# Triveni Engineering & Industries Limited

## Q4 & 12M FY13 Earnings Conference Call
## November 11, 2013

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**Moderator** Ladies and gentlemen, good day and welcome to the Triveni Engineering & Industries Limited Q4 & 12 months FY-13 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

**Gavin Desa** Thank you. A warm welcome to all of you participating in this Q4 & 12 months FY13 Results Conference Call for Triveni Engineering & Industries Ltd.. We have with us on the call today representing management Mr. Tarun Sawhney – Vice Chairman and Managing Director, Mr. Suresh Taneja – The Group CFO, Mr. Sameer Sinha – The President, along with other members of the senior management team.

I would like to mention, before we begin, that some statements made in today's discussion may be forward-looking in nature and a statement to this effect has been included in the Conference Call Invite which was mailed to everybody earlier. Further while this call was open to all invitees, it may not be broadcast or reproduced in any form or manner. We would like to start this conference with opening remarks from the management followed by an interactive session wherein you can discuss your views and key issues.

I would now like to hand over to Mr. Tarun Sawhney to share some perspective with you with regard to the Company's operations and results for the quarter under review. Over to you, Tarun.

**Tarun Sawhney** Thank you Gavin. Good morning ladies and gentlemen and welcome to Triveni Engineering & Industries' Quarter 4 Fiscal '13 Results Conference Call.

For the quarter ended September 30, the Company had a turnover of ₹ 565 crore for the quarter and a PAT of a ₹ (48.3) crore. For the 12 months closing September 30, 2013, the net sales amounted to ₹ 2,106 crore with an EBITDA of ₹ 99.3 crore and a PAT of ₹ (87.1) crore which included an inventory write down of sugar to market value, which amounted to approximately ₹ 60.1 crore.

As on September 30, 2013, the total debt of the company stood at ₹ 1,106 crore which consisted of ₹ 507 crore of term loans and ₹ 598 crore of working capital. The increase in working capital is on account of the relatively higher sugar stock within the sugar business.

I would now like to talk about the various business segments and their performance:

First and foremost, the Sugar Business had an interesting quarter. Our cane crushing had stopped by the end of April and the numbers have been given quarter on quarter, but let me spend some time talking about what transpired over the last 3 months. Our dispatches were approximately under 14 lakh bags; sales realization was ₹ 3,126 per quintal. This after the inventory write down resulted in PBIT loss of ₹ 43.9 crore.

Looking very briefly at the industry scenario, the production across the country for the year ending September 30, 2013 was approximately 24.5 million tonnes. As per initial estimates, it was broadly inline with what we have been forecasting throughout the year. For the coming season, however, there has been speculation of figures rendering from 24 – 24.5 million tonnes. We are fairly conservative in our estimates for the coming season; it would be about 24.5 million tonnes which is broadly in line with what was produced in the previous year. It has been estimated that the sugar consumption in the preceding sugar year 2013, was approximately 22.8 million tonnes and this has been growing by about 3.5% year-on-year. Our estimation is that this will rise to approximately 23.5 million tonnes in the coming year. Part of that increase will also be for broadening of the distribution base and the pipeline. That is quite important because in the last year, the pipeline had been completely eroded. With the announcement of partial decontrol, the pipeline was the one that suffered and therefore the stock and supply position was more hand to mouth rather than the classic position that has been maintained by the distributors of sugar in the industry. I foresee more comfort coming into the sector within the trade and with more stability in terms of pricing, which is what we have seen over the last few months, very stable pricing and not the vacillation that one used to expect over the holiday period. There will be confidence that will come back and more funds will be diverted by the trade into the industry leading to a pick up of pipeline. Prices at the end of the quarter were approximately ₹ 30/kg and they broadly remained the same throughout the festival period and the current prices are also about ₹ 30/kg. Having said that, the differential for refined sugar for Q4 was about ₹ 90 – ₹ 95 up to about ₹ 100 per quintal of sugar and that has increased significantly and starkly to about ₹ 150 per quintal, effectively.

We are in the process of converting our sugar factory at Khatauli, our flagship plant and largest plant into a refinery. And as and when the current season gets underway, this factory will produce only refined sugar. For the sugar season 13 – 14, the sugar mills in Uttar Pradesh have requested the State Governments to adopt the Rangarajan Committee Formula. I am sure you have all read with eagerness in the papers the position that the industry and the government has taken. We have been fairly candid in our approach in terms of pointing out the losses the industry has suffered over a substantial period of time and the constraints that we have in terms of the operation of this business and have requested the State Government to look upon this favorably.

Let me quickly highlight some of the events that have transpired of course in the recent past:

Beside the Industry Association and millers requesting the adoption of the Rangarajan committee formula, failing which to look at a price of ₹ 225 or below as the current sugar price. These are the two requests that have been made by the industry to the government and I believe the government is looking upon it. There have been meetings conducted by the State Government with all interest groups, farmers, millers and the State Government to estimate the price. The first meeting was held on the 8th of this month. The result of that meeting is inclusive. All the proposals were taken into account and the association on behalf of the millers has made a very strong request of the prices that are recently discussed a few minutes ago. I anticipate that over the next few weeks, there will be further deliberation. In fact this week and the following week would be very crucial weeks in terms of deliberation in Lucknow regarding cane price and I am hopeful that we should be able to find amicable solution to this problem facing the industry. The UP Association and the All India Association has approached the Central Government to increase duties on import of both raw and white sugar and this is crucial in an environment where the international raw and white sugar prices have continued to decline especially and very significantly, over the last few weeks.

As we are all aware the global sugar prices were at the weakest in July and had plunged to below 16 cents to a pound, due to a prospect of a very significant crushing season. Of course, this trend reversed very quickly with the fire in the port of Santos where 3 lakh bags of sugar and a significant quantity of molasses were burnt. I believe that the fire and some of the godowns are still smoldering and the damage to the Copersucar Port has been tremendous. That, of course, lifted global raw and white pricing very significantly. Once the problem has been mitigated and supply has been restored to other ports, we will see sugar prices coming down and we are moving towards the 16.5 cent mark as we speak.

Very quickly on the ethanol front, the second tender for ethanol procurement was floated in July for the period from December 2013 to November 2014, the total quantity that was tendered was 1.33 billion liters covering 10% blending in a few states. I am happy to report that a large quantity of this was picked up by the industry. Negotiations are underway. It's impossible to talk about the pricing because negotiations are still going on. But we are well positioned in terms of gaining a large quantity of what we had tendered. And we hope it's a very reasonable pricing going forward. With respect to the co-generation business of the preceding quarter, we did operate one of our plants for a short period of time and that has been reflected in the results. It's important to point out that the CER market, unfortunately, collapsed and the value of our cumulated carbon credits is a very small portion. We had forecast this several years ago and pretty much in line with our forecast; we have seen the decline and demise of the CER market which is unfortunate because we are still receiving them.

The distillery business is in a very healthy position. We are now selling ENA at record pricing and distillery is back in operation. We have sufficient molasses to carry on for some period of time and the business is moving along quite smoothly.

I would like to spend some time talking about our Engineering Business now:

The high speed gears and gear box business had a reasonable quarter. Despite the fall in OEM sales, we were able to cover that up very smartly with spares, services and refurbishments which led to a very good EBITDA margin and PBT margin as you can see in the results. As on September 30, 2013 we had an outstanding order book of ₹ 52.2 crore, which grew by 7%.

I am happy to report that this order book was for an execution period of about 5 months, which is very encouraging. The orders that have been taken in the month of October have been extremely encouraging and we are looking at a good figure for growth for the coming 12 months. This business has primarily been benefitted from the export market. So, we benefitted from the depreciating rupee. We also benefited from growth in the regional markets; we have supplies of smaller products that are going in across the region, across South East Asia and broader Asia as well. The product focus is only on the smaller size. However, the pick-up that we estimate will start from the smaller and move to the larger sized gear boxes. Overall, our focus on spares and servicing and refurbishment to mitigate the decline and the vacillation of OEM businesses has worked out very well. And we have been able to maintain better levels of profitability with vacillating sales level and that has been our motive from the very beginning. The focus on export markets will play a strong and important role in the coming four quarters. I am happy to report that we have successfully commissioned our first epicyclic mill drive gear box. This opens up the brand new segment for our gears and gear box division. We will see this product being sold in the thermal space to coal pulverizer plant**,** to cement industry and to the distillation in sugar industry and as we see Capex coming back into the sugar industry we expect to be able to be in a good position to sell these gear boxes. It is an exciting new line with not just in the market in India, but of course around the world. This technology has been developed in house by our research development team in Mysore.

Moving quickly to our Water Business – the Water Business for the fourth quarter had net sales of ₹ 41.7 crore with PBIT loss of approximately ₹ 3 crore. This loss was really on account of lower turn over and the resulting contribution and full absorption of fixed cost, which could not take place and resulted in this loss. This is essentially due to some project delays from the client side, as I have always reported we have been ever present in terms of delivering on the projects. However, we have had a difficult and challenging period of economic activity and we have seen that with our clients. And of course we do support our clients if they intend on delaying projects and the unfortunate consequence of that of course is, our accounting standards are very stringent and therefore as far as overhead absorption is concerned, it resulted in a loss in fourth quarter. Our new estimate going forward, our order book, has improved very significantly. If you look at September 30, 2013 figures, the order book stood at ₹ 604 crore which was substantially higher than 12 months ago where the order book was ₹ 485 crore. The month of October was also good as far as order booking is concerned and I estimate that the project execution for the coming four quarters will be very robust. We remain deeply committed to this business and our belief is that over the coming few years, the opportunities that will exist in the water business will be quite unique. We have seen that with our growth in our order book and in broad segments of orders that we have received, we are participating in and we hope to participate in, as time goes forward. Thank you very much, with that I would like to turn over the conference for some question and answers.

**Moderator** First question is from Tanuj Mukhija of Ambit Capital.

**Tanuj Mukhija** In the water business, you reported a strong order inflow in this quarter, can you give details of the key orders won in this quarter and in which sector do you see strong traction?

**Tarun Sawhney** Q4 was a good quarter for us. The bulk of orders received were from industrial units, PSUs. But the focus area is with respect to the public sector and the growth that we are seeing in this business is primarily in the sector of power and oil and gas within the PSU sector.

**Tanuj Mukhija** Do you see strong traction or order inflow or strong order pipeline for the next 6 months to a year?

**Tarun Sawhney** Yes we do.

**Tanuj Mukhija** Which sectors do you think will drive this strong order inflow?

**Tarun Sawhney** With the upcoming general elections, there is lot of activity in the municipal sector. Over the next 6 months, we expect that there will be many projects that will be closed in the municipal sector whether it is for drinking water supply or effluent treatment etc. We are hopeful that a large number of these projects which are the ones that we are participating currently are in excess of about ₹ 1,000 crore. These are just orders within the municipal space that we are participating in. We expect that the large portion of those will be closed out over the next 6 months or so. The duration of those contracts could be anywhere between 2 to 3.5 years. I am talking about typical water treatment project for the municipal sector. But I am encouraged by the speed at which things are moving. We haven't seen the space of new tenders that have been coming out. We certainly haven't seen it over the last 18 months and I am happy to report that this is a move back to what growth and resurgence of the overall water business.

**Tanuj Mukhija** Which projects have slowed down?

**Tarun Sawhney** It has been across board. This slowdown has primarily been in the private sector with special emphasis to the power sector. Because we have seen all the large power projects slow down completely and grind to a halt. We were very well placed. In fact, we have couple of orders from developers and we found that those projects are moving at snail pace.

**Moderator** Next question is from Nirav Shah of Antique Stock Broking.

**Nirav Shah** Even if ENA prices are at record levels, can we have the absolute price of ENA?

**Sameer Sinha** The prices in Uttar Pradesh at this point of time are between ₹ 39 – 40 per liter.

**Nirav Shah** For December quarter, should we be hitting an average of ₹ 36.5 to ₹ 37.5?

**Sameer Sinha** In October, our average realizations were just under ₹ 37.5 and we expect that to be maintained, if not improve.

**Nirav Shah** The broad mix between ethanol and ENA would be how much?

**Sameer Sinha** It will be about 50% to 40% of ENA and 30% to 40% will be ethanol.

**Nirav Shah** Alternate sweeteners are paying ₹ 150 to ₹ 160 at this point of time because there is no competition. What kind of financial health are they in and till what price can they compete once the sugar mills start crushing?

**Tarun Sawhney** The alternate sugar manufacturers like the Gur and Khandsari plants are paying anywhere between 160 to ₹ 220, this is the information that we have received. In fact for the rejected variety, they are even paying at ₹ 150 per quintal. This is primarily due to recoveries they are getting at this point in time and the conversion into gur. I anticipate as the season goes on, their paying price capacity goes up. At this point in time, the farmers who are willing to supply don't have an option to the factory . They are forced to supply to alternate sweetener manufacturers and I anticipate that the price paying capacities will go up, the current price paying capacity is due to very high prices for new gur. Tracking the prices of new Gur, especially in Muzaffarnagar mandi is as high as approximately ₹ 30 – 31/kg, it has even gone up to ₹ 32/kg. Those are extraordinarily high prices. We see such high prices usually around the festival time when demand picks up. These are inflated prices in our opinion and continue to decline over the coming few weeks. I should point out that the total quantum of Gur and Khandsari plants that are operating in our areas in the Central, West and East Uttar Pradesh are down by at least 35 – 40%. So the total quantum of Khandsari plants are down.

**Nirav Shah** If they continue to pay ₹ 220, they will be making supernormal profits and assuming that gur prices also come down and they continue at ₹ 220, farmers would prefer ₹ 220 rather than ₹ 280 with no surety. Can the diversion continue till March?

**Tarun Sawhney** The range is ₹ 160 – ₹ 220, so there is a very broad range. Diversion in the state of Uttar Pradesh takes place throughout the season. So when the sugar mills run, the Gur and Khandsari plants run. It is not when the sugar mills start, the unorganized sector packs up. The unorganized sector crushes through the season. They start before the sugar industry starts and they close down at the same time or just after.

**Nirav Shah** Will the momentum be maintained at 30 – 35% for the current season?

**Tarun Sawhney** The total number of units that are operating are lower than last year. So, one cannot assume 30 – 35% because there are capacity constraints. One should assume that they will crush through the sugar year, but they will crush a lower quantum of sugarcane.

**Moderator** Next question is from Rahul Bhangadia of Lucky Securities.

**Rahul Bhangadia** Can you give in short, the economics of sugar refining vis-à-vis sugar crushing right now, you mentioned you are converting your factory in Khatauli to purely sugar refining?

**Tarun Sawhney** We are spending approximately ₹ 20 crore of capital expenditure and converting the factory into a refinery. We estimate that we will receive an average of about ₹ 120 per quintal delta for refined sugar over plantation white sugar. The incremental cost incurred for refined sugar will be to the tune of ₹ 35 – 40 per quintal.

**Rahul Bhangadia** Are you are suggesting that ~₹ 120 per quintal is the spread that you will make?

**Tarun Sawhney** With an incremental cost of ₹ 40, for a plant like Khatauli we are looking at about 15 months payback and even lower depending on what the prices are.

**Rahul Bhangadia** Will it include cost on transportation, ports, logistics and imports?

**Tarun Sawhney** No, this is utilizing cane, not raw sugar, as the raw material.

**Moderator** Next question is from Bimal Sampath of Sunidhi Securities.

**Bimal Sampath** There is an income of ₹ 32 crore on divestment or reduction of capital in subsidiaries, can you elaborate?

**Suresh Taneja** These were associate companies, not subsidiaries, in which our company was holding some stake. So these stakes have been sold, and the profit has been booked.

**Bimal Sampath** Is it relating to Triveni Turbines?

**Suresh Taneja** No, it is not relating to Triveni Turbines at all. These were basically investment companies.

**Bimal Sampath** But were they holding Triveni Turbines shares?

**Suresh Taneja** Those were investment companies, they were holding Triveni Engineering as well as Triveni Turbines shares.

**Bimal Sampath** Can you give further details and will it be given in the subsidiary balance sheet?

**Suresh Taneja** These are not subsidiaries, they are only associates.

**Bimal Sampath** Have we exited completely or partially?

**Suresh Taneja** We have fully exited.

**Moderator** Next question is from Sirish Hisaria of Kotak Mahindra.

**Sirish Hisaria** On the regulatory side, on the intra movement transfer of molasses and ethanol, is there any regulatory cap on intra movement transfer? Or in the industry is there intra movement transfer of ethanol in molasses. Secondly, if there is no solution on the SAP and it remains at ₹ 280 or ₹ 260 levels, what will be the Industry's next course of action be?

**Sameer Sinha** Ethanol has free movement across states except in certain states which import what is called an import duty from bringing in ethanol from outside that state. Secondly, you need permission from the Excise Department to take molasses out of Uttar Pradesh. Those are the only 2 regulatory issues.

**Tarun Sawhney** In an eventuality that you get a price of ₹ 260 or ₹ 280 or any other price, it's very challenging to say at this point. The industry has put forward its position that its inability to be able to start; it cannot recover its cost. At this point of time, we have been very candid in terms of our balance sheet position and our P&L position of the past and the future and looking at our price paying capacity at that point we are arriving at approximately ₹ 225. It depends on what sugar price you take but somewhere between ₹ 220 – 225 as our paying capacity and our suggestion has been to implement the Rangarajan Committee formula. So if there is any increase in sugar realizations from current levels, the farmers will also benefit to the tune of 70 – 75% depending on how one looks at the Rangarajan Committee formula. If a higher SAP is announced, our hope is that there will be other measures announced by the State Government in support of the industry. In today's paper, the Karnataka Government has announced ₹ 250 per quintal i.e. ₹ 2,500 per metric tonne, basically giving a ₹ 100 for a metric tonne increase year on year. As the Karnataka Government, which has also appointed a committee to evaluate and move forward to Rangarajan Committee formula, has looked at differential pricing. The price that is paid to the farmer is different from the price that is paid by the mill per quintal. There is no reason why the State of Uttar Pradesh cannot look at a similar scenario and also incorporate the Rangarajan Committee formula for this current year.

**Sirish Hisaria** When will the decision be taken, November or December?

**Tarun Sawhney** The month of November will be crucial, whether it spills in first week or 10 days of December. It will be unfortunate if it does, but there is a possibility that it might. I personally anticipate the month of November will be crucial for decision making.

**Moderator** Thank you. As there are no further questions from the participants, I now hand the floor back to the management for closing comments.

**Tarun Sawhney** Thank you for joining us for the Q4 Fiscal '14 Results Conference Call for Triveni Engineering & Industries Limited. To close, I would just like to point out that our

Engineering Businesses are well-poised for the next few quarters. We have a good order book and the industrial climate is improving certainly. And we will be happy to discuss that in more detail at our next Earnings Conference Call.

With respect to sugar, the next 2 – 3 weeks will be very crucial juncture for the industry especially for Uttar Pradesh and I anticipate that there is every possibility for some good news. The industry poses in a difficult challenging situation and as I mentioned we have spoken with State and Central Governments to point out our predicament very clearly and fairly. Our endeavor and hope is that they do pay heed to our requests. I like to thank you again for joining us on this call. Look forward to speaking to you in three months' time.

**Moderator** Thank you members of the management. Ladies and gentlemen, on behalf of Triveni Engineering & Industries Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.