



Triveni Turbine Limited Q2 & H1 FY'21 Earnings Conference Call November 3, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Triveni Turbine Limited Q2 and H1 FY'21 Earning 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 sir.

Rishab Barar: Thank you. Good day everyone and a warm welcome to all of you participating in the Q2 & H1 FY'21 Conference Call for Triveni Turbine Limited. We have with us today on the call 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 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, Rishab. A very good morning, good afternoon to everyone on the call. I hope everyone is safe and well in these COVID times. I also do wish everyone a very Happy Diwali which is going to be upon us soon.

Firstly, welcome to the Q2 H1 FY'21 Conference Call for Triveni Turbines. The overall performance of the business in terms of turnover, order booking and profitability has been lower in H1 FY'21 as compared to H1 FY'20 which has mainly been due to the impact of the pandemic in the first quarter of this financial year, as well as to a limited extent in the second quarter as well. The net income from operations in the half year FY'21 is at ` 3.51 billion, which is lower by 24%, and EBITDA in H1 is at ` 977 million which is at a margin of 28% which is only lower by 7%. PAT after taking into account the exceptional items which I will go into a little bit of detail, for the half year is at ` 516 million, which is lower by 36%.

Outstanding carry-forward order book as on 30th of September 2020 is at ` 6.7 billion which is lower by 3% when compared with the corresponding period of last year. Overall, the order intake in Q2 FY'21 is 22% higher than Q1 FY'21 even though it is

lower by about 16% compared to Q2 of FY'20. The overall order booking for the current half year has been also severely impacted due to the pandemic. More so in the export market where restrictions on travel have not allowed us to finalize and close orders and customers are waiting for us to travel to do that. There has been some movement on that front. And within Q3, we have already seen a greater mobility of our personnel to the extent that over 25 teams are already internationally traveling. And so we believe that we should have better traction in the coming quarters.

The turnover and profitability have increased by 12% and 29% in the second quarter compared to the first quarter of this financial year. And in the quarter under review, the revenue from operations grew by 12% as compared to the last quarter, mainly on account of significantly higher exports as a percentage of the entire product sales portfolio even though there has been a decline of 25% when compared with the corresponding period of the previous year. The mix of domestic and export sales was at 48:52 in Q2 FY'21 while the mix was 57:43 in Q2 FY'20. There has been a significant improvement in the EBITDA margin in Q2 FY'21 of 580 basis points in comparison with the corresponding quarter of the previous year, while the improvement in margin is over 300 basis points in comparison to the Q1 FY'21. The improvement in the EBITDA margin is driven by a combination of higher share of exports and sales, but also on account of lower raw material costs, which has consistently shown improvement over the previous many quarters. Further, there has been a significant reduction in overheads, especially in manpower and administrative overheads. While many of the cost reductions achieved are sustainable, the administrative cost reduction especially on travel may gradually increase in the quarters to come as we necessitate a greater interaction with the international client base, but also in terms of fulfillment of the orders. The company undertook a major rationalization program of its manpower cost which could be achieved due to a focus on higher automation and resulting in improved productivity and better outsourcing strategy, all of which enabled the company to reduce its manpower strength. This has resulted in a one-time cost of `185 million which has been accounted as an exceptional item during the second quarter results which is in front of you, and the benefit of this will start accruing immediately. This specific initiative was done at the instance of the union and I must say that this was an offer, which is brought to us and which given our long term planning, and which I have already alluded to in the previous conference calls in the move to allow Triveni Turbines to be more agile and dynamic in its employee base and its employee cost to allow for a greater degree of multi-skilling and work planning which will allow us to really move forward in our business plan and our vision to be a top rung global manufacturer in this Digital, Internet of Things age.

This is something very important for all of you to recognize that, Triveni Turbines now has no workers in the company, all people who will be operating at the shop floor will either be officers are at graduate level with a higher degree of productivity, a greater degree of automation in the process, and we believe that these productivity improvements have already started and will show results within this year. So, therefore, the cost which we have incurred in terms of rationalization has been very fruitfully done. More than that, in this time of COVID, the 61-odd personnel which have decided to take part in the VRS scheme has an average outflow of about ` 3 million. We also as a company facilitated their movement into other occupations which they might find productive or of interest to them, multi-skilling and other skilling were also offered. But more than that, in case they wish to continue, those offers were also left open to them. I am happy to take more questions on this at a later point in time.

On the steam turbine market, in general, as you know, "McCoy, which is an international market research outfit ranks Triveni as the Second Largest Steam Turbine Manufacturer in the small Steam Turbine Space." This is driven by over 20% market share in the global market and a clear dominance in the thermal renewable segment. This as you would imagine is the only growing segment within the entire

ambit of the steam turbine market. The above 100 MW market has continuously declined in terms of its output on basis of declining the demand for coal in the entire power basket. But more so is between the ranges of 30 to 100 and zero to 30, the renewable energy space plays a much greater role.

The domestic order booking in the previous quarter has an increase of 19% when compared with Q1 FY'21. And the domestic order booking has been in some sectors such as process co-generation, which is mainly distilleries, sugar, also cement, waste heat recovery, chemicals, fertilizer and paper and pulp. The enquiry generation in the domestic market has surprisingly shown a very robust increase of over 30% in the first half of this year. The main segments where the traction in order finalization have been witnessing is in the sugar co-generation including distilleries, biomass IPP, food processing and the waste-based heat recovery sectors. These are expected to continue to be drivers of demand in the Indian economy going forward into the second half of this financial year.

The Export Market. The overall order intake has been higher than last quarter at an increase of over 30% in comparison to Q1 FY'21. The order bookings in the export markets have been witnessed mainly from Europe, Middle East, South and Central America. And the segments include solid municipal waste incineration based IPP as well as biomass and sugar co-generation. While the market globally is yet to regain its level of previous years, we witness the overall export order intake which has increased by 30% during the quarter under review when compared with the first quarter of this financial year. But in my expectation, and as I had said in the previous call, our expectation in the export market has been more muted than what we had expected which is largely driven by the lack of transportation and the lack of travel that our service engineers and marketing engineers have been allowed to do. We believe that with a greater mobility in the coming quarters, yes, there will be small shocks in between in terms of shutdowns and lockdowns, which will happen for months at a time or one month or two months. But in general, the ease of traveling will only increase in the coming quarters, and we believe that this will suit our strategy to be able to cater to our customers on a face-to-face basis, while still utilizing the best of digital technologies. Towards the latter part of the quarter under review, we could already see physical movement in a limited manner, which has already gained us success in this current quarter.

Export Market Enquiry Generation. The renewable energy sector is driving demand specifically from the biomass and waste to energy projects. The company currently has orders and installations from over 70-countries and will be focusing on new markets in the coming years. Some of the segments of focus are biomass, paper, process and sugar cogeneration and other agro-based industries including palm oil, etc.,

The Aftermarket segment during Q2FY'21, the aftermarket order booking has increased by 77% at ₹710 million in comparison with Q1 FY'21 and 41% in comparison with Q2 FY'20 on account of the increased volume of spares and refurbishment. On account of the substantial order booking in Q2 FY'21, the half year order booking for the current year has reached almost similar levels as at half year FY'20 which under the current circumstances is significant. The team has played a very important role in trying to build the order booking from the aftermarket segment, which as you know, includes Triveni brand spares and the service of our own installed base, but also third-party offering that we do through our refurbishment offerings. Our proposition has been far more successful in the domestic market, and again, the export market has been hampered due to a lack and slowdown in terms of travel. We believe all of this will get eased in the coming quarters and we are more optimistic in order intake on both these fronts in the coming quarters.

As regards the joint venture, GE Triveni Limited, which has already been communicated to you, Triveni has filed a petition in the National Company Law

Tribunal and the matter is currently sub judice. As with most things in the pandemic, these NCLT hearings have also been continuously postponed due to the pandemic reasons.

More so about where the company is positioned right now, we believe at this point in time Triveni Turbines is poised to transform itself into a truly world-class, efficient, productive outfit to manufacture at a quality level where there is a minimal amount of rejection but more so, which meets every standard globally applicable on a technological level, which is truly world-class. We have been utilizing the best in digital technologies to ensure that information is seamlessly communicated through the entire value chain within the organization from sales and marketing through to process planning, manufacturing, design, engineering, etc., without any human intervention, which allows for a seamless and error-free transmission of data. More so with a focus on cutting edge digital technologies, we aim to be closer to our customers to be able to cater to their requirements from a more remote basis, but to do all of this with lower costs and with higher accuracy. This coupled with our technological investments in R&D, which has continued to expand our product portfolio, but also expanded over to other rotating equipment, both from a product perspective as well as from the aftermarket, and aftermarket capabilities will be significant. Already in this current Q3, we have had great success in the refurbishment market for utility range turbines. And we believe that this is an area where our offering of being able to offer world-class quality and a technological level which is benchmarked the world's best but at a price point which is immensely affordable is a win-win situation for everyone.

The outlook of the company, as we had spoken about in the previous quarters, this current year will be impacted because of COVID. There will be a decline in turnover which as you can see is already reflected partly in H1. Having said that, the margin by which the company is operating will continue to sustain to some extent. We may not be able to achieve and sustain the 26.8% PBT margins which we achieved in this current quarter, but definitely, we would be able to sustain a margin somewhere between 20% to 22% on a going forward basis. We believe that this coupled with our long-term vision on expanding and growing our markets, both from a product perspective, technological perspective, and a variety of different means, is something that would allow us to grow quite significantly. We are very ambitious and aim to utilize some of our free cash reserves to aid this growth in the coming quarters.

Currently, the board has not taken any decision in terms of utilization of its reserves, which are very healthy at this point in time. And as they do come about, we will definitely let you know.

But having said that for this year, as a whole, PBT for this current year should be at the same level as of last year without including the performance of the joint venture as well as the one-time write-off. Having said that, in a year of pandemic, we think that these performances would be quite good. But it positions us extremely well for the year to come where we are extremely ambitious to be able to further our growth in a very sustained manner, and I look forward to giving you some of that insight in the quarters to come.

With that I like to open the floor for questions.

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

Ravi Swaminathan: First question is with respect to the aftermarket. So basically, we had seen very good growth in this quarter. Do you think that 40% kind of year-on-year growth which we had seen in this quarter, at least to that extent, is it sustainable or is it like these orders were supposed to come in 1Q and they got spilled over in the second quarter,

and if aftermarket grows at such pace, can we see the EBITDA margin also seeing structural expansion by 100- 200 bps.

Nikhil Sawhney:

Yes, Ravi, you have been following company for a while. So you know two years ago what our EBITDA margins were. We had certain cost increases which we had to get out of the system, which took three, four quarters. And following that if you see our material cost had reduced from about 56%-odd to a sustained level of about 50%-odd. 46% as of this current quarter may not be the most realistic number for you to assume going forward. But I would imagine that we have a sustained increase in our material cost. This is supported by two factors; one is the product mix, the fact that you rightly say, the higher degree of export gives us higher margins, but also a higher amount of aftermarket and percentage of the order book also gives you greater comfort in terms of margins. More than that is our internal strategy of standardization, which seem through our balance sheet, being able to actually reduce inventory. I have not talked about how we manage our trade receivables, etc., happy to do that as well. But once we get more operationally efficient is all translates into higher productivity. This is the move that we have done in terms of employee rationalization, will further lead to a sustained higher margin. We will give you better clarity in the coming quarters as to what our sustain margins would be, but I have given an indication as to where it stands. From the aftermarket order book, as you rightly pointed out, we were a little disappointed in the exports order book for the aftermarket coming in, in the previous two quarters. We had a higher expectation and we think in the coming quarters, we will be able to get some of that back into our order book. We think that currently, as you said, the 40% increase is something that the team has worked very hard to get, but this has been focused on, as you know, we have three different distinct segments of our aftermarket, which are Triveni branded spares, service of our own installed base, and the service and part for third-party turbines. And each of these has distinct growth. The growth within our own install base will be somewhat linear to the extent that we are able to drive the conference within our existing customer base to upgrade or to buy spares on a sustained basis from us. The real growth in the market comes from the refurbishment market. And I already gave you an indication of some wins that we have had in this current quarter, which is Q3. And we believe that we should be able to expand this part of the business quite significantly, and into areas, into aligned rotating equipment, which gives us not only a competency to approach a broader market, but also improve our own technological levels as we cater to those. So in a roundabout manner, the growth that we have seen in the market has disappointed from the export market which we hope to bridge in the coming quarters. But in an overall sense, we are very ambitious on this particular business. And as you pointed out, because not only is there a gap in the market for a service provider like Triveni globally, but this is a very high margin business as well which requires lower capital.

Ravi Swaminathan:

And with respect to the domestic market in the last quarter, you had mentioned that steam and that kind of sectors are seeing some traction. Are you seeing that kind of sustainability in traction from these core industries which were not there for quite some time?

Nikhil Sawhney:

We spoke in the last conference call as well. And our expectation was that domestic order booking would be slower. As it is turned out, this quarter, we have seen a much higher degree of domestic order booking. So we are very pleased by that. And also the enquiry book has grown quite rapidly. So we are quite enthused by what seems to be at least an appetite for growth in the Indian market. I have our President, Mr. S.N. Prasad on the line. Maybe he can add in a little bit as to how we see which sectors in the market picking up. Prasad?

S.N. Prasad:

As we have seen in this quarter, domestic order book as well as the enquiry book is quite strong, because we are seeing like a process co-generation industry, waste to energy especially into cement plants and all these things, because there the final product will be competitive only after adding the sort of a turbine, because everybody

is looking for a cost reduction in their final product, we are seeing efficiency improvement in the system. Those sorts of enquiry base are increasing substantially. So what we have seen that as going forward this will continue because competitiveness of their final product is decided by these sorts of equipment getting added into their Capex and reduce in the Opex. So we are quite bullish on this domestic market as well. And, of course, international market, once travels open up, we will be able to get back because all the enquiry pipeline, nothing we lost, because finalization are getting delayed, because there is no travel part of the day.

Nikhil Sawhney: I must point out that in this previous quarter, we had an 81% market share in the domestic market, but on a reduced market. So very frankly, we did not wish to highlight it, but we are even more competitive than we have ever been. And so, we continue to maintain our dominance in this small stream turbine market for India and maintain our global second position.

Ravi Swaminathan: And my last question is with respect to working capital. Working capital has improved significantly YOY and obviously the cash flow from operations have also increased significantly. How much of this is sustainable?

Nikhil Sawhney: Mostly it is. You see, again, when I take you back a couple of years, when we talked about the fact that there were some cost increases that happened with Triveni, this was due to an extreme degree of customization that we were doing with our turbine, and as we move to a more standardized platform, not only did this actually reduce our raw material cost, but also our inventory and other working capital needs. And so, therefore, the degree of standardization has allowed us to streamline our balance sheet to a much greater extent. This coupled with good customer advances have allowed us to be extremely comfortable on the working capital space. So that is not a matter of concern. Of course, given turnover, our inventory will move a little bit here and there, but mostly sustainable.

Ravi Swaminathan: And that ` 300 crore of cash, I mean, can there be an increase in dividend or buyback or something of that sort given that it is like 20% of market cap?

Nikhil Sawhney: That is a good question, Ravi. So, the fact is that the board has not considered any of these proposals at this point in time. So it would not be correct for me to actually talk about this. But the thought of the board at this point in time is focused more on growth. We need to show a higher top line growth. And I think that what investments are needed internally to be able to drive that goes to something which will be a matter of priority. And as we are able to discover with what those avenues of growth would be, the other strategies will become a lot clearer.

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

Bhavin Vithlani: My first question is on the competitive landscape. We have seen in the last quarter a couple of your large competitors announcing that they are exiting from the steam business. So are you actually seeing them exiting from the smaller turbines that you are addressing, or they are more on the larger turbines?

Nikhil Sawhney: This is a very good question, and I am going to answer it in a sort of roundabout manner. This has been a phenomenon that we have seen for the last I am going to say 10 years, which is that the percentage of coal in thermal power generation in terms of new orders has been declining continuously and it is a steep, slope, downward slope. And so therefore, large utility-based turbines are really not getting sold especially into the thermal power generation sector. So, the entire market size for large utility turbines has disappeared. At the same time, the market for small steam turbines has radically changed from it being based on a fuel source of coal to more renewable-based measures. And so therefore, what you have seen over the last three or four years is that the small steam turbine market, both from a megawatt

as well as number of units ordered, has remained largely the same if not increased by maybe 2%, 3%, 4% annually. But the larger market of above 100 megawatts has fallen by, I would say, over 70%, 75%. And so therefore, when our larger competitors which is the people who have a lot of money to invest both in technology and marketing the space, see that the entire market shrink, I do not know if it suits them from a perspective of being able to address the market. I do not think it is lucrative enough for them. Secondly, given competition like us, who are more nimble, who are more agile, who have a much lower overhead cost, as well as structurally manufacturing cost, who have aligned the technology to be cheaper, I think that larger competitors find very difficult to compete with us also. So what we have seen is that actually, globally we benchmark ours with our competition who is by far the most dynamic company in this space. And really apart from them we think that other competition is something that is very manageable. So if you look at it in terms of people who are exiting this market has been happening continuously over the course of the last seven, eight, ten years, which are the larger competitors, and I think you are talking about certain press releases that came about in the last several weeks, those will have further impact in terms of the number of participants in this market. So, we are enthused by the fact that other people do not find it as lucrative market. As we always said, one of the few companies that makes a margin on the product, most people in the capital goods space, and specifically in steam turbines or turbines in general, and thus making their margin only in the aftermarket. And so they drive their sales, just so that they have an installed base. So we believe that we are positioned well, but happy about the fact that other people do not find it lucrative and this is primarily driven by the cost base as well as the size of the market.

Bhavin Vithlani: A couple of updates from the previous quarters. So, one is that our endeavor to actually get into the refurbishment market for third-party turbines, where are we in that? I do understand, you did mention about travel restrictions impacting but more structurally have you progressed on that efforts taken by us? Second is the efforts that we have been taking to enter the drive turbine markets in the oil and gas space, that will be useful?

Nikhil Sawhney: You brought up two very good points and I am going to get the heads of these businesses to actually answer both of these questions for you. It was my omission that I did not talk more about our drive turbine API market offering and our plans for order booking in this current and coming year. But first I ask Sachin Parab, our President, aftermarkets, to talk a little bit about how he sees refurbishment. Sachin, can you give a little bit of insight as to where Triveni Turbine is placed in terms of getting orders from the refurbishment market in the short-term?

Sachin Parab: As far as refurbishment business which is our multi-brand service business is concerned, we have seen a steady progress in the enquiry generation over the last couple of years. And as our vice chairman has mentioned, I will refer to the short term. As you are all aware, because of the pandemic situation and the travel limitations, the international order booking has not been up to our expectations. But on the domestic front, we have done considerably well and there is a remarkable improvement in our performance both for enquiry generation and order booking on the domestic front. So going forward, as travel eases further, we are looking at better order booking and enquiry generation from international market for the refurbishment business. As far as the sectoral performance is concerned, glad to say that our constant efforts towards expanding footprint have helped Triveni get into new markets for the refurbishment business, and not just new geographies, but also new segment as an end-user applications diverse from what we had done in the past. Thank you.

Nikhil Sawhney: Bhavin, before I ask Prasad to answer on the API market, we are currently in the process of doing a five year strategic plan for both the product business as well as aftermarket. And I have to say that the ambition levels that we are putting are quite tough to achieve, because we believe that we have to be growing at a level which

allows us to compound. So this will need all our market segments to perform, and we will have to have the correct ecosystem and culture within the company. And so therefore the rationalization that also took place allows us to align all employees of the company. Prasad, can you talk a little bit about what your ambition does is for the API market in a broad sense?

S.N. Prasad: Coming to API market, as we mentioned in the last investor call also, so as approved vendor list to become a part of approved vendor list is one of the major challenge where the last two, three years, our efforts in this have given a very positive result. Today, globally, for 75% of the requirement, Triveni is approved as an approved vendor. And one more important point I would like to mention that even domestic market as per recent Prime Minister's announcement, there is a huge investment getting planned for next 10-years into hydrocarbon sector, where Triveni is approved by CIL, PDIL, all the reputed consultants and EPC players. Globally, what we have seen is the size of the market totally when we map this thing, over 2 billion is the size of the market, which will be opening to us in the next five to seven years sort of a thing as we start building the references. We are quite optimistic in Middle East region and especially in South American region, there is Europe and Southeast Asian region apart from domestic region. So since the product is proven, and running references are established, and we as Triveni approved in over 75% of refineries, and the hydrocarbon companies and consultants, EPC. So we are quite bullish on this and we may be able to really drive the segment to a great extent.

Moderator: Thank you. The next question is from the line of Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: To add a couple of questions. So the first one was a couple of quarters ago you were planning to develop a strong value proposition for the supercritical CO2 turbine. So have we made any progress on this front? And when do you think we will be able to commercialize this technology? That would be my first question.

Nikhil Sawhney: That is a very, very good question. We are extremely bullish on this technology being the disrupter for our own market. So we thought that it is worthwhile for us to invest at a point in time that global investment is going in the same space. The research has progressed substantially but unfortunately, I am not able to get into detail as to where we currently stand both from a perspective of our academic collaboration as well as industry partnerships, because they are subject to certain degrees of confidentiality. But suffice to say that this market will develop over the medium-term. This is not a short-term product. And I think that if we look at it over the next five, seven years, this market will develop quite substantially and possibly post that it will replace the steam turbine market.

Harshit Patel: Secondly, you have earlier indicated that the domestic zero to 30 MW steam turbine market was around 1,000 MW in FY'20. So what do you expect the size to be in FY'21?

Nikhil Sawhney: That zero to 100 MW segment was about 1,000 MW. In the first half year, it declined by 50%. So going forward, I would say that we anticipate some growth. So maybe 25% to 30% down year-on-year.

Harshit Patel: So the 1,000 MW as you said was for zero to 100. So sir, what would be zero to 30?

Nikhil Sawhney: I think 75% of it.

Harshit Patel: Lastly, on the bookkeeping side. Could you tell us the share of exports in our aftermarket order book and similarly on the order booking front as well?

Nikhil Sawhney: I will get Narayan to get that information to you. But suffice to say, I think you heard what Sachin had to say also that we were slightly disappointed on the order intake from the export front for aftermarket, but we believe that given the fact that travel will be allowed, and we already have people out traveling, that should get made up in the second half of the year.

Moderator: Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: Sir, I had two questions. One was the execution, as you spoke about in your opening remarks also, has been a little weak. So, if you can just share your thoughts on how do you expect the execution to kind of progress over the next few quarters, and also the key sectors which can drive better execution both in the domestic and in the export market? And the second question was on the employee front, we have done very remarkable rationalization. So, what could be sustained number in terms of the employee expenses that we can kind of build in going forward?

Nikhil Sawhney: From output perspective, in the next several quarters, the orderbook will improve, because we already have an order backlog, which is sufficient enough for us to take forward for the full year of course. The issue is the customer acceptability of the turbine. So, we have been prudent in terms of actually working with our customers, because not all customers are able to accept because of various problems that they may have. And so therefore, while we had said that turnover for this year may be down compared to the previous year, between 10% to 15%, I think that is still reasonable for us to assume at this point in time. This is also compounded by what we have in any given year which is the book and bill within a specific fiscal. Given that pretty much Q1 was wiped out because of COVID and part of Q2 as well, the amount of book and bill has also been limited. But having said that, we think that we are being realistic in terms of the output that is necessary where our customers can accept. Of course, with the greater opening of the market, we will be able to push out more products. I have to tell you from a productivity perspective of labor, we have two units; one is in Sompura, one is in Peenya and they have the same degree of output which is the number of turbines that they would produce, etc., And the number of people involved with the same degree of productivity in one factory versus the other was 20% of the other. And so therefore this rationalization aims to move us to a unified productivity level throughout our manufacturing base. So therefore, from employee cost perspective, while I think there is ` 20-odd crore that we have at this current point in time per quarter, it is slightly lower because there are certain further other rationalizations are included in that, and also given the fact that we are going to be hiring across the breadth of the higher value added services, I think that maybe ` 22-23 crore is a sustainable number for us to take in the short term for per quarter.

Kaushal Shah: Sir, just one last thing. You had alluded in the first quarter that for the full year, the revenue number could be down by about 15%-odd and just now also, you have kind of given the similar range. The first half has been a little weaker. So, does that mean that in the second half, we are expecting significantly better traction across segments? And just one additional point on the execution part, if you can just also share which are the sectors which are kind of slow moving, and which are the sectors kind of ready to take delivery?

Nikhil Sawhney: I think it is not a sector, it is customer-to-customer. The sectors which are placing orders you know which are largely sectors of food, pharma, certain degrees of distillery and agro and cement from a waste-heat perspective. It depends on unique customer to customer in terms of the balance sheet really in terms of how they have been able to put the rest of the plant up together. So, I think that is very difficult to say which sectors are volatile.

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

- Anand Bhavnani:** Sir, in regards to order book. I see that about 22% of our order book is now aftermarket and it has increased steadily over the last 15-odd quarters from like 10%. So part of it has done very well. So, do you anticipate this trajectory of improvement in aftermarket to kind of continue in let us say three, five years, we get to like a 40%, 35% kind of a number, is that kind of a realistic expectation?
- Nikhil Sawhney:** I think your expectation should be that we should continue with the same growth trajectory of our aftermarket. As far as a percentage share in our turnover, we are equally optimistic that our products will grow in the newer market segment as well as capture greater market share in the existing market segment. To the previous question I had alluded to, our turnover mix. And I think the fact is that while we are cognizant of where we sit in turnover, because there is a great degree of overhead and cost absorption through that, our margins and profitability, something that I think will be sustained going forward. So, while we may see a decline in turnover for the current year, at a PBT basis, we would be at a same level as last year on absolute level.
- Anand Bhavnani:** Aftermarket breakup, you mentioned you have three areas. Just wanted to double check; one is the spares, second is services. What is the third?
- Nikhil Sawhney:** Third is we offer the same offerings to third-parties, so it will be to third-party spares and services. But you see for third parties where the offering is a little bit more diverse because the offering could be anything from balancing to complete revamp and upgradation of efficiency. So the value addition is different across entire chain, so it is very a difficult to place it under any other buckets in this generic name of refurbishment.
- Anand Bhavnani:** Given that the larger megawatt size introducing and as OEMs are exiting the market, have we been able to get refurbishment business in that domain because if a player is exiting the market for manufacturing, most likely he would be exiting the refurbishment market as well, so is that the right assumption, and are we getting any share there?
- Nikhil Sawhney:** The assumption is slightly wrong. They are exiting the product business, which is to manufacture, but they will stick on in the aftermarket. But it makes our value proposition even stronger, which is to say that we are also a full line manufacturer. And so therefore, we do target that segment very actively, and we gain success and we gained success in a very prestigious utility turbine order very recently. So, the ranges are not constrained by any limiting factor that we place on ourselves for participating in the market below 30 MW, etc., So, yes, it is a target segment for us. The value proposition changes slightly because no OEM is actually going to give up that market because it is sort of bread and butter for them.
- Anand Bhavnani:** On our five-year plans, is there a possibility for us to do some inorganic growth, is that option being explored, considered, and have you contemplated any potential side of such action?
- Nikhil Sawhney:** No, we have not contemplated any action in that front, the board has not considered anything. Is it part of management thinking? Yes. Is it something that we will act on? We will have to wait and see. But the more important thing is that what we do recognize is the strength of our balance sheet, and the way that the company is run. That technology is at the heart and soul of what we do. And so therefore whatever we do, has to keep that in mind. Really acquiring assets is not of great concern to us because we think the way that we operate, which is asset light is the way forward. So I do not have a clear answer for you apart from saying that the principles by which we would evaluate anything would be the same way we evaluate our current business. But I cannot definitely rule out any inorganic plan as well depending on where our growth trajectory takes us.

- Moderator:** Thank you. The next question is from Manish Goyal from Enam Holdings. Please go ahead.
- Manish Goyal:** I have a couple of questions. Sir, on the GE exiting the global business for steam turbines, how will it impact our JV going forward for the small turbine?
- Nikhil Sawhney:** You are putting me in a very difficult situation, because like I said, our joint venture with GE is we filed a petition at NCLT, which is sub judice. So I really would not like to conjecture on what their plans are. But suffice to say that it does not impact our growth in any manner.
- Manish Goyal:** As you were mentioning that for the market for smaller turbines was growing steadily in last 10-years, so like if you can just throw some more light as to how do we see these going forward for next three to five years, and also keeping in mind that between the mix of industrial-driven demand for process cogen, and on other side, renewable based, biomass based renewable energy demand, so how do you see the landscape evolving for next five years?
- Nikhil Sawhney:** I will just give one specific segment as an example to you, and this is pretty much prevalent globally. Municipal waste, it is actually reasonably certain now that landfill which lead to leachate and to other pertinent groundwater and other issues is really not the way forward. And so incineration or some degree of treatment of the waste is necessary. If we have incineration, you have a potential economic output in terms of power. And so therefore when you look at European countries which have always been the environmental leaders, we believe there is a significant amount of greater investment which is necessary in this space. Europe only has I am going to say approximately 10%-odd or 12%-odd of global population. So the amount of waste that is created everywhere else in the world, presents a significant opportunity and which we are seeing in a small manner right now in the waste solid municipal waste incineration sector. So we believe that the growth in this renewable form both from biomass-based independent power product producers as well as other forms of renewable will continue to grow the market. And this is despite the fact that captive power generation based on coal may actually decline, waste heat may increase. So, that coupled by a greater market participation in areas which expand our reach into the market, be it in the API turbines or combined cycle offerings, etc., will continue to aid our growth in the entire market even though the entire market may grow by 1% or 2% or 3% annually.
- Manish Goyal:** That is what I was trying to get a sense that overall market now at a particular size, as you also mentioned, that currently the pandemic has kind of led to mutate environment, but I just wanted to get a better sense on next five years. Okay. So basically, we are expecting low single digit growth going forward as the overall market, but we are looking to increase our addressable market and that is how we can look forward to the growth going forward.
- Nikhil Sawhney:** Yes. And also, we will add new markets like a drive turbine market is a new market, it is not something that we have addressed at all. There will be certain market segments like combined cycle which we have not addressed at all in the past which has a combination of technological input as well as market and sales and customer acquisition. Sorry, you said about domestic market.
- Manish Goyal:** Yes, I was referring to, as we have been mentioning that demand especially for the process cogen has been increasing, did Chinese players have a meaningful presence in this waste heat recovery market?
- Nikhil Sawhney:** No, they have not had a meaningful participation in the industrial steam turbine market since 2007-08.

- Manish Goyal:** Coming to the Peenya plant, so, the entire rationalization which we have done is at the Peenya plant, but will it like in near future continue manufacturing?
- Nikhil Sawhney:** It will continue to manufacture. It is just a question that we want to raise the productivity level by four, which is the output and so, unless you do really bring in elements of higher capability and capacity. So we only have diploma graduates on the shop floor. We want to move away from the worker culture and the unionization. And now we have no union in Triveni. But more than that is to move to multi-skilling and to other elements whereby we actually are able to not only raise the output, but do it with much better quality, first time right, etc., and so these things are all based on capability and capacity, and that is where we move towards, and there is a conscious shift towards that.
- Manish Goyal:** Did I hear clearly that you are looking to raise productivity by 4x?
- Nikhil Sawhney:** No, no, that is labor productivity.
- Manish Goyal:** With the recent second wave of COVID in Europe and lockdowns happening for almost a month by certain countries, are we seeing any renewed challenges in execution and order booking sir?
- Nikhil Sawhney:** The order placement cycle for these products is long. Everyone goes into ordering a steam turbine with knowing the timelines that are required. And so negotiations may happen, finalization may get delayed because of degree of uncertainty. From execution viewpoint, depending on where we are on the execution cycle where it may be, for example, if the product is already delivered, and there is a question of commissioning it versus how ready the entire plant is, there is no unique answer that I can give. But having said that, this is a time of extreme uncertainty. But having said that, we have taken and as much of the buffer as we have to, while giving the visibility that we have to you. So we said that we have anticipated that there will be some lockdown, there will be some pressure in the next couple of months, we think that things may open up a little bit later. But surprisingly, the Indian market has given us very positive results.
- Manish Goyal:** And sir, I have a question on the opportunity which is emerging from the increased focus of the government on ethanol side. So have we actually started seeing some traction because we are still reading that it is work-in progress and a lot of policy formulations are happening on tripartite agreement as well, so has the ordering kick started from the ethanol segment?
- Nikhil Sawhney:** Oh, yes, it has been there for the last year and a half. And it is only increasing. So, this is not only from the sugar ethanol segment, which is either taking the B-heavy or C-heavy molasses or even direct from cane juice to ethanol route. But also from the grain-based alcohol, there are ample stocks with the Food Corporation of India and with other state agencies in terms of spoiled grains. And this when it spoils, it goes into the ethanol sector as well to make fuel. So there is a lot of grain-based fuel, which is made both for portable alcohol as well as for ethanol for cars. So, I think the entire biofuel market is actually quite in a very good growth stage.
- Manish Goyal:** On our in-house capability, like we had earlier mentioned that in worst case scenario, if the JV with GE does not kind of progress going forward, our in-house capability to go beyond 30 MW has been building up. So, just want to get your sense as to how has it been progressing on capability front?
- Nikhil Sawhney:** I do not know if I actually said any of that. But to give you an idea, yes, Triveni Turbine is a manufacturer and designer of turbines up to 100 MW. We have our own indigenous models which we have sold up to 60 MW-odd. So we have the capacity, the ability, designs and references.

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

Anand Bhavnani: You mentioned combined cycle is a market that we are now exploring. Can you give us some sense of the size of the market like in case of drive turbines, you mentioned, it is a \$2 billion market, which for next five, seven years can be one engine of growth. Combined cycle, if you can help us understand where it is used, and what would be the potential of the market size for us?

Nikhil Sawhney: Combined cycle is a market that whereby you use the bottoming cycle of a gas turbine or gas engine to take us waste heat and utilize it in a heat recovery steam generator to produce power through a steam turbine. That is the application. So it is basically a waste heat type of turbine, but with more technical features from injection, etc., the market for this is, as the availability and accessibility of gas improves, it is rational for people to be efficient in their power production cycles. And so, this is adding a product into it. The size of the market currently is at a higher megawatt range which is say over 30 MW-odd. And so it is a very large market; it is probably one-third of the entire power generation market globally.

Anand Bhavnani: This is primarily used when you are using gas for making power?

Nikhil Sawhney: Yes, but you use the waste heat out of gas. That is called combined cycle. So you are using both cycles.

Anand Bhavnani: Have we shipped in this particular category any turbines as of today?

Nikhil Sawhney: We have some references, and our technological developments are underway to ensure that we can get greater customer confidence.

Anand Bhavnani: So we are in the approval stage at this point in time?

Nikhil Sawhney: It is not approval, because we are not to that type of supply chain, you are selling mainly to developers in this market segment. It is not the same as the API market where you have to go register and put it. Here is there is a degree of marketing and sales that is involved which is to go down to the customer level to sell it rather than be registered with some large oil marketing companies' refiners. It will be more difficult, we'll give you more visibility in the quarters ahead. But the intent here was that we are looking to expand the market both technologically as well as through our sales efforts continuously. And whichever the large market segments are, we will aim to ensure that we fit squarely within that, and then we have to go, sell.

Anand Bhavnani: With regards to municipal waste incineration, in terms of the size of the market, what would be the current size, and have you seen any specific geographies apart from Europe taking this up, Australia, North America, Latin America?

Nikhil Sawhney: In fact, Europe is of course a leader in this, but I am going to hazard. We have a dominant market share in countries like South Korea as well. Japan meets its own requirements for technological product. They do not tend to import capital goods. But even a country like **Korea**, we have very large market share and even a country like Thailand. Other countries are coming up. And I think that India in that front also has shown some signs. So, we have maybe seven to eight orders a year which come into the municipal solid waste sector, but really for a country the size of India, which produces the waste heat, you should see hundreds. So we are probably at a 10th of the level where we should be.

Anand Bhavnani: What will be the total size? You mentioned about \$200 million. This would be like \$300 million waste heat recovery. So do you have a number, give us a sense on the market?

Nikhil Sawhney: I think it is a driver of growth and let us work something out and get back to you.

Moderator: Thank you. 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: Thank you very much for participating, ladies and gentlemen. Triveni Turbines, I think is well poised in this pandemic time to transform itself into a new stage of growth. Management is extremely bullish on where we sit today. And I think the days coming up will be very good for everyone, both from a shareholder, employee and the stakeholder perspective. Thank you very much. And I look forward to addressing you again next quarter.

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