



Triveni Engineering & Industries Limited

Q2/H1 FY 17 Earning Conference Call Transcript

November 29, 2016

Moderator Ladies and gentlemen good day and welcome to the Triveni Engineering & Industries Limited Q2/H1 FY 17 Earning Conference Call. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rabindra Basu from CDR India. Thank you and over to you Mr. Basu.

Rabindra Basu Thank you. Good day everyone and a warm welcome to all of you participating on the Triveni Engineering & Industries Ltd. Q2 & H1 FY 17 Earnings Call. We have with us today on the call Mr. Tarun Sawhney – Vice Chairman & Managing Director, Mr. Suresh Taneja – the Group CFO and Mr. Sameer Sinha – President (Sugar) as well as other senior members of the management team.

Before we begin, I would like to mention that some statements made in today's discussions may be forward-looking in nature and a statement to this effect has been included in the invite which was sent to you earlier. I would also emphasize that while this call is open to all invitees; it may not be broadcast or reproduced in any form or manner. We would like to start this call with the opening remarks from the management followed by an interactive Q&A session where you can discuss your views and key issues. I now invite Mr. Tarun Sawhney to commence on the call. Over to you Tarun.

Tarun Sawhney Good afternoon everyone and welcome to the H1 Fiscal 17 consolidated results for Triveni Engineering & Industries Ltd. Our net sales for half year stood at ₹ 1,242 crore with a PAT of ₹ 116.2 crore. Looking at some of the financial highlights for the quarter and the half year; our turnover increased by 49% and 33% in the quarter and half year respectively in comparison with the corresponding period of the previous year. There was significant improvement in EBITDA margins from 2% in H1 FY 16 to 20% in H1 FY 17 and this is primarily due to higher sugar price realizations quarter-on-quarter as well as significantly higher sugar prices in comparison year-on-year. The improved performance of the distillery business which was on account of higher realization and volumes was also a significant contributor. At an operating level there was a significant improvement in the efficiency of the sugar units across-the-board, delivering a very high recovery and consequently lowering the cost of production of the sugar from those units.

On the engineering business; there was a muted performance in the engineering business in the quarter, primarily due to the slowdown that persist in the economic activity not just domestically but also on a regional basis. The performance in the second half of this fiscal year is expected to be much better. The outstanding order

book as of 30th of September, stood at ₹ 618 crore, at the same time the overall debt of the company stood at ₹ 1,087 crore which is similar to the levels on the 30th of September of the previous year and this is primarily due to the higher utilization of cash credit due to accelerated and very timely cane payments. The term loan on 30th of September stood at ₹ 566.5 crore and the cash credit utilization was at ₹ 521 .

I would like to just cover a few business highlights for the second quarter. We ended up dispatching a little shy of 15 lakh quintals of Sugar with average realization of ₹ 36.27 per kilo which corresponded to 14 lakh quintals and a realization of ₹ 24.3 per kilo in the previous quarter, so there is a substantial increase that we can see in terms of a quarter-on-quarter or year-on-year performance. As far as the industry scenario in sugar is concerned, as per ISMA estimates, the total cane acreage stood at 49.99 lakhs hectares and it's about 5% less this year as compared to last year. The total acreage in Maharashtra is estimated to be 8.1 lakh hectares which is down 23% compared to last year. The area in Uttar Pradesh is actually more or less the same about 23.1 lakh hectares and the sugar production in 15-16 is estimated to be significantly higher than the previous year. The previous year Uttar Pradesh produced 6.84 million tonnes of sugar and this year we are looking at the production of 7.66 million tonnes. And over the course of the call I would discuss more as to what are the reasons behind this excellent increase. As per the recent government estimates sugar production in sugar year 16-17 is estimated to decline by just over 10% to approximately 22.5 million tonnes, ISMA estimates are just now to 23 million tonnes. So broadly speaking everybody is in the same range in terms of the sugar estimates and with a very healthy opening balance as on the 1st of October, we are estimating for closing stock as of 30th of September 17 at just shy of 5 million tonnes which is more than enough sugar for the two months' consumption and therefore we are in a very good and stable situation for the coming four quarters. Sugar prices in Q2 were stable ranging between ₹ 37 and ₹ 38 ex-factory including all taxes and levies.

If I turn to this crushing season more than 220 mills have started crushing by November 15th and this is against 175 mills in the sugar season last year. The government of Uttar Pradesh of course has announced the state advised price for sugar season 16-17 and as per this the one-time payment to be made is ₹ 305 per quintal for general variety of cane, ₹ 315 for early maturing variety and ₹ 300 for rejected variety canes. The notified cane price for 16-17 is higher by ₹ 250 per tonne or ₹ 25 per quintal. There will also be an impact of ₹ 6.5 per quintal on account of the purchase tax and society commission which has been fixed at a slab rate by the state government this year as compared to last year where these concessions were offered to the sugar industry. The government has also announced the administered price of ethanol to be ₹ 39 per liter. The charges will be paid to ethanol suppliers as the actuals in case of excise duty, VAT, GST, transportation as decided by the OMCs.

If we look at the international market there has been a small decline in terms of sugar prices, there has been a considerable amount of talk about fund flow and fund movement into sugar as a commodity and I think we have seen that play out quite nicely over the last few months. So yes we did touch highs of (+) \$0.22 and we are approximately \$0.20 today but we are stable at those levels despite the increased production that have come in from the centre south region of Brazil. The centre south region in October had crushed 6% higher and produced 19% higher quantum of sugar as compared to the same period in the last year. And therefore, given this very large quantity that is coming to the market I think the international prices have held up very well. Going forward I think this is very progressive for international prices and for the industry as a whole. The fundamentals for the industry as far as sugar is concerned continue to be very healthy.

As far as co-generation is concerned for the quarter; it was an off-season having no operations. But going forward for this coming season I expect that we will be crushing significantly higher quantities of cane. With operational improvements, we expect a very robust growth in this business for the company.

With respect to our Distillery business; the increased profitability in H1 FY 17 was due to higher realization prices and sale volumes. The share of ethanol stood at 73% versus 83% in the half of the previous fiscal year. Going forward there will be some amount of an impact in terms of the reduction in ethanol price and the removal of the excise duty waiver. But for our company the impact will be certainly a little bit less for the simple reason that because we have a standalone distillery and therefore the impact of the excise duty waiver is only a partial impact on us.

Turning to our Engineering businesses, our Gears business faced a slowdown and that was primarily due to a poor off take of finished goods from our customer end. Sale value of inventories stood at ₹ 5.44 crore and could not be dispatched because of lack of clearances from customers and we expect that this entire quantum will actually be dispatched in Q3 of this fiscal year. The overall market is still impacted by slowdown in capital goods. I think oil prices globally have also played a role in terms of muting the demand that is certainly coming from the oil and gas sector but also from other related sectors such as fertilizers, rubber, cement etc. Having said that the order intake was ₹ 43.7 crore and outstanding order book stood at just under ₹ 60 crore as on the 30th of September. We have made very good inroads in terms of approvals in our Naval Defence and Marine Gear business. And there are certain other projects that are underway in terms of expanding the revenue base of this year's business. I'm hopeful that over the coming few quarters, we will return to a scenario of business as usual. With reference to our large Water business, the turnover during the half year was 41% higher and there has been a marked improvement in the profitability. The business profitability will certainly improve over stable and consistent project execution during the year. I think this is a recurring scene that we have talked about over the last few calls and we have certainly seen a movement to a healthier environment as far as this business is concerned. The order intake for H1 was just under ₹ 40 crore and outstanding order book stood at ₹ 560 crore which included about ₹ 250 crore of O&M contracts which are for a much longer duration of time.

I think if I turn very briefly towards the outlook of our businesses as far as sugar is concerned over the next 12 months, over the next sugar season I think mills in Uttar Pradesh and in North India would certainly benefit from the lower country production. They will benefit from stable and robust sugarcane prices, the increase of ₹ 250 per tonne on SAP certainly seems affordable given what sugar prices are today at the very start of the season. My personal view on sugar prices going forward is that they will remain stable for the next few months with perhaps little bit of volatility as the sugar season ends, certainly coming after the start of the following sugar season. And the following sugar season seems to be one of excess and I think both industry participants as well as the government have recognized that and are planning for a season of excess at this point in time. So, this is a big change that's happened in terms of forecasting of policy and planning of policy in advance.

The government is committed to the ethanol blending program despite the receding of the excise duty waiver and the reduction in ethanol prices. There is still tremendous fervor behind the ethanol blending program. The Prime Minister in his recent speech in Pune made a very clear statement that he is wholeheartedly behind ethanol blending program and looking at potentially the heavy molasses also being converted into ethanol and utilizing that as a balancing factor for years of excess sugar production in the country. So, I think the future of that business is also very robust.

With respect to the Gears business and our Engineering businesses, the demand drivers with respect to our strategic supplier agreements with our expansion into other key areas such as Naval Defence and Marine Gearing offer great opportunity for the business. With respect to our Water business the turnover should show a good growth going forward based on the execution of our order book and the company has participated on a large number of tenders which are in various stages of finalization. And we are seeing a lot of that fructify at this point in time.

Lastly with reference to the Scheme of Arrangement having obtained NOC from the Stock Exchanges, the company has filed applications in the Allahabad High Court for convening meetings to obtain the approval of the Scheme by shareholders secured and unsecured creditors in the meetings that was held on the 3rd of September '16, and the approval of shareholders, secured and unsecured creditors was taken and thereafter application was filed in the honorable Allahabad High Court for the sanctioning of the Scheme. After serving a notice on the Regional Director the next date has been fixed and that date is today. So, we are awaiting to hear from Regional Director about the next steps for this Scheme. One anticipates that that should be a fairly quick turnaround time in terms of the final step of this Scheme of Arrangement. With that I would like to open up the floor for any questions. Thank you.

Moderator Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Sharad Shah, an individual investor. Please go ahead.

Sharad Shah I have been tracking your company since ages. Now for the demerger, now the market cap is approximately ₹ 1,600 crore and you have a loan of ₹ 1,000 crore. Doyou think that the Engineering business is only worth ₹ 1,600?

Tarun Sawhney I am sorry I think the market and our investors determine the value of the individual businesses.

Sharad Shah No that I'm aware of sir. But according to you how much should be the value or it will be a forward-looking?

Tarun Sawhney I think it will be a forward-looking statement, it's impossible for me to be able to judge what is the value of the individual businesses. I think the market will do a good job once both companies are listed in terms of discovering the value.

Sharad Shah And our investments in Triveni Turbine...

Tarun Sawhney But you are very right I mean there is tremendous value that still exists in the business. We have a solid Water business, we have a solid Gears business, the Engineering businesses are very robust. The company also has other assets in terms of shareholding in group companies, 22% of Triveni Turbine Limited and of course our Sugar business is performing extremely well. So, there is tremendous value in the business. But I can't comment on the individual values.

Sharad Shah I do understand I was only trying my luck if you would speak. Now on Sugar, we touched a high of almost \$0.24 and now it's at 19.60 in international market, the raw sugar. Do you foresee that it might touch again at 17 or 26, what's your outlook?

Tarun Sawhney There are two things that play a very important role going forward. And again there is a big question mark first is fund flow into sugar, so there has been the fund for it and all time long as far as Sugar was concerned when we touched the recent

highs. And the total amount of long lots has reduced very substantially so from that perspective I think there is some comfort in terms of this \$0.20 pricing that we are at right now. The only area of concern would be a very strong dollar and as the dollar index strengthens due to various global factors that actually have no consequence or no bearing on sugar, it does have an impact on the sugar market and that could also lead to a potentially downward movement in raw prices.

Sharad Shah But if dollar index is up, our dollar rupee was also up. So that way we are not that much affected. The last question, if the export duty is removed we will be able to export? There is a shortage over here but if you get a price differential, you would export it?

Tarun Sawhney Our Mills are in Uttar Pradesh which is land locked. We will certainly cannot export it. I'm not in favor of any reduction in export duty at all or export of any sugar during this sugar year.

Sharad Shah Can I presume that we are in safe hands as far as our investments are concerned?

Tarun Sawhney Yes, of course you can.

Moderator We take the next question from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal Sir just wanted to know the tentative timeline for this demerger and as you mentioned that today is the court hearing. So assuming that today they clear this, all the approval that we have got from the shareholders and creditors, so what will be the timeline for the listing of the business?

Tarun Sawhney There is a small chance that it may be approved today. But in all probability, we will get one more opportunity for the entire finalization and the final date to be set that date could be within the next 30 odd days, from then on I would anticipate that we get another 2 months in order to complete all the balance formalities.

Dikshit Mittal So by March do you see both the businesses trading separately?

Tarun Sawhney It's a very distinct possibility.

Dikshit Mittal Coming to the Water business based on the order book that you have, so what kind of pickup in execution you expect in second half of the year?

Tarun Sawhney I think firstly in terms of execution in our Water business, it's been pretty good over the quarter. I think the numbers speak for themselves. going forward as I mentioned we are participating in the large number of tenders that we expect finalizations within this quarter and that will provide execution stability not just for this quarter but also for the next 3-4-5 quarters going forward. As you know every time we pick up a project, the business revenue actually accrues to us over several quarters as we execute that particular project. And with finalizations I think there is good scope as far as this business is concerned.

Dikshit Mittal But second half will be much better than the first half in execution?

Tarun Sawhney Yes I think I would estimate that H2 would be at least (+50%) better than H1.

Dikshit Mittal And in Gears any visibility though you mentioned in the press release that customers are deferring the offtake of the equipment?

- Tarun Sawhney** I have to tell you that came as a surprise to me personally as well. I think it's a function really of oil prices but I think again H2 is a very promising. We are seeing that the finished goods that we had at the end of September they have all been dispatched as we speak today. So that was a momentary lapse that happened at that point in time. We are looking at several finalizations of large tenders and large ticket items with government contracts etc. over the next half year. So all in all we are happy with the progress that's happening given the overall sluggishness in the total environment. We are very confident about our profitability levels and we are trying to certainly maintain them as per previous year levels.
- Dikshit Mittal** In Sugar business after this SAP hike, will we be able to maintain our profitability like last year because the realizations have also moved up if you compare last Sugar season. So on an absolute basis can we maintain the profitability in this season?
- Tarun Sawhney** It's challenging for me to give you a forward-looking statement on sugar. But what I will point to is the current scenario. At this point last year the average realizations were substantially lower. They were almost ₹ 5 low. We started off last season selling sugar at ₹ 31, today we are selling it at ₹ 36. Now the cost of cane has gone up by ₹ 25 per quintal. But your starting point in your starting averages are substantially higher than what they were last year and that must go into any financial model in terms of projecting the profitability for this sugar year or for this fiscal year or for the next fiscal year.
- Moderator** We take the next question from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.
- Vikram Suryavanshi** You said that the acreage has gone down and UP there will be increase in the production substantially so can you highlight the reasons for the same?
- Tarun Sawhney** Absolutely. The acreage in the country has gone down by approximately 5% to just a shade under 50 lakh hectares. In Maharashtra, it has gone down by 23% and in Uttar Pradesh it is more or less the same. But in Uttar Pradesh the yields because of a better monsoon and fantastic weather pattern the yields are substantially higher in Uttar Pradesh. So the total cane availability in the country is skewed with Uttar Pradesh producing well over 10% to 12% higher in terms of sugar output year-on-year and that's what accounts for the increase in sugar production in the state of Uttar Pradesh resulting in higher yield and better weather resulting in higher sugar recoveries potentially.
- Vikram Suryavanshi** I guess even last year also yields were higher compared to historical average. So are we consistently seeing the second year where we are seeing incremental improvement in yields?
- Tarun Sawhney** You are right and that incremental improvement is happening for two reasons. Firstly, we've had good weather and good rains and secondly there has been a big varietal improvement in the entire state of Uttar Pradesh. In fact, all across North India there has been a big change. Sugarcane is a highly remunerative crop and arguably the most remunerative crop for farmers today offering stability of payment as well. And therefore, the farmer has gone in for better variety, better seed, better management of farmlands etc., and has partnered with sugar Mills. This is really a function of the health of the sugar industry and you will see that in times to come as well where as the sugar industry does better it invests more into the land. It invests more into a supply chain which means the farmer and that relationship becomes stronger and the farmer obviously benefits by better yields, better recoveries etc.

Vikram Suryavanshi Just coming to this demonetization what kind of impact we can see on the sugar factories and how much of our business is in cash and how it would look going forward?

Tarun Sawhney We don't do any business in cash. We pay farmers directly into their bank account. We have all of our large number of farmers paid directly into their bank accounts.

Vikram Suryavanshi And transporters also?

Tarun Sawhney We don't deal in cash. So the impact on us, on Triveni Engineering is absolutely zero. The impact on our supply chain is also zero.

Vikram Suryavanshi And transport also the people who carry the cane, it is our responsibility or is there a third-party which is involved in transporting the cane to factory?

Tarun Sawhney It's our responsibility. We pay a third-party to transport the cane and in fact even those payments are not impacted at all by demonetization. I think very honestly speaking and I said this even to the media as well; we at Triveni and we in the sugar industry are great beneficiaries of the demonetization effort by the Central Government.

Moderator We take the next question from the line of Yash Agarwal from Crest Wealth. Please go ahead.

Yash Agarwal I although understand this one stage payment of sugar cane how much stress would it cause on your trade payables as in before those 230 bucks and I think 90 days for the rest and now it's one go 305 or something?

Tarun Sawhney When we look at our financial planning for the next few quarters it doesn't really have a material impact on our finances.

Yash Agarwal So you expect that debt figure not to increase because of that?

Tarun Sawhney No the debt figure would certainly not increase. In fact, we are expecting debt levels to go down quite substantially. I'm glad that you asked this question. Over the next 5-6 quarters we are expecting a long-term debt to be well south of to ₹ 350 crore, with the payment happening every quarter from now for the next 5 odd quarters. In terms of our working capital requirement we are certainly looking at very aggressive strategies with respect to that as well. In the short-term we are paying cane price so there may not be a substantial impact. But over the next 5-6 quarters we expect to have a substantial impact as well.

Yash Agarwal Just a layman question so these 25 bucks does it translate into 10% increase in your cost of production as well?

Tarun Sawhney No it doesn't because cost of production is a function not just of cane price but it also a function of your recoveries, your efficiency, the juice that exists in the cane etc.. And this year we are seeing a pretty good increase initially, I don't know how the rest of the season will go. But as of now our recoveries are at least 0.4% higher, 40 basis points higher than last year. So in terms of impact on cost of production we really haven't worked that out for this sugar season as yet. And I answered another point to somebody just a few minutes ago, the sugar that is produced at these levels of efficiency is being sold at significantly higher levels this year as compared to last year and that too needed to be accounted for.

Yash Agarwal For sugar sales 17-18, any estimate where the sugar prices are expected to be, any expectations or something that you all have?

Tarun Sawhney The domestic exchanges don't offer you as yet that type of visibility. Internationally we have seen a broadly stable market going forward into 4 quarters, 8 quarters from now. This is actually looking remarkably stable. We are expecting domestically to have a season of excess. But if we start the following year from 1st of October 2017 with under 5 million tonnes of sugar then with a little bit of addition to our stocks I think it's still a very manageable scenario.

Yash Agarwal The landed price of sugar currently, is it equivalent to the current domestic prices at 19 cents or something per ounce as someone mentioned?

Tarun Sawhney It's \$0.20 at this point of time broadly speaking. If you look at the landed price of sugar at this time it still doesn't make sense.

Yash Agarwal So it's higher than 36 bucks?

Tarun Sawhney Absolutely.

Moderator We take the next question from the line of Bimal Sampat, an individual investor. Please go ahead.

Bimal Sampat Did we participate in the Mawana disposal? Did we bid for it?

Tarun Sawhney No we did not.

Bimal Sampat So now after Mawana even Rajashree has disposed off, so now you think the consolidation has set in?

Tarun Sawhney There are 550 sugar mills in the country and there must be over (+400) companies so we are very far away from the consolidation phase.

Bimal Sampat Now that our debt levels are low and we have continuous cash flow visibility over the next 3-4 quarters, so are we looking at any acquisition?

Tarun Sawhney The board has not contemplated anything at this point in time.

Moderator We take the next question from the line of NK Arora, an individual investor. Please go ahead.

NK Arora We have invested in a company Aqwise Water Technologies, can you throw some light how are we going to derive the benefits out of this investment?

Tarun Sawhney We derive tremendous benefits, the investments in Aqwise which is an Israeli company is really to bring in world-class technology into our Water business. We have commissioned several projects; one very notable project is in Agra where we have used this MBBR Technology that comes from Aqwise in Israel. To give you an example one of these plant in the Agra water treatment facility when the Israeli president visited India just 10 days ago he made a visit to that facility to see how that plant was operating. So you know there is great visibility, the technology is fantastic and I think the applicability to India is very good. So as project increase we would certainly be beneficiaries having invested in that company.

Moderator We take the next question from the line of Sharad Shah, an individual investor. Please go ahead.

Sharad Shah I wanted to ask that after the demerger in the Engineering business, General Electric will like to take a stake or no?

Tarun Sawhney No, there is no stake being taken by anybody.

Sharad Shah Are you sure about that because I hear from people that they would be taking.

Tarun Sawhney No, I am not privy to any such rumors.

Moderator We take the next question from the line of Apurva Shah from Phillip Capital. Please go ahead.

Apurva Shah Just a quick question on Water business. We have been maintaining this healthy order book pipeline but it's still that is not reflecting in quarterly number, so on quarter-on-quarter basis there is definitely some improvement and it's heartening to listen like H2 will be much better than H1. But is there any slow-moving order book in those ₹ 560 crore order book? And second thing we are also having this O&M order book of ₹ 256 crore, so how are the margins in O&M business because still the margins are not that reflecting of the O&M segment?

Tarun Sawhney Very good questions, let me take the first one. I think the order book that we have today is certainly not slow-moving, etc. Any of the projects that were delayed that were moving slowly have all moved out of the system. So the present order book is one which is actionable immediately which is why there is renewed confidence and the future looks very positive for the Water business. As far as the O&M contracts are concerned, we don't really comment on our margin structures. But going forward you will certainly see the growth in the business coming down to the bottom line as well in terms of showing healthy levels of profitability. But clearly our O&M contracts are for long durations, they are for 5 to 10 years most for the latter, most for about 10 years and they are taken at reasonable margins.

Apurva Shah On O&M, what will be our quarterly run rate?

Tarun Sawhney I haven't really calculated that at this point in time. Contact us off-line we will give you some numbers.

Moderator Thank you. Since that was the last question I now hand the floor over to the management for their closing comments.

Tarun Sawhney Thank you very much for joining us to the H1 Fiscal 17 results for Triveni Engineering & Industries Limited. I think we have had a very good quarter. The company and the management are happy with the performance. We started off Q3 with a very positive note and we will hopefully maintain the progress across all the segments. I look forward to talking to you in about three month's time. Thank you for being on the call today. Goodbye.

Moderator Thank you. On behalf of Triveni Engineering & Industries Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines.