



Triveni Engineering and Industries Limited

Conference Call Transcript

May 11, 2012

Moderator Ladies and gentlemen, good day and welcome to the Q2 and H1 FY 2012 Results Conference Call of Triveni Engineering & Industries Limited. As a reminder, all participants' lines will be in the listen-only mode. 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 day everyone and a warm welcome to all of you participating in the Q2 & H1 FY12 Results Conference Call of Triveni Engineering & Industries Limited. We have with us today on the call Mr. Dhruv M. Sawhney, Chairman and Managing Director; and Mr. Suresh Taneja, CFO, Triveni Engineering 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 maybe forward-looking in nature and a statement to this effect has been included in the conference call invite which was mailed to everybody earlier. I would like to emphasize that while this call is open to all invitees it may not be broadcasted or reproduced in any form or manner. We would like to start this conference with the 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. Dhruv 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.

Dhruv M. Sawhney Good morning everybody. I like to begin by giving some remarks on the operations for the last year, but as importantly, our outlook for the future and I'd like to address the Engineering units and the Sugar units both separately.

Our Engineering business at the moment has a good order book. We have just over ₹ 5 billion of orders; ₹ 440 crore in Water and ₹ 60.5 crore in Gears. The order inflow in both Gears and Water substantially improved in Q2 versus Q1 and that has been the most encouraging sign. You are all aware of the problems in the capital goods industry. So that is something

we see carrying on, and in the month of April we have got very good orders in Water. So I think that is a positive trend up to now. So, we are really looking at improved performances in the Engineering businesses in the quarters to come.

For Sugar, the year is expected to end with the country's production of 26 million tonnes, an increase of about 7% versus the last year. The past year 2011-12 has been marked with the hike in cane price announced by the previous State Government and low recoveries, especially in the Western UP sector, where our two major units are located ; Deoband and Khatauli, and this has had an adverse effect on profitability.

There has been a small amount of liberalization, which has changed the scenario slightly in the last few months, the first of which is the freeing of sugar exports, which has been brought under the Open General Licence (OGL) and also shifting the monthly release mechanism to a quarterly release, which also brings some stability into the Sugar scenario. This is expected to help the pipeline, also gain some stocks, and improve exports in the current Sugar year-ending September 2012.

Sugar prices have already increased and we expect them to stabilize at these levels and then increase in the next few months before the end of the current Sugar year. There has been a good performance in Co-generation and Distillery sector.

As I mentioned the Sugar production in U.P. in fact went up more than the rest of the country, it went up by about 17% to 6.9 million tonnes. The average recovery was a little lower than last year for the whole state and also for our group. The figures are with you. But, Western U.P. recorded a fairly substantial drop in recovery, the average being around 0.4% compared to the last year. And that had an impact because quite a lot of our Sugar production is in Western UP. We were encouraged that there was a substantial increase in production at our new units in Central UP, and, of course, our unit Ramkola in Eastern UP did well. It ended with the highest recovery in UP and that was a good achievement.

2 million tonnes of Sugar have already been allowed for export and quite a bit of it has been dispatched. With the OGL we expect at least another 2 million tonnes to leave the shores of India before the close of the year of 30th September. With a slight increase in consumption this augurs well because closing stock on 30th of September for the country is expected to be lower than what it was in the opening, i.e, 1st October, and that is what will drive the Sugar prices.

The world surplus which was 8 million tonnes in 2011-12 and the year ends in June is expected to decline by about 3 million tonnes in 2012-13 i.e. from July to June. So that is an extremely good omen for international Sugar prices. This has primarily been due to an intense drought in February-March in Brazil. In Brazil, the Center South is now expected to produce about 33 million tonnes. It is about 5.7% more than last year. And their ethanol production is also expected to rise just to 21.5 billion litres.

So even though there may be increased exports from India in the next few months and from Thailand, we don't expect international Sugar prices to dip and this would help in the domestic scenario as well.

For the next year, the estimates at the moment are for a lower production, somewhere around 25 million tonnes, maybe slightly higher but certainly less than last year, and this is after the reports of sowings in the other parts of the country and especially from Karnataka mainly and also looking at the situation of U.P., it may be slightly better but we are not quite sure of that as well.

Again, a further risk factor, even though the Government is being very optimistic about the monsoon, whether we will have a good monsoon for the whole of the season or not, which is from June to September certainly till the end of August and as you know sugarcane requires a frequent number of watering, so the thoughts right now about half the monsoon being good and half the monsoon being not good are not very good for Sugar in terms of the yield that is the production of Sugarcane. On the other hand it might help the sucrose content. It is dichotomy but slightly worse monsoon in the second half actually will help the viability of the Sugar units, because it brings down production and increases the amount of Sugar in the cane, so it really makes your cost of production in 2012-13 much lower. This is even if there is a small increase in cane price.

Our company has been effectively able to pay our outstanding cane price. It was ₹ 330 crore at the close of the half year on the 1st of April. This included the payments for 2007 - 2008 which was some ₹ 79 crore and we have paid both last installments of 2007 - 2008 and the first instalment of current years dues, which was asked for by the Supreme Court has also been paid by our Sugar division. So, our Cane price dues have already come down from ₹ 330 crore to ₹ 170 crore and we don't expect much problem in being able to meet our commitments in terms of cash flow or otherwise.

If I look at the Sugar realizations, in the current year, for the half year there have been about 6% higher. The free sale realization is about 29,600 ₹ /MT versus about 28,000 ₹ /MT last year. And on account of the hike in cane cost and lower recovery, we have written down the value of our sugar stock as on 31st of March. We have written down our inventory by ₹ 415 million during the quarter. So that has resulted in the half year inventory, if we look at the half year results, being written down by ₹ 665 million.

The cost of production of Sugar taken in the accounts is final, and it also includes the cost relating to off season expenses. Many other sugar units use a different method of accounting so that their results in the first two quarters are better and worse during the third and fourth quarters. We take the hit during the first two quarters and so this is not something that will happen in the third and fourth quarter, especially if we are able to preserve our sugar prices and if they rise slightly then we certainly should be in a break-even situation if not a small positive for the company as a whole in the third and fourth quarters.

In Co-generation we have improved our performance, and in the current half year we had revenue from CER from the Deoband unit, although we have to maintain, this was ₹ 4.3 crore. The additional CERs for Khatauli will be accounted upon only when we sell them, which we expect in the next few months. We have also put in our request for issuances of CERs for the period up to May 2011- in respect of Deoband and that's gone to UNFCCC. This verification is in process and it's not very easy to say when it will come so we hope some of it comes into the current financial year otherwise it may spill over to Q1 of FY13.

An important fact is that both the Khatauli and Deoband plants are now registered with NLDC, the National Agency as REC projects. So the process of joint meter reading and online filing of these energy injection reports have been completed. These RECs are expected to also flow in the next few quarters.

Our distillery operations have been good. In Q2 because of the slightly erratic molasses policies of the last Government enforced us to sell some rectified spirit which has a lower realization. Otherwise, our realizations are one of the best in the industry, if not the best, primarily because we focus on ENA which is a high quality product and it commands a premium in the market and as you see our average realization for the half year is almost 31.85 ₹/ ltr, substantially more than last year. We expect this to continue and our distillery operations have also stabilized. We expect them to be running all the way till the end of the financial year except for a shutdown which is there during the monsoon period for maintenance and also as mandated by the policy.

In our High Speed Gears, we had to suffer the impact of the slowdown which all of you have seen in the capital goods industry, and this has necessitated a shift in the product mix. Our market share is better at around 60% to 65%, but we had to shift our mix so that we can preserve sales to the maximum extent possible, so we have taken in more Hydel orders and that's been primarily the reason why we have had a fine dip in the margins.

We expect the margin to be better in the second half and we will probably end the year with the same turnover, there may be a small dip in the margin and overall profitability, but it will be better than the first half results because those Hydel orders that we have taken in when the market was extremely bad in Q1 of last year and Q2 of last year, which came in for execution in Q2 and Q1 of the current year.

The orders that are coming in now are much better, and more so in the new range of gears, that's Triveni gear units is licensed to produce the low speed gears. We have had extremely good responses in the market on Marine Gears and we expect the first few orders to flow in during the current financial year. Of course, dispatch of this will come into FY13. So, in FY13 we expect good growth for gear, not just from its traditional lines in high speed gears, but with the new product range coming in which has a very good market, the Marine market is extremely good, mainly imports at the moment.

We have also substantially gained from reorientation of our sales towards refurbishment, retrofitting and that's working well. And lastly, we have now stepped up our exports. We have just hired a Thai representative in Thailand, a lady who is an employee of Triveni Engineering and we are picking up our exports in Indonesia and Malaysia as well. As you know South East Asia is probably one of the best growth rates versus anywhere in the world. These are the markets where we are concentrating and certainly the orders in the current year seem to be good for execution in FY13.

In our water business there has been an increase in turnover and profitability. As you see that the turnover has increased by about 13% in the second quarter and profitability has been higher by about 27% if we look at the half year. While there was some slackness in order intake in Q1, which was all over the country, I mentioned in my opening remarks that Q2 has been good with ₹ 73 crore of order intake and just in the month of April we have now picked up a substantial order of almost ₹ 90 crore.

With that I would like to open the floor for questions. Thank you.

- Moderator** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from Nirav Shah from Antique Finance. Please go ahead.
- Nirav Shah** Whatever delay that we have seen in terms of cane payments to farmers, has the industry paid any interest on that?
- Dhruv M. Sawhney** No, there have been no claims as such on this. I do not expect any come back on this judging from the past and as I mentioned substantial payments that we have made. So we are in the forefront of it.
- Nirav Shah** Secondly, on the plantation for the next year, how do you see that happening? Have we seen any increase in the acreage or is it more or less at around the same levels?
- Dhruv M. Sawhney** For all of U.P. it is specifically more, but the acreage in our new factories in Central U.P. has been quite substantial and most of it is finished except in Sabitgarh where some of it is happening after the wheat harvesting. But we have had two big successes in the planting for us. One is that there has been some increase in the acreage by about, 10%. Secondly, the planting of the rejected varieties has almost come to nil and this was a major cause for our recovery. So that's a very great achievement and there has been an increase in the high Sucrose varieties as well, but in Western U.P. we will not know the planting results till about the end of May. I don't expect much increase in western U.P. In fact, there is a problem in Western U.P. with this poplar plantation coming up and that is why we also had the decrease in recovery, but in the Central U.P. area we think the results next year based on our planting which have been completed, will be very good. In the Eastern U.P., Ramkola sector this is also finished now and we expect to continue our good performance next year.

Nirav Shah Okay, so for U.P. as a whole and for our company should be more or less flat or U.P. as a whole and for company specific may be 5% increase in crushing levels?

Dhruv M. Sawhney For next year?

Nirav Shah Yes.

Dhruv M. Sawhney I would say a bit more than that. It is very early, but I would say 10% is a feasible target. Second, I really have to look at the monsoon and what the yields will be. So, it is little early in the day, but that is a caveat if you ask me for a field today, that's what it is.

Moderator Thank you. The next question is from Anup Ranadive from Derivium Tradition. Please go ahead.

Anup Ranadive In your opening remarks you mentioned that U.P. production for the next season could be slightly better, but you are not sure about it. Could you please clarify on that statement? Do you believe that the numbers which have been published by the media or the Government, do you believe in those numbers?

Dhruv M. Sawhney I don't think people have published any numbers on U.P. for the next year. We know it's very difficult for anyone. Let me give you the factors that control this. One is planting and Western U.P. planting, a lot of it takes place after the wheat harvesting. So that is still in the month of May so for substantial part of U.P, planting is not over. And secondly the growth period is really starting from June onwards and depends to fair extent on the monsoon; both the early monsoon and the later monsoon. So, I feel while we won't find any substantial in production because we had a good monsoon last year, but if the monsoon is not very good, then you may have a decrease. So, I think one can only make very indicative statements. What you can say is we don't expect an increase in production for U.P. as a whole.

Anup Ranadive When you say that your production or cane production can increase by 10%. So that's particularly for your company what you are mentioning, right?

Dhruv M. Sawhney Yes, that is mainly governed by our new factories in Central U.P. They are the ones which will increase by 10 to 12%. The other ones will be flat.

Anup Ranadive Right. My second question is regarding the SAP, I mean, just want to understand your view that this year we have paid 240+, is there a likelihood that the SAP can be reduced and has it ever happened in U.P. that after the political equations have changed, any Government has reduced the SAP?

Dhruv M. Sawhney No, to be quite honest about this, that's an extremely unlikely situation of SAP going down. I think no one can do that.

Anup Ranadive So it could be either flat or marginal increase in the SAP?

- Dhruv M. Sawhney** But could be flat or marginal increase. That is the correct reading.
- Moderator** Thank you. The next question is from Aman Sonthalia from Suvridhi Capital Markets Limited. Please go ahead.
- Aman Sonthalia** This year the international market was quite good and the companies got good prices. But next year, Brazil, India and Thailand are going to produce more than this year. So, if the international prices come down, then how will India export into the international market and what is the outlook for the Indian Sugar next season?
- Dhruv M. Sawhney** There are two things. The most important is the sugar scenario about four to five months ago was looking at a rupee which was in the 47-48 mark. Now our rupee is you know where it is. That's a huge incentive to the pricing and to the competitiveness of Indian Sugar exports. So unless in the next year you foresee the rupee going well below 50 the pricing levels of domestic sugar in the export market at higher than today's levels in selling even the same quantity are very good.
- Aman Sonthalia** No, if Brazil produces more and India produces more and Thailand produces more and if that production comes into the international market, are the international prices expected to come down?
- Dhruv M. Sawhney** No. For example, India has already produced 26 million tonnes, we expect next year's production from India is going to go down, by at least even anyone says by 0.5 to 1 million tonnes. So India is going to produce less. We are not sure whether Thailand next year is going to produce more. It did produce more.
- Aman Sonthalia** But what if Brazil produces more?
- Dhruv M. Sawhney** Brazil production, one, is going into ethanol and two the increase in production of Brazil is quite marginal compared to the consumption.
- Aman Sonthalia** And one more thing, what is the total cane payment paid by the company per quintal including the tax and other charges?
- Suresh Taneja** Our landed cost comes to approximately ₹ 250 per quintal.
- Aman Sonthalia** Does this include cane tax and other freight and other components as well?
- Suresh Taneja:** Everything. It is the landed cost to the company.
- Aman Sonthalia** And what is the production outlook of Western U.P., Eastern U.P. and Central U.P.?
- Dhruv M. Sawhney** I said Western U.P. is difficult to tell because sowing is going on. We don't expect it to be higher. Eastern U.P. is okay. They are flat. It has not been higher. By and large I would say it is about the same. Now it depends on what the yields are.

- Aman Sonthalia** And what is the outlook of other states like Maharashtra, Karnataka and Tamil Nadu?
- Dhruv M. Sawhney** There we are expecting a fall in acreage.
- Aman Sonthalia** Any reason, because this year the farmers have got very good prices and the prices of wheat has come down, the offtake of wheat has come down, so the farmers will switch over to sugarcane instead of wheat and other crops?
- Dhruv M. Sawhney** There are two points. One is - Maharashtra is having a big water problem and drought. There have not been such good rains. So the farmer is more worried about. If you plant cane and don't get water your yields go down so badly that he is very hesitant to do it unless he is very confident of the year. So, by and large they are hedging themselves now in most places. And the water situation is worse than it was at this time last year in these states.
- Aman Sonthalia** And in Karnataka?
- Dhruv M. Sawhney** Karnataka also the pricing was much less than what it was in U.P. So they have not got what they felt was a fantastic price either.
- Aman Sonthalia** But in Tamil Nadu the production is expected to be very high, I think.
- Dhruv M. Sawhney** When? I have no reports for that.
- Moderator** Thank you. The next question is from Anup Ranadive from Derivium Tradition. Please go ahead.
- Anup Ranadive** I have a couple of follow-up questions regarding the exports. Recently there has been too much of confusion in terms of the export, whether we stick to the existing policy of allocating on the average production or 'first come first serve' basis. So has any decision being taken regarding this?
- Dhruv M. Sawhney** No, this policy has been laid to rest now. Government has come out with a policy from the empowered group of ministers and they have stated that the policy is now not on production, it's in Open General License. The amount of sugar is really an internal factor of the Government. But, we are expecting a formal notification in a few days. But this they have publicly stated. So, there have been various statements by both the minister and others, so that's expected. It is really put to rest now. I think we can say that this is the policy of an OGL rather than the other way round.
- Anup Ranadive** The Quota has been abolished, right?
- Dhruv M. Sawhney** Yes.
- Anup Ranadive** So it is now 'first-come-first serve' basis.
- Dhruv M. Sawhney** But it is not 'first come first serve' basis, it is an Open General License, so anyone can apply.

- Anup Ranadive** In this case, if it is anyone can apply, what are the dynamics for your company in terms of exports?
- Dhruv M. Sawhney** We in North India get a much higher price for our domestic sugar than the coastal factories of Karnataka and Maharashtra, and two, we have a freight disadvantage. So the export pricing is very good for them, not for us. But it's good for us because they are sugar surplus states, so their sugar was coming into the north and disturbing our markets. So, if they are able to export then the pricing in the North is much better because we don't have sugar coming in from either Karnataka, Tamil Nadu or Maharashtra.
- Anup Ranadive** That's right. There won't be any physical exports from North India.
- Dhruv M. Sawhney** Limited.
- Anup Ranadive** Do you believe that another 2 million can go in that scenario?
- Dhruv M. Sawhney** Very definitely.
- Anup Ranadive** But 2 million, that makes total 4 million.
- Dhruv M. Sawhney** Correct. That is what the industry had asked for in any case. They had asked for 4 million, 1 million was sort of on the table sometime ago, the industry had asked for 4 million both the co-operative sector and ISMA and they are quite capable of doing this, this is not a difficult task.
- Anup Ranadive** But considering that less than 2 million has already left the country and given that Brazilian season would pick up from now, May - June onwards, and the international prices are close to less than like 550 - 560 dollars. So in that case, would it encourage the South Indian players to export more?
- Dhruv M. Sawhney** See, the season is over, people are booking contracts today. If you book the contract today, at the current pricing where the rupee where it is, it is definitely profitable.
- Anup Ranadive** Could you share those dynamics if you can?
- Dhruv M. Sawhney** That's the question that you need to get from parties in Maharashtra and Karnataka.
- Moderator** Thank you. As there are no further questions from the participants I would now like to hand over the floor back to the management for closing comments.
- Dhruv M. Sawhney** Thank you everybody for joining our conference call. We look forward to talking with you again next quarter and we hope that the capital goods situation in the country which has slightly improved in the last couple of months, will continue and of course we are looking for a much better sugar scenario than what we had to experience in the last year. Many thanks.
- Moderator** Thank you very much. On behalf of Triveni Engineering & Industries Limited, that concludes this conference call. Thank you for joining us.