



Triveni Engineering & Industries Limited

Investor/Analyst Conference Call Transcript

February 15, 2013

Moderator Ladies and gentlemen, good day and welcome to the Triveni Engineering and Industries Limited's Q1FY13 earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by pressing * and then 0 on your touchtone telephone. 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 Good afternoon everyone. A warm welcome to all of you participating in the Q1 FY13 results conference call of Triveni Engineering and Industries limited. We have with us today on the call Mr. Tarun Sawhney – Joint Managing Director, Mr. Suresh Taneja – CFO and Mr. Sameer Sinha, 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 con call invite which was mailed to everybody earlier. I would like to emphasize that while this call is open to all the invitees, it may not be broadcasted or reproduced in any form or manner. We would like to start this conference with opening remarks from the management followed by an interactive question and answer session where 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 regards to the company's operations and results for the quarter under review. Over to you Mr. Sawhney.

Tarun Sawhney Thank you Rishab. Good afternoon everybody and welcome to the Q1FY13 financial results review. In the first quarter of this year, our net sales were ₹ 533 crore approximately which was an increase of 26% and this increase was primarily on account of higher quantity of sugar sold and a higher realisation compared to the preceding years' quarter. At the same time, our total inventory stood at 17.96 lakh bags at the end of the quarter. Of which 14.9 lakhs was free sale sugar. In addition and combined with this number we had about just over 1.5 lakh bags of free sales sugar of SY 12 also at the end of December. Turnover from co-generation was lower on account of late start of the crushing season. We believe that we will be able to make this up because the crushing season is expected to continue on a quite a nice pace going forward. The distillery sales were higher due to a higher production and of course higher dispatches. However the engineering business showed a decline of 6% which is an anomaly in my opinion, and we are happy to discuss that in the Q&A session.

The overall EBITDA showed an increase of 81% primarily on account of an improved EBITDA in sugar. Looking at our finance cost and depreciation, our

overall debt stood at ₹ 760 crore which is a reduction of 26% from fiscal 12 due to lower working capital realization. The term loans declined by 9% over 30th September 2012 to ₹ 546 crore. On an overall basis, our interest rates and cost of borrowing stood at 11.75%. In addition, from February onwards the rates will be further reduced by about 25 basis points which is in line with the interest rates reduction by the Reserve Bank of India. The net total repayment for this year that we are envisaging is about ₹ 125 crore. ₹ 53 crore have already been completed in quarter 1 and we are certainly hopeful that the balance will be done over the remaining 3 quarters of this fiscal year. The estimated long term debt level on the 30th of September in 2013 is estimated at ₹ 475 crore. For the quarter, our profit after tax stood at just over ₹ 5 crore. The contribution of the engineering business in this quarter on profitability was minimal but is expected to increase very substantially in Q2 and of course in the remaining quarters of this financial year.

Looking at the performance of various businesses, I am happy to report that the performance of the sugar business was satisfactory. We are moving very much in line with our old internal budget. We were at 39 days on a weighted average basis of operations this quarter versus 44 days in the quarter of the preceding year. Having said that our recovery was higher by about 35 basis points which was very encouraging and the trends going forward has also been similarly encouraging. Sugar production was approximately the same for this quarter as it was for the same quarter of the preceding year. Having said that our sugar dispatches were 12% higher and our free sale realization prices was substantially higher at 17% and stood at about ₹35 per kg. On a PBIT level of course, the number was about just under 6 crore.

Now looking at some of the specifics of our sugar business, the lower crush is due to the lower operating days in the quarter. We believe that recoveries will continue to go up and this is a testament to our cane development initiatives for the proceeding few years which are certainly bearing fruit. We have just about started crushing plant cane at our factories and we are seeing the new and the improved varieties come in and give us a very good increase in recovery. And as Ratoon tapers off and plant cane increases, we are expecting a substantial increase in recovery which is very much what we had forecasted. The incidental co-generation projects at 2 of our sugar factories at Chandanpur and Milak Narayanpur have been commissioned. The revenues and profitability from both these 2 co-gen plants will reflect in the financials of Q2 FY13. We also invested in sugar refinery at Sabitgarh and this is very much in line with the management strategy of pursuing low cost CAPEX with very low pay back periods and Sabitgarh is a crucial example and they are very much going according to the plan over there and we are expecting about ₹100 additional margin per quintal for this refined sugar and the payback period of course will be substantially lower compared to traditional projects within the sugar space. The management is actively pursuing other such projects that have similar payback periods of approximately 18 months to 24 months which is very short in this traditional business and we will of course report to you once any of these projects are finalized and have gone through our Board. But nothing is over yet. We are still actively pursuing them.

The industrial scenario in sugar is of course very interesting we are at a inflection point really in the industry. From all the accounts, the market pundits had predicted 24 million as production for the country. We believe that the production of the country will be 24.5 million with a slightly upward bias. And this upward bias is primarily to do with the estimated crush and recovery in Maharashtra. And there is still of course a considerable amount of debate. Our marketing officers have travelled far and wide and we have about half a million tonnes which is a big question mark which is solely coming out of Maharashtra. And it all depends on whether the factories and the mills in Maharashtra continue up to the 10th-15th of April or do they finish in March. For the following year which is sugar year 2014, we

are estimating that the reduction in total sugar in the country will come and will primarily be due to a reduction in Maharashtra of approximately 2 million tonnes. And so therefore this year we are estimating 24.5 million tonnes for the following year we are estimating at 22.5 million tonnes, but clearly there will be an addition to stocks with consumption hovering around 22 odd million tonnes in the country and this year there will be a substantial additional stocks until next year and there will be sort of an evenly matched number for production and consumption. The country of course is expected to produce 5% lower sugar for the year. We have estimated a 14% increase in the state of Uttar Pradesh whereas for ourselves we are looking at an increase of approximately 16 – 17% may be 18%. I think that is reflective of the performance of the company, the investments into cane development, and the improved operations of our units.

Other elements from the industrial scenario will include the Rangarajan committee report. We remain hopeful that the government will look at two of those policy recommendations with great seriousness. We would find out in the next few days whether there has been any movement on levy. We are hopeful that there is still an opportunity for the government to abolish levy or rather the burden of levy on the industry and find new and innovative ways of financing that ₹ 3,000 crore gap. The second of course is the removal of the release control mechanism. Now as you all know, the scenario as it exists today is primarily of a free sale market. The quotas that have been received are for a multi month basis. We are in the middle of 4 month quota. We have also received intimation from the Sugar Directorate that if there is any sugar that remains unsold at the end of this period, it will not be converted to levy. In addition if any mill wants to sell more than their quota they are welcome to write to the Sugar Directorate and seek permission to sell more sugar. So on and all this points to a great degree of freedom and flexibility. I think it is a first step and a crucial step towards a free market and de controlled as far as sugar is concerned a very positive development for the industry. We have been great advocates of this as Triveni and we will be delighted to be able to operate in the regime where free market forces hold their weight.

Looking at the co-generation business now very quickly there are 3 co-generation power plants one in Deoband, 2 in Khatauli, have been supplying surplus excess power to the State Grid. The reasons of course for lower production, lower exports and turnover in the last quarter is in account of the late start. Both Khatauli and Deoband are registered with the national agency NLDC and REC projects. The process of joint meter reading and online filing of energy, injection reports have been completed. The issuance of REC in Uttar Pradesh has not yet started due to various issues and is expected to commence in the coming quarters. We do believe that the performance of our co-generation plants at Khatauli and Deoband and our incidental plants in Chandanpur and Milak Narayanpur will add substantially to this business profitability in this quarter. We are expecting a larger number of days, a longer period of operations and therefore greater revenues for profitability from this business.

Quickly on the distillery business, I know there has been lot of discussion in the media but talking of our distillery business very quickly first. As you know we produce ENA, rectified spirits, SDS and ethanol at our distillery in Muzzaffarnagar which is one of the largest in the country. We have had a better product mix which has allowed us to achieve a higher realization, in the preceeding quarter. We see that trend continuing even in this quarter. The higher crush has estimated to allow us to fulfill the molasses requirement of the distillery very comfortably from may be 3.5 of our units out of 7 units. Of course as you all know the oil marketing companies have invited the tender of supply of ethanol. The company has participated in this tender. So it's only a matter of few days till we find out what the probable quantum's are and the pricing. But in our estimates we believe that about 60 –70 crore litres will be offered domestically. The balance 40 odd crore litres is

something that oil marketing companies will have to secure through international tenders which have also been floated. Currently the import price of ethanol is hovering around ₹ 41 – 42 given the current exchange rates. And as I mentioned the rates will be known very soon. We expect to cover about 20% of our total production with sales of ethanol to the oil marketing companies. The balance as you know, we are one of the preferred manufacturers of ENA and we have been enjoying that position for sometime now. And we look forward to supporting our client in the portable liquor industry and in the IMFL industry going forward. The performance of the business is also reflective of this bullish outlook. Co-generation business, while the PBT margin was marginally lower we expect that for the year that there would be a significant increase and improvement in this particular business.

For our gears business we continue to remain cautiously optimistic about this business and the revenues were slightly lower compared to our forecast but that is primarily due to a rolling over on all the orders on hand Q1 to Q2. We expect that to be covered up in Q2 and our overall estimates for growth for this business as we mentioned to you in the last conference call still remain. There has been a certain amount of research and development that we are doing and we are proud of our new program. We are looking at an epicyclic technology and incorporating that in to a new product profile. This of course will open up a massive new area for sales of such products to the low speed industry going forward. We expect to roll out these products in this quarter or next quarter after further testing.

The water business as you know is focused on providing world class solutions in water and waste water treatment industry, for industrial and municipal customers. The business is getting recognition in a very high potential market. Sales in this quarter have been lower on the account of slowdown at the customers end and some delays that we experienced. There have been challenging times as you can imagine customers do tend to delay and roll out projects marginally longer and of course that has an impact on our accounts. Needless to say, we do have a good order book at about ₹ 455 crore at the end of December 2012. What is more exciting about this business is that the enquiry book is quite large but the real active enquiry book that we are looking at this time where we expect a good portion of orders coming to us is about ₹ 600 crore of orders in the industrial space which are confirmed enquiries and the process is under way and ₹ 400 crore in the municipal sector. So this is quite a good size as it will add to the order book which will add to better visibility for our water business over the next couple of years.

To sum up I think this quarter has been a good quarter for the company. It has shown in all the segments, sugar and its affiliated businesses in engineering for gears and in water that there is promise. The company looks forward to a substantially better operating performance and that should be reflected in our financial results over the next few quarters. Thank you very much. I would like to open the floor to some questions.

Moderator

Thank you very much sir. We will now begin the question and answer session. We have the first question it is from the line of Ranjit Shivram from B&K Securities. Please go ahead.

Ranjit Shivram

You just mentioned you are seeing a pipeline of ₹ 600 crore worth orders in the water segment. So can you please elaborate on, from which industries you are seeing this traction? How are the orders and growth in terms of margins can you throw some color regarding these orders?

Tarun Sawhney

Our active enquiry book is ₹ 600 crore in our water business from the industrial market and ₹ 400 crore from the municipal market. Municipal segments are

basically the water treatment facilities for towns larger and smaller but from the industrial side the greatest demand has come from thermal power, metal and hydrocarbons primarily. We are looking at those 2 segments contributing to this largest quantum of ₹ 600 crore. I can't unfortunately comment on margins because these are still in the discussion phase and once the contracts are frozen, we will be able to give you a better idea and better visibility of what kind of margins are now in this segment for new orders But it is a very competitive segment. As you know we compete against the top global firms, Degremont, IVRCL, WABAG and few others but we are very well positioned in terms of securing a large portion of this ₹ 1,000 crore order book for Triveni.

Ranjit Shivram If I get it correctly you mean to say that ₹ 600 crore is a total available opportunity in the near term 6 – 9 months in the industrial water space?

Tarun Sawhney ₹ 600 crore of contracts are being actively deliberated at this point in time. It's not 6 – 9 months, it's at this point in time.

Ranjit Shivram I just wanted to understand are these orders largely to do with zero discharge kind of orders where currently most of the companies are going in for zero discharge?

Tarun Sawhney No, that's not right.

Ranjit Shivram It's mostly to do with treatment?

Tarun Sawhney It is all fresh CAPEX for the thermal power and metal and hydrocarbon industry.

Moderator The next question is from the line of Kaushik Poddar from KV Capital market. Please go ahead.

Kaushik Poddar What is the breakeven for sugar right now? At what price do you break even?

Tarun Sawhney We have estimated our cost of production on a very conservative basis. It is about ₹ 33.50/ kg. Going forward of course looking at the remainder of the season, there is I believe personally an opportunity to reduce this cost of production but it will depend on the weather and other factors that are slightly uncertain.

Kaushik Poddar You just talked about your incremental capital expenditure being very productive, capital return wise. Can you just elaborate on what exactly you are doing?

Tarun Sawhney In the last financial year we had 3 small projects. The first was the conversion of our factory at Sabitgarh from a plantation white sugar manufacturer to a refined sugar manufacturer at a very low CAPEX. The return on that is very high because the sugar from Sabitgarh is selling at about ₹100 premium per quintal versus plantation white sugar. The second and third incremental projects that we undertook were incidentally cogen facilities at our factories at Chandanpur and at Milak Narayanpur.

Kaushik Poddar So is the incremental capital expenditure not much for these kind of things?

Tarun Sawhney The incremental capital expenditure is not very much. The returns that we are looking at for all these projects are between 18 months to 24 months which is a very short period of time as you know for the sugar industry.

Kaushik Poddar And for the ethanol that we are manufacturing and considering that the government will be announcing the price, at what price do you break even?

Sameer Sinha No we are not anticipating that the government will determine the price. It will be a market discovery of the pricing over there. And our cost of production will remain the same as in our current cost of production that we have currently. That will remain the same.

Kaushik Poddar What is the current cost of production?

Tarun Sawhney It's about ₹26 – ₹27.

Moderator The next question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar Can you throw some light in the context of which this ₹ 12 crore of inventory write down for the quarter?

Suresh Taneja As we have just told you our cost of production for the season is expected at ₹ 33.50. So therefore we have worked out what is the estimated realisable price for the sugar inventory and accordingly with reference to that cost of production, we have taken a write down of ₹ 12 crore.

Baidik Sarkar So that means after the write down the inventory books are clean. No more inventory shocks may be expected next year?

Suresh Taneja Irrespective to the sugar produced up to 31st December there won't be anymore shocks.

Baidik Sarkar And secondly in the context of your power generation, considering your crushing started late. So is it fair to estimate that you make up for this. Should the season extend by say another 15 days or is that power lost for good?

Tarun Sawhney No, not at all. The season if it starts little bit later, so it traditionally means in this particular year it will end later. Our total number of estimated crushing days are higher. But you've asked a fair question. The fiber percent for cane this year across the board across North India is marginally lower than last year. So the total amount of bagasse that gets saved in percentage terms is slightly lower than last year. However, as I mentioned earlier, we would be producing about 16 – 18% more sugar. That means we will be crushing a lot more cane as well which basically means that our season days will be longer this year compared to last year plus with better efficiencies, we hope to actually go for few more days extra in the off season as well. We also have an active plan of purchasing bio mass from neighboring areas and that will assist us in lengthening the off season of the co-generation business.

Baidik Sarkar So when do you expect the season to end this year?

Tarun Sawhney Very difficult to say. I think around the 15th – 20th April is a fair estimate for the sugar season for Western UP. Eastern UP will end earlier as will Central UP.

Baidik Sarkar I am assuming you are operating at full run rate, what's the power generation expected in Q2 roughly, very ballpark?

Sameer Sinha You see out of the 68 megawatts we can multiply by let's say by 95% capacity utilization and we will get the number over there.

Plus of course we are exporting about lets say 6 megawatts extra from the incidental co-gen from our 2 projects. About 6 – 8 megawatts from there.

Baidik Sarkar I know you have commented on this but realistic timelines on the Rangarajan Committee guidelines being taken up?

Tarun Sawhney As far as levy is concerned if it is not taken up in this budget it won't happen until next year. As far as the release control that is the abolition of the burden on the industry. It will not happen if it is not happening in this budget. So we will know by the end of this month. As far as the release control mechanism is concerned there is no specific timeline, I know there has been a lot of debate within the corridors of the sugar directed and these proposals are being considered very actively and so one can expect that also in the short term. I know that the industry from all segments North India, South India, West India, East India are all pushing both these 2 items as we all feel that it is really the low hanging fruit. The other recommendations of the Rangarajan Committee even the recommendations as far as jute is concerned, I will not even go to cane, those are fraught with more debate and have partisan views on either side.

Baidik Sarkar So the long and short of that is that if it doesn't happen by this month end its not happening for next 1 year?

Tarun Sawhney That's my view.

Moderator The next question is from the line of Satish Mishra from HDFC Securities. Please go ahead.

Satish Mishra First question is related to the production guidance you are giving for SS14, you are seeing a number like 22.5 million tonnes. So if I see the situation from SS13 – SS14. SS13 I believe UP will be at around 8 million tonnes. So what kind of growth do you expect for UP in the next year?

Tarun Sawhney I think UP will broadly remain the same. And let me tell you why it will remain the same. I believe that with a low production, whenever we have had a lower production year and if you do a correlation of the last 15 years, we have always seen that diversion goes up. Plus there are no certainties on yield as you know, it depends completely on the climatic condition, the rainfall, etc. So I have assumed that UP state is exactly the same. While I think the price being paid by the UP Sugar industry at ₹ 280 is high. It will lead to arrears most certainly in the state, yet I think the prices are high enough that the farmer is comfortable to continue planting cane. Spring planting has already started across the state especially in the Eastern portion and it's going along at a frenetic pace. So I believe that next year we will have same kind of production levels in UP as we have this year.

Satish Mishra Okays so this 2 million tonnes decrease will basically come from Maharashtra.

Tarun Sawhney Correct, so if we end up this year at 24.5 million tonnes, that I think that equates to figure of 22.5 million tonnes for the following sugar year, if the figure is higher you simply subtract 2 million tonnes from that.

Satish Mishra And sir what is the arrears situation as of now in UP. After how many days you are paying to the farmer?

Tarun Sawhney No, we are very much in line with the rest of the industry and I think the arrears are not substantial at this point but they will once the crushing starts to come to an end and once your availability of funds, etc., does decline, the arrears will have to build.

Satish Mishra And the second question is related to the risk from imports like currently international prices are below 19 cents. So how do you see the situation like bringing raw sugar and selling it in India?

Tarun Sawhney Well last night New York ended at about 18.3 cents. And London ended at about at just shy of \$ 500. I think at these kind of pricings there is an opportunity to of course bring it in, bring in raw sugar, process it, give a portion for levy, subject yourself to control mechanism or in whatever shape or form it does exist. Will a lot of sugar come in through this, I am not sure of the total quantum. I think may be half a million tonnes will come in through this route for this year.

Satish Mishra So this 18.5 price, after 10% duty and levy obligation what will be the landed price in the Indian market?

Tarun Sawhney It's about ₹ 28.

This is raw sugar that's processed. It is the landed cost of raw sugar.

Satish Mishra So after refining 10% duty and levy obligation this number I believe will be closer to ₹ 32 – 33.

Tarun Sawhney Precisely and therefore it is still a great challenge at this point in time.

Satish Mishra What's the CAPEX guidance for FY13 – 14?

Tarun Sawhney Actually we have not given a CAPEX guidance. However, what I did mention is we are looking at some certain projects with very quick payback periods as and when they are approved by the boards. I will be happy to share these numbers with you.

Satish Mishra If we see any positive surprise in the levy side then in your remark you mentioned that there probably is some other way by which government can recover that. So what is the current excise duty on sugar and is there any chance because we are hearing that probably it can be increased?

Tarun Sawhney It's about ₹1 per kilo. So any increase if it is on the excise duty it will be on that.

Moderator The next question is form the line of Aman Sonthalia from Suvidhi Capital. Please go ahead.

Aman Sonthalia What is your expected production of Karnataka and Maharashtra, this sugar year?

Tarun Sawhney In our estimates it is looking like Karnataka coming in at about 29 lakh tonnes. And we are looking at Maharashtra somewhere between 70 – 73 lakh tonnes.

Aman Sonthalia Because in the past I have attended the con call of Renuka sugars, they were expecting about 65 – 68, is it higher than that?

Tarun Sawhney Our expectation is between 70 – 73. We have also had lot of people that have gone out into the field and gathered these estimates. And I guess there is difference of view.

Aman Sonthalia Next year don't you think that Karnataka and Tamil Nadu production will also come down a lot than the current year?

Tarun Sawhney Yes it will.

- Aman Sonthalia** So combined the total production will be less by more than 3 million tonnes.
- Tarun Sawhney** I wouldn't say that. Our estimate is, when I said Maharashtra, I also include Northern Karnataka in that assessment so about 2 million tonnes.
- Aman Sonthalia** And what is the current size of this water treatment market?
- Tarun Sawhney** It changes. You see this is a project based market. It is a very large market. Looking forward the market is absolutely enormous because the water infrastructure in our country is very poor and it's not even prevalent in most places. It's impossible to put a number to it. We have not put a number to it. To give you an example in the segment that we address, our enquiry book is a ₹ 1,000 crore of active enquiries, if you look at non active enquiries it is several times that.
- Aman Sonthalia** And what is the margin in this water business?
- Tarun Sawhney** Margins are like in any project related business, you are looking at EBITDA margins of about 15 – 18%.
- Moderator** As there are no further questions, I would now like to hand the floor over to the management for closing comments.
- Tarun Sawhney** Thank you everyone for joining us on this call. We look forward to speaking to you in another 3 months' time.
- Moderator** Thank you sir. On behalf of Triveni Engineering and industries limited that concludes this conference.