat recovery, waste to energy, Co-gen, could you give some understand there?

Dhruv Sawhney It really depends on the type of place it is and the type of customer for the same type of project.

Vaibhav Kapoor Okay. So product wise you are saying there is no difference in margin?

Dhruv Sawhney I mean I gave you some differences between but oil and gas is a small market, sugar is a very large market. But there is a difference in oil and gas to sugar.

Vaibhav Kapoor Sir, I am understanding that, what I am trying to understand is that, I have some color in terms of understanding that the oil and gas market has higher margins vis-à-vis the sugar market due to compliance. But when you take the product wise basket, waste heat recovery, waste to energy, Co-gen, sugar Co-gen, could you give some understanding there of which are the higher margin categories and for what reason?

Dhruv Sawhney The type of customer in the same type of project may have a different specs, so you may have a waste to energy customer who has a lower spec and you may have a waste to energy customer with a slightly higher megawatt structure who has a different compliance norm and in different specification. Now, some of this varies of the type of country and some of it depends on the whether this is small private equity group, putting up a small waste to energy project or it is a big group who has many waste to energy project. So we have experienced both. And that is how we have been able to establish our reputation in the new markets.

Vaibhav Kapoor So basically the three words that come to my mind and just correct me if I am wrong is, one is complexity; the other would customization, and probably the third would be the amount or the quantum of the order, is that correct in terms of understanding?

Dhruv Sawhney I would say the complexity yes, the complexity of the particular sector which is very much more in terms of oil and gas regulations and specifications, and so complexity is correct. The sector would be, the type of customer if a customer is a large power plant who order the same machine their governance norms and all things are very different their safety characteristics, their technical efficiency characteristics at higher level than some group putting up a similar plant in the same market. So the customization is very important. And finally, you have the particular geographical location which matters.

Moderator Thank you. Next question is from the line of Pawan Kumar from Unifi Capital. Please go ahead.

Pawan Kumar Yes, exports versus domestic what would the kind of execution we have seen this quarter and what is expected to be the road map may be next year. Is there going to be significant change in proportion of exports versus domestic?

Dhruv Sawhney Yes. Next year we will have a very different proportion of domestic to export. Our current mix was coming from the order bookings in FY 17 which was last year and in fact; we have covered that in our statements. The question is that next year the mix of dispatches will be reflective of the order booking now. So we are having quite a different, the outstanding order book today has got a mix of exports of 50%.

Pawan Kumar Okay. And currently what is the mix like sir, in terms of revenue exports versus domestic approximately?

Dhruv Sawhney About 45%.

Pawan Kumar 45% would be exports?

Dhruv Sawhney Yes, about that.

Pawan Kumar Sir, you were talking about some inflows of orders from Q1 or Q2 all those whatever were supposed to spill over has already happened and is reflective in the current order book?

Dhruv Sawhney Yes.

Pawan Kumar Okay.

Nikhil Sawhney That is right, some of the domestic just dropped out actually.

Pawan Kumar Some of the domestic orders we lost out, is it?

Nikhil Sawhney No, they just dropped out, they just did not close.

Pawan Kumar Okay. How much might be the proportion of that Nikhil?

Nikhil Sawhney I think we leave that right now but just the point is to answer that question of yours.

Moderator: Thank you. Ladies and gentlemen, with this, I now hand over the floor back to the management for their closing comments. Over to you, sir!

Dhruv Sawhney Thank you very much, thank you for all your questions. I would like to end by saying that we are looking forward to a very good next year based on our current performance in order booking in H1. So there has been a big change between the order booking in H1 to what it was last year in terms of having it from export rather than domestic. We are seeing this also continuing in Q3, Q3 last year was also much more order booking in domestic. And we do not expect that in this current Q3. So the trend that has happened in H1, we have very good visibility for Q3 because we are one month through in that. Similarly, our technology of meeting new markets such as the oil and gas market are proceeding very well. And the service centers and offices we set up in our six locations are settling down, taking longer partnerships. But we see that coming to fruition certainly by the end of the year. So we expect very good results from them in FY 19. Thank you very much.

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