



Triveni Engineering & Industries Limited

Conference Call Transcript

August 29, 2016

Moderator Good day ladies and gentlemen and welcome to the Q1 FY 17 Results Conference Call for 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 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. Gavin Desa from CDR India. Thank you and over to you.

Gavin Desa Thank you. Good day everyone and a warm welcome to all of you participating on Triveni Engineering & Industries Q1 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 opened to all invitees; it may not be broadcast or reproduced in any form or manner. We would like to start this call with opening remarks from the management followed by an interactive Q&A session wherein you can discuss your views and key issues. I now invite Mr. Tarun Sawhney to commence the call. Over to you Tarun.

Tarun Sawhney Thank you Gavin. Good afternoon everybody and welcome to the Q1 Fiscal 2017 Earnings Conference Call for Triveni Engineering and Industries Limited. I am happy to report that during this quarter under review the net sales of the Company stood a shade above ₹ 600 crore with an EBITDA of approximately ₹ 110 crore and a PAT of ₹ 48.2 crore which equated to an earnings per share of ₹ 1.88. The improvement in the quarter under review is primarily due to the improvement in sugar prices. The domestic demand and supply balance appears very favorable for sugar season 2016-2017 and that should be supporting sugar prices going forward. I will discuss the views on the sector and the industry subsequently in the call.

The major increase in sugar prices has taken place over the last 9 to 10 months. However, going forward there maybe marginal increases in prices over the next six months, certainly over the next 12 months.

The performance of both the Co-generation and the Distillery business has been satisfactory and I will discuss that later in the call. The performance of the Engineering business was slightly subdued. However, Quarter 1 is a relatively

subdued quarter where most clients prefer orders or dispatches in Quarter 2 and Quarter 4. That's been the trend for many years.

The Company was able to achieve a growth in turnover in both the businesses. The profitability is still to catch up on some parts with respect to the Engineering business but that is simply a function of where we are within the fiscal year and I expect substantial improvements going forward. The Outstanding order book for engineering stood at ₹ 647 crore.

Turning to the overall debt of the company on the 30th of June it stood at ₹ 1,408 crore which was 12% higher in comparison to the 30th June 2015. This was primarily due to the account of higher utilization of cash credit because we had a lot more stocks in the Company compared to the same period a year ago. We are great beneficiaries of having the greater stocks. In addition, we had timely cane payments, etc., which was a slightly different position when you compare that to the 30th of June, 2015. I would like to point out over here that the Company has no cane arrears at this point in time and it's been sometime since we have completed and cleared our entire arrears and all the cane dues.

The term loan as on the 30th of June, 2016, stood at ₹ 528.4 crore. One must remember that during the 12 preceding months we did avail of ₹ 114 crore interest subvention loan which was then added. So if you take that out the net is a reduction in the total amount.

Regarding the scheme of arrangement – the Company's scheme is progressing well especially with respect to the milestones that the management has in this process.

The sugar business with respect to highlights: The cane crushed for the season stood at 45 lakh tonnes compared to 51 lakh tonnes for 2014-2015. However, the recovery for the entire season was substantially higher at 10.8% compared to 9.57%. This led to approximately the same amount of sugar being produced by the Company across both seasons.

With respect to dispatches the company dispatched just a shade under 14 lakh quintals of sugar at an average realization price in excess of ₹ 34.7. The net sales, was ₹ 513.9 crore.

The sugarcane price for 2015-2016 was considered at ₹ 280 for normal varieties along with a remission of purchase tax and society commission. Sugar inventory as on the 30th of June was 28.78 lakh quintals valued at just a shade above ₹ 29 per kilo. And this equated to approximately 60% of our total production. So it's a very healthy amount of sugar that the Company had coming into this quarter.

Having met the obligations under the mandatory export scheme the Company is going to receive the ₹ 4.5 per quintal production subsidy from the Central government. Our papers have been filed some time ago and we are expecting disbursement imminently.

As far as the Co-generation business is concerned there were minimal operations during this quarter, however, both the plants at Khatauli and Deoband did operate for 15 days and the PBIT was substantially lower compared to the corresponding quarter the previous year where the number of days of operations were greater. However, an income of ₹ 1.2 crore has been realized during this quarter for sale of RECs with respect to our Khatauli and Deoband unit.

The Distillery on the other hand had a higher production of 16% and we can see that in terms of the PBIT growth from ₹ 11.7 crore in Q1 FY 16 to ₹ 13 crore in Q1 FY 17. The share of ethanol in Q1 2017 was 75% compared to 73% for the corresponding quarter of the previous year.

Looking at the Gears business our sales grew to ₹ 16.2 crore from ₹ 14.1 crore, while there was a slight decline in PBIT during the quarter under review. There was substantial growth in revenues in the Water business of approximately 30% and the revenues for the quarter stood at ₹ 38.4 crore and this was, due to the higher order intake in the previous year and, much better execution as we see robustness in the market after many quarters now. We are happy to discuss that when I look at the particular sector in more detail.

Turning to the sugar industry – the country's production for the season 2015-2016 is approximately,, just a shade above 25 million tonnes which is approximately 3 million tonnes lower than the previous year. It's estimated, if we look at the Balance Sheet that on the 1st of October which is the start of the next sugar year the country will have approximately 7 to 7.1 million tonnes of sugar going forward. This equates to approximately 2.5 months to 3 months of consumption which is more than enough going forward.

For sugar season 2016-2017 – the preliminary estimates of the Company indicate that we expect in excess of 23 million tonnes of production and, therefore, the total available sugar for the country's consumption is well in excess of 30 million tonnes. Even if we look at a growth in consumption, the company's estimates of 25.5 million tonnes of consumption we are left with 4.5 million tonnes to 5 million tonnes of sugar at the end of the next sugar year which we believe that under this present industry scenario is ample in terms of meeting the country's consumption especially given the fact that we have seen superb planting during this monsoon season. We have seen excellent planting across the country, in Central India the adsali crop has been excellent, water levels have been very high and reservoirs have been filled up. In Southern India we have seen excellent amount of planting that has happened and at North India there is resurgence in autumn planting and we have seen certain aggressiveness in terms of farmers approaching autumn planting which will have a very beneficial impact on cane availability in season 2017-2018.

In view of the rising sugar prices I think it's about time that we discussed the government's actions, etc., the Central Government has revoked the mandatory export scheme and it has announced a mechanism to grant production subsidy. Now, there have been many other measures that have been taken since then including stock limits and then it is rumored in the media that there will be other measures to come over the subsequent weeks. The nutshell is that the Central Government is looking at certain amount of stability in terms of sugar pricing especially to the consumer and I think that the overall scenario is in balance at this point in time. With the festival season coming up, any attempts to increase prices I don't think will fall on favorably with the Central Government. One has to look at that most importantly; at these pricing levels the industry is comfortable. It's after several years of great hardship it has the opportunity to generate positive cash flows and those cash flows are essential in terms of repaying the debt burden and the debt overhang on this industry which is in excess of ₹ 50,000 crore for the industry as a whole and, its entire need to come down to bring about any sense of economic viability to our industry.

With respect to the international sugar scenario – the cane crushed in the Central South until the 15th of July has been 16% higher and sugar production is 13% higher as total recoverable sugars have shot up in the Central South region which

is the largest region producing 80-85% of the country's production in Brazil. In Thailand the production for 2016-2017 is expected to be at similar levels, subdued levels at under 10 million tonnes of sugar. Again we are seeing a talk of a decline in total cane availability in China and China becoming an importer of sugar over the next few quarters that is one of the reasons why we have had the buoyancy in international sugar prices. According to recent forecast the global sugar production deficit of 2016-2017 is over 9 million tonnes and this combined with a shortfall of 12.5 million tonnes in 2015-2016 will drawdown stocks that have been accumulated over the last four years and, this was required to bring about some semblance of normalcy in the international sugar market.

Raw sugar prices have reached their highest levels notably over the last almost 4 years of just under 21 cents and this is an important barometer because whenever we have seen such massive drawdown in stocks we have seen that raw sugar prices, in fact the last time this happened raw sugar prices jumped up to well over 30 cents. Now I am not trying to say that we are going to see with this 20 million tonnes drawdown in stocks that's going to conclude over the next 4 to 6 months, that we are going to see such a staggering increase in raw sugar prices but my contention certainly is that if history plays any role whenever we have seen such great drawdowns in global stocks we have seen a resurgence in pricing and, not just institutional movement into sugar but also a greater demand of that sugar that's being produced. So I think it's fair to say that as we look at the start of the next Indian crop and the end of the Brazilian crop we will see robustness in prices at least for the foreseeable future.

Turning to the Capital Goods industry – the overall market is still impacted by a slowdown. There have been some austerity measures taken by our clients but we have seen resurgence especially with respect to the repair and aftermarket services. That has been a positive note for our Gears business.

Turning toward Water business –It's important to say that we have seen many more projects to come up to a stage of conclusion and we are going to see a fairly robust growth in turnover. We have seen it this quarter and we expect it going forward as well as the projects that are being executed carry on and certainly add to the value of this particular business.

Lastly, I would like to say that, having obtained the NOC from the Stock Exchanges that the Company has filed applications in the Hon'ble Allahabad High Court for convening an EGM to approve the scheme by the shareholders, secured and unsecured creditors. The meetings are scheduled on the 3rd of September, 2016.

Lastly, on the 19th of August, 2016 the Board of Directors has approved some clarificatory modifications. This is purely to comply with Ind AS to the scheme and this was duly intimated to the Stock Exchanges.

I will be happy to talk about our perspectives on the future of both the sugar as well as our Engineering businesses in the Q&A part of this discussion. Thank you.

Moderator

Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Nimish Sheth from GT Advisory. Please go ahead.

Nimish Sheth

I have a couple of questions, the first two relate to the sugar business, it's just housekeeping. In your presentation page 5 you have mentioned that the average realization for the sugar business for the 1st Quarter FY 17 is ₹ 34.70. Is this inclusive of excise?

- Tarun Sawhney** No, it's not.
- Nimish Sheth** The second question is on the sugar inventory where you say you have 28.78 lakh quintals valued at 29.15 per quintal. Is this inclusive of excise?
- Tarun Sawhney** No, it's not either.
- Nimish Sheth** My last question is on the demerger, you mentioned about the demerger process, there is going to be a meeting on September 3rd of the creditors and there is an AGM on September 12th, if I am correct?
- Tarun Sawhney** 14th of September.
- Nimish Sheth** And after I guess all stakeholders clear it, this demerger, can you run us through the pending processes and timelines? Do you expect the sugar business which is demerging to list before March 2017?
- Suresh Taneja** We have these meetings lined up on 3rd of September, the meetings are that of shareholders, unsecured creditors and secured creditors. And after these meetings the Court appointed Chairman of the meetings would submit the report to the court and thereafter a notice would be served on RD which is a part of MCA. And after receiving the report of the RD and in between we also would receive a report from Income Tax Authorities, Court would then take a decision on the sanction of the scheme. I think barring any exceptional kind of a position we expect that the Court would be able to sanction this scheme by about January-February 2017.
- Nimish Sheth** So once they sanction it is when you will announce your record date and demerger date?
- Suresh Taneja** Absolutely.
- Moderator** Next question is from the line of Mihir Shah from Care Portfolio Management. Please go ahead.
- Mihir Shah** The current sugar price that you have mentioned is floating at around ₹ 36 to ₹ 38 per kilo so till how long is it expected to float at the same price?
- Tarun Sawhney** This is broadly to give you an idea what is happening across the country, I think we can expect this level of pricing, I don't expect any increase in pricing for the next few months and certainly don't expect the prices to go down. I think we are in for a period of broadly stable prices for the next three months.
- Mihir Shah** What are the reasons for the lower sales in the Distillery businesses?
- Sameer Sinha** We wanted to stock up ethanol for supply during July-August and part of September which are the rainy season when the Distillery does not operate but we get an indent from the OMC for supply of ethanol, so this is the primary reason and our inventory as on 30th June of alcohol would be much higher accordingly as compared to last year.
- Mihir Shah** Is there any possible growth in the High Speed Gear and Gearboxes segment in the businesses?
- Tarun Sawhney** We have reported a growth quarter-on-quarter and that's in the results. From a market perspective, while conditions are still broadly similar we are seeing

resurgence in the repair and aftermarket business which wasn't there last year domestically. Although this business does cater to a regional audience there are signs of growth on the overall segment. And we are a beneficiary on that you can see 15% odd growth that we have had quarter-on-quarter.

- Moderator** Next question is from the line of N K Arora who is an Individual Investor. Please go ahead.
- N K Arora** Now are we eligible to bid for all kinds of Gearboxes required by the Navy and Coast Guards or some approvals are there?
- Tarun Sawhney** We are eligible for all new projects.
- N K Arora** In the Water business segment in the Annual Report we have mentioned that many multinationals across the world are planning to enter India. So what are the implications for the Water industry in India in general and in particular our Company?
- Tarun Sawhney** The more interest there is in a particular space it is good for all participants in the country. We have seen over the last several quarters that there has been muted performance in the Water business group and a lot of that has to be because of delay and postponement of orders especially the large ones on the municipal side. On the industrial side, , the activity had fallen quite substantially but with a resurgence and participation from global majors I think that just points to a growth in the industry and we will certainly be beneficiaries of any such move.
- N K Arora** In the Distillery segment we have already installed our multiple-effect evaporator?
- Tarun Sawhney** That's right.
- N K Arora** Now our Distillery should be able to function during the monsoon days, isn't it?
- Tarun Sawhney** No, that's not correct. The multiple-effect evaporator is only to comply with NGT norms, it does not have any bearing on the number of days of operations. Our permission for days of operation remains the same.
- Moderator** We have the next question from the line of Aman Sonthalia from AK Securities. Please go ahead.
- Aman Sonthalia** There is lot of confusion regarding the coming year production because ISMA has come out with around 232 lakh tonnes but if I go by the interview of Sanjeev Babar the Co-operative Head of Maharashtra, then Maharashtra production may come down below 10 million tonnes. In Karnataka also it may come down by at least 10 lakh tonnes.
- Tarun Sawhney** I don't think there is any confusion at all because I am also the President of ISMA so I have also seen the reports and the satellite imagery that ISMA has done. I cannot comment on Co-operative President, Federation President and their comments, etc. ISMA's analysis has been done through a scientific method. Our analysis at Triveni has been done using ground research where we have our own research team going across the country and calibrate and get data and try and synthesize that data. In our estimation there are a certain number of assumptions. The important thing to remember is that only on a scientific basis is it worth going over these numbers. So in my eyes there is no confusion.
- Aman Sonthalia** What is the current sugar stock position in Maharashtra as on 30th September?

- Tarun Sawhney** I am afraid I don't know.
- Aman Sonthalia** What do you foresee about the current year production for the season 2016-2017 for UP and recovery?
- Tarun Sawhney** Recovery is very difficult to estimate. As far as Uttar Pradesh is concerned we are looking at production levels much higher than 7.5 million tonnes. The rainfall over the last few months has been fantastic over the state and our research shows that tillering and growth of the cane crop during this period known as the cane growth period has been excellent across the state. The two important time periods from now until the start of the season are the month of September and the month of October. In the month of September, we expect limited rainfall especially towards the latter end of the month and in the month of October we expect a drop in humidity. Both those things if we have that, we will see a good increase in recovery. That's point one, that's on the weather side. The second side, , is with respect to the varietal change that has occurred across North India, not just in Uttar Pradesh but across all states in North India where there has been a resurgence of high sugared varieties and the very popular ones have been taken by farmers wholeheartedly. Now bearing that in mind I would estimate that when the plant crop is crushed across North India recovery levels will be very good. Now on a year-on-year basis it's tough to estimate at this point because we have a very important weather condition that is coming over the next 8 weeks. But right now all signs are pointing towards good recoveries.
- Aman Sonthalia** Your UP production will be around 75 lakh tonnes.
- Tarun Sawhney** Over 75 lakh tonnes.
- Aman Sonthalia** What was the ethanol inventory cost as on 30th September?
- Tarun Sawhney** About ₹ 28 per liter.
- Aman Sonthalia** What is your expectation regarding cane price for the coming season?
- Tarun Sawhney** That's a million dollar question. I have absolutely no comments on that. It's very difficult to be able to estimate what the prices have been. What I will do is I will add a cautionary note. The Central Government has maintained FRP at the same level. Now they have done that because of the big increases in FRP that has happened over the past few years. Now looking at this, I think that should hopefully provide some guidance although it is impossible to estimate what the UP government will do. I know that next year is an election year so sometimes all this guidance and these factors don't have that much of a bearing but it's impossible to estimate what next year's cane price is going to be.
- Aman Sonthalia** Do you think the cyclical nature of sugar industry will come to an end because going forward the production is increasing not in that pace but consumption is increasing by around 2-3% every year, so once that saturation point comes into effect, suppose around 280-285 is the saturation production for the country, so within 2-3 years don't you think that consumption will match production level and this cyclical nature will come to an end?
- Tarun Sawhney** At the rate of growth I think India will outstrip its average capability to produce sugar by the end of this decade certainly, not two years maybe in four years. But with respect to the cyclical nature that you referred to, you are referring to financial cyclical nature and the financial cyclical nature is purely dependent on sugarcane pricing that is a fundamental factor. So if we have an adoption of a Rangarajan Committee

formula or any type, not just that, any type of price sharing formula which certain states in the country are moving towards, we will limit the cyclicity, and certainly not have the massive highs and massive troughs that we have seen and will have more normalcy. But without having a cane price linkage which is in favor of all market constituents, you can't get rid of that cyclicity.

Moderator As there are no further questions from the participants I would now like to hand over the floor to the management for their closing comments. Over to you Sir.

Tarun Sawhney I want to thank all of you for joining us for the Q1 fiscal 2017 Triveni Engineering & Industries Limited conference call. I look forward to speaking to you after another three months or so and hopefully there will be continued good news in the sugar sector and more positive news coming from our Engineering businesses as well. Thank you very much and have a good day.

Moderator Thank you very much Sir. 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.