



Triveni Engineering & Industries Limited

Q4/FY 17 Earning Conference Call Transcript

May 22, 2017

Moderator Ladies and gentlemen good day and welcome to the Triveni Engineering & Industries Limited Q4 FY 17 Earnings Conference Call. 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 * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you sir.

Gavin Desa Thank you. Good day everyone and a warm welcome to all of you participating on Triveni Engineering & Industries Q4 and full year 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 live or reproduced in any manner. We would like to start this conference 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 would now like to invite Mr. Tarun Sawhney to commence the call. Over to you Tarun.

Tarun Sawhney Thank you Gavin. Good afternoon everybody and welcome to the Q4 and Full Year Fiscal 17 Consolidated Results for Triveni Engineering & Industries Ltd. Some of the key highlights are that the Company has achieved many milestones for the year under review and has recorded one of its best performances. Our gross revenue stood at a shade under ₹ 3,000 crore which was a growth of 48% and our profit after tax for the Company for the full-year was ₹ 253 crore. There was a record sugarcane crush of 6.4 million tonnes of cane and commensurate sugar production of over 70 lakhs quintals during the sugar season 16-17 which is the highest historical crush and production for the Company. Our recovery was up by 0.45% against state average which was flat Y-o-Y. Triveni's share of sugar production in UP improved from 6.9% in sugar season 14-15-to 8.10% in this particular sugar season. We achieved the highest ever crush at our units at Chandanpur and Rani Nangal and all the sugar units achieved their joint highest of recoveries.

The continuous focus on the cane development program, improving operational efficiencies and cost control measures that have been initiated and pursued rigorously have paid rich dividends for the sugar business. Apart from the record

sugarcane crush and production, recoveries have increased on the Y-o-Y basis by 26 basis points. The average recoveries for the Company are higher than the state average by almost 50 basis points, 45 basis points to be accurate. The improved operational performance, low cost of production coupled with stable sugar pricing has resulted in record profitability for the sugar business.

With respect to the engineering business, the outstanding order book is also very healthy ₹ 658 crore. For the Company, as a whole, the return on equity is 35% and the return on capital employed for the year is 31%.

For the quarter under review, the gross revenues were ₹ 938 crore approximately and profit after tax of ₹ 60.5 crore. The profitability during the year is after an exceptional charge of ₹ 85.5 crore. Exceptional item during the current year pertains to the write-off of the incentive recoverable from the State Government under the UP Sugarcane Industry Promotion Policy of 2004. The Company has challenged the premature termination of the policy and non-grant of incentives before the Allahabad High Court. The prescribed period of 10 years for the incentives under the policy have expired and in the view of the Company, the continued uncertainty and protracted litigation the company as a prudent measure has decided to write-off such recoverable gains without prejudice to its legal rights to pursue the matter.

More importantly the overall debt of the Company as on the 31st of March, 2017 is approximately ₹ 1,720 crore, just 3% higher than the year ending figure in the previous year. However, term loans as on the 31st of March '17 stood at ₹ 479 crore including ₹ 76 crore of loans with concessional interest and interest subvention. The figure of ₹ 479 crore is down from ₹ 536 crore which I'd reported at our last call and it is certainly lower than the number that I had suggested that we will achieve the last time that we spoke after the Q3 FY 17 results. For the course of next the fiscal year we are certainly looking at a very large repayment of our term loans and a minimum of ₹ 200 crore repayments is certainly not out of the question for this fiscal year.

As of today, we have absolutely no sugarcane dues for the Company. Looking at the segmental analysis of the three businesses; the Sugar Business, the crush was 6.4 million tonnes with the recovery of 11.06%, as a consequence we produced over 70 lakh quintals of sugar. The realization price for the quarter under review is approximately ₹ 37.27 per quintal. Owing to these high sugar prices, the realization price as I mentioned previously owing to very robust sugar prices, the business has recorded a 61% increase in gross revenue and the profitability has been phenomenally higher in comparison to the corresponding quarters of the previous year at historic levels. The realization has showed an improvement of 19% q-o-q with an average realization for Q4 FY 17 of ₹ 37,266 a tonne. At the moment, current realizations are hovering between ₹ 37 and ₹ 37.5 per kilo ex-factory not including taxes and duties.

The revenues from incidental co-generation at our units at Chandanpur, Milak Narayanpur and Sabitgarh were ₹ 16.35 crore for fiscal 17. As on 31st of March, our inventory levels were 45.82 lakh quintals which is approximately 65% of the year's production valued at ₹ 31.2 per kilo and as on the 21st of May, we have over 41 lakh bags of sugar with us and the valuation of course is lower than the 31st March number that is simply because of low-cost sugar being manufactured by the company during the month of April.

Looking at the industry scenario as per estimates, sugar production will decline by nearly 20% to about 20.1 million tonnes for the country. During the season, Uttar Pradesh has surpassed Maharashtra in sugar production and producing

approximately 8.72 million tonnes, Maharashtra has produced 4.25 million tonnes which is lower by 49% y-o-y. Karnataka also had a steep decline in production and produced 2.03 million tonnes in sugar season FY 17 against the number that was almost double in the previous year. The Company's estimate on a consumption number for the country for the sugar year of 23.8 million tonnes and our estimates therefore indicate there is sufficient sugar in the country given the fact that there are 0.5 million tonnes of imports at zero duty that will take place over the next few months.

Looking at Government policy besides that particular initiative, the Cabinet has also extended the stockholding limits of 500 tonnes and the turnover limit of 30 days for sugar traders in the country by another six months until October 20th 2017 and this is primarily to balance sugar prices to about ₹ 42-43 per kilo across the country. Stock limit in West Bengal is of course 1,000 tonnes. Sugar prices have been stable during Q4 FY 17, the NCDEX, a spot market price in Muzaffarnagar have been hovering at about shade over ₹ 39 throughout. And what we have seen over the last few months is that the sugarcane planting across the country has increased dramatically. The acreage on the sugarcane that is projected in Maharashtra and North Karnataka is in addition of 30% to 40%. However, it has declined a little bit in Tamil Nadu and parts of Karnataka. For Uttar Pradesh, it is higher than 10% as a consequence estimates for the coming year are substantially robust, we believe that there will be a significantly large amount of increase in the sugar cane availability for sugar mills throughout the country and consequently the crush estimates and the production estimates for the next sugar year will be certainly robust. Current sugar prices in our opinion are likely to remain range bound in the current range until the start of the next sugar season. I would also like to mention that in our estimates the start of the next sugar season will probably be a couple of weeks earlier. This is due to an early Diwali this year and of course the fact that they were coming out of the season of shortage and therefore in these types of circumstances and as history has proved sugar factories do start a little bit earlier and of course with higher cane availability you would certainly see a late September start in Maharashtra and mid October start to late October start in Uttar Pradesh with all the mills probably running in certainly November.

From an international scenario: We have seen real see-saw of prices as far as raw prices are concerned having touched the high at 23 cents, they touched a low of just about 15 cents and now they are hovering approximately range bound between 16 and 16.5 cents. So, it's been quite a see-saw as far as international markets prices are concerned but most pundits look at a reasonable crop for the year and addition to the global stockpiles but not to a significant amount that will have any significant impact going forward on these prices.

As far as the other two businesses with sugar: The Co-generation and Distillery business also performed very well. Over the quarter, the operating efficiencies of the co-generation plant continued to be excellent. And the profitability for the current financial year was a little bit lower but this is only because of a higher material cost as you know. We are very prudent in terms of our accounting and transfer pricing of bagasse and we always look towards market price in determining the same. An income of ₹ 4.5 crore has been realized in the Q4 FY 17 from sale of RECs. As far as the distillery is concerned, a fairly robust quarter with good production numbers, sales volume and sales realization have been little lower. But this was primarily due to a lower off-take of ethanol. The share of ethanol sales in fiscal 17 is 72% of the total sales volume against 87% fiscal 16. With permission of the MoEF, the distillery is expecting to operate for 330 days annually which translates into approximate 20% addition in capacity.

Turning towards our Engineering businesses: Firstly, as far as the Gears business is concerned we have seen a fall in total revenues and a commensurate fall in the PBIT numbers and this is primarily due to overall economic performance for Q4 FY 17 and off-take more importantly by customers. The overall market was impacted by the slowdown in capital goods; we saw that not just domestically but also regionally across South Asia, South East Asia, Middle East, the markets where we participate. However, our share of the aftermarket continued to increase and that is of course higher profitability businesses and so we did manage to maintain PBIT margins of approximately 27% despite the fall in turnover. We believe that the worst is certainly over and as I had mentioned certainly in the last call and as alluded to one of the reasons for all the corporate actions was this muted activity that one was expecting in the engineering business. But I think that we have focused ourselves in terms of realigning the businesses looking at multiple growth areas to growth segments that will allow us to return to a path of improving and growing revenues and of course profitability.

Turning to the Water business: The total order intake for the FY 17 was ₹171 crore furthermore, the Company has secured orders of ₹ 93 crore in May 2017 and is extremely well positioned on many ongoing bids. The outstanding order book on the 31st of March stood at a shade about ₹ 600 crore which included over ₹ 250 crore of O&M contracts over the larger period of time. I would like to mention that there has been a lot of press coverage on water projects etc. Some of them have achieved finalization as I mentioned, we won a fairly lucrative and large contract in this month. And we see over the next few months many such contracts are being finalized and we are extremely well positioned in many orders and tenders. I would like to say that the recognition of revenue having achieved those orders of course takes a little bit of time, so we are very bullish about the business. It has certainly turned the corner as far as the management is concerned and would be happy to discuss more during the Q&A.

In terms of the outlook: Just to sum up I just mentioned outlook of the sugar business, I think over the next 5-6 months we are expecting range bound sugar pricing at a very robust level going into the next season while it is a season of excess we certainly feel that there is no reason for India to import any more sugar going forward. We believe that retail prices as well will certainly be range bound which is acceptable to the Central Government and therefore one can expect that we are in for certainly a good couple of quarters. A notable development of course has been the new Government in UP and having the same party at State and Center certainly bodes well for the sugar industry in Uttar Pradesh and for us and we look forward to progressive future policies with respect to sugar. We can certainly say that sugar has maintained a position of primary importance to the Hon'ble Chief Minister and that is very encouraging and hopefully by the onset of the next sugar season one can see reasonable policies that will allow us to move away from the vagaries of the sugar cycle especially as far as UP sugar millers are concerned. With that I would like to thank you for joining us on the call and open up the call for any Q&As.

- Moderator** Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Nimish Sheth of GT Advisory. Please go ahead.
- Nimish Sheth** You have inventory of about 4.5 lakh tonnes of sugar?
- Tarun Sawhney** That is correct, as on 31st of March its 45.82 lakh quintals.
- Nimish Sheth** So 4.5 lakh tonnes?

- Tarun Sawhney** Yes.
- Nimish Sheth** So two questions related to this, one in your sheet you mentioned the cost is ₹ 31.20, now does this cost includes excise or excludes excise? I presume it's excluding excise but I'm not sure.
- Tarun Sawhney** Excluding excise. Excise is always over and above this.
- Nimish Sheth** And your current selling price is around ₹ 37 which is what you...
- Tarun Sawhney** Also excluding excise.
- Nimish Sheth** Now the previous fiscal i.e. FY 16, you produced around 49 lakh quintals that year or that season, right?
- Tarun Sawhney** Correct.
- Nimish Sheth** And currently your inventory as on 31st March, 2017 is almost equal to what you produced a year before that, right?
- Tarun Sawhney** You are absolutely correct.
- Nimish Sheth** Now in terms of selling, are you going to sell this sugar inventory by the time the next sugar season crush starts or is it something you're going to sell through the year that's really what my question is?
- Tarun Sawhney** A lot of it depends on the sales strategy for the Company going forward. At this point in time without talking about the future sales strategy of the Company which you will appreciate that I can't do over a call like this. What I can certainly say is that we feel that prices are robust; we feel that they are range bound and as a consequence if you would like to read between the lines I think there is no harm in assuming that at these prices we would try and we are happy selling as much sugar at these prices.
- Moderator** Our next question is from the line of NK Arora, an individual investor. Please go ahead.
- N.K. Arora** Congratulations to the Gears Business Group for getting the first defense order from Indian Navy. Can you please elaborate a bit more about this order, is it possible?
- Tarun Sawhney** As I mentioned that we had a foray in terms of looking at certain defense product, defense-related systems, etc. that leveraged the strength that we have in our engineering business. This is an order that we have received from DRDO for fairly complicated components that will be used in naval vessels that leverage on our system's capabilities and it has the possibility of turning into a multi and repeat order which may last for a period of 10 years. However, the order values, etc., right now could not be disclosed but it is a good order that will be produced during this fiscal year.
- N.K. Arora** Are we getting some orders from the GE Lufkin as we had lot of hopes from that?
- Tarun Sawhney** I think as I mentioned when I spoke about muted economic activity and spoke about India and the region around us, the activity as far as industrial products is concerned for the last few quarters, certainly for calendar 2016 has been very

muted internationally, United States and Western Europe etc. Consequently, the amount of orders that we had hoped that we would get from our strategic supply agreement have also been muted; having said that I do firmly believe that during our next fiscal year we would see a significant uptick in orders from our Agreement with General Electric.

- N.K. Arora** Last time when scheme of arrangement was cancelled you had explained it to us and in detail in the con-call, reasons for the same. Now with the uptick in the capital goods industry, do we have any plans to again demerge the engineering business from the sugar business as it has certain advantages also?
- Tarun Sawhney** Let me segregate your question into multiple parts. Firstly, if the Board had considered the same you would have read it in the notes or any releases that would have come from the Company, so there is absolutely no plan on that front. Number two, as far as the return in terms of the capital goods cycle, yes, we believe that we would certainly experience it during this fiscal year. But unless we start delivering multiple quarters of positive results I'm sure you will appreciate that we can't even think about anything along those lines.
- N.K. Arora** We had a very wonderful year and wonderful results. For small shareholders, they were expecting little bit of dividend also, may I know why it was not even considered in the Board meeting?
- Suresh Taneja** One of the reasons was the legal reason. As per the Company's Act you cannot declare dividend till the time you have losses in your retained earnings. So this was one of the legal constraints we had. The other strategic reason is that we are using our cash flows to strengthen the balance sheet of the Company. Payment of long term debt is a priority for the Company and its management and utilizing the cash flows in those resources is most important in that particular direction and I'm sure you will appreciate that.
- Moderator** We will take next question from the line of Nikhil Shah of Arete Enterprises. Please go ahead.
- Nikhil Shah** My first question is on the Water business, if you look at y-o-y, in terms of the segmental results there seems to be a turnaround. So what is the outlook to the extent you can share with respect to the Water business for FY 18? And the second question is more in terms of the overall business outlook of what one can expect in terms of growth in FY 18?
- Tarun Sawhney** Firstly you're absolutely right. We are seeing and as I mentioned even orders that we've received since the end of the quarter we are seeing a lot of orders. Let me go back to the last few times that I have had this opportunity to speak to all of you and I've spoken about many orders that are pending finalization but where we are well placed as a Company. We are now seeing a scenario that those orders are actually coming up for finalization and as and when they come what we are finding is that we are absolutely right that we were very well-placed in terms of securing those orders. So going forward during the course of this year we certainly see order finalizations happening. Now the conversion of those orders into revenues and recognizable revenue would be based on the accounting policies which are followed by the Company. As far as the outlook of the year is concerned I think the scenario is looking very robust. I can't put specific number to it because as you can imagine this kind of a project type of business, there are orders which are several hundred crore that we are tendering for, there are orders that are in two-digit some hundred crore that we are tendering for. So it depends on which orders gain finalization and when that happens. But you can see the emphasis that has happened right from the PMO downwards in terms of improving the availability of

water, the quality of water to every citizen of the country and the company is well-aligned in terms of taking advantage of many of these projects.

- Nikhil Shah** The second question was in terms of the overall business outlook, are you sharing any numbers in terms of what kind of growth and margins for FY 18?
- Tarun Sawhney** No, we don't give forward-looking numbers for the company as a whole.
- Nikhil Shah** So just on the water business you mentioned ₹ 600 crore of the order book position as of March end, just in terms of what part of that is executable in FY 18, is that something you can share?
- Tarun Sawhney** Approximately ₹ 250 crore is executable.
- Moderator** Our next question is from the line of P.C. Surana from PC Surana & Company. Please go ahead.
- P. C. Surana** Any orders received from the 'Namami Gange' or likely to receive?
- Tarun Sawhney** Yes of course, we are well aware. We are tendering for it as well.
- P. C. Surana** Any orders received till date or likely to receive?
- Tarun Sawhney** No, at this point in time no major orders have even been finalized for Namami Gange. While there has been a lot of talk about Namami Gange, not many orders have been finalized.
- P. C. Surana** But likely to be?
- Tarun Sawhney** Of course they are all likely to be but not one has been finalized till date. We are well-positioned and there will be a number of orders as you can imagine there will be many-many orders that will come under the umbrella of Namami Gange.
- Moderator** We will take the next question from the line of Aman Sonthalia from AK Securities. Please go ahead.
- Aman Sonthalia** I just want to know how much crushing you are expecting for the UP next year and for the company next year?
- Tarun Sawhney** It's very difficult to actually predict because everything as you will understand is based on cane availability. A percentage of cane comes to the sugar factories; the balance percentage is split up between farmers use, juice etc. and of course significant portion going to the unorganized sector. Now the total quantum of cane availability the largest determining factor is the quantum and periodicity of rainfall that happens over the next few months. So we believe that there will be a good monsoon which means that we will be in line with what are the predicted averages. Given that scenario and given the fact that we have now adopted high sugar varieties and the farmer across Uttar Pradesh and certainly in our own area is moving towards better agronomic practices. We would certainly see uptick in the total cane availability for the state. At this time, all going well I think the state can certainly produce in excess of 9 million tonnes next year. But a lot of it is predicated on the weather conditions over the next few months.

- Aman Sonthalia** My question is regarding the country's consumption, you have mentioned in the report that country consumption is around 236 to 238 lakh tonnes most probably. Don't you think that on the lower side the actual consumption is on the higher side?
- Tarun Sawhney** The consumption that we mentioned is 23.8 million tonnes and that's the Company's estimate.
- Aman Sonthalia** It is not the ISMA's estimate?
- Tarun Sawhney** It's the Company's estimate.
- Aman Sonthalia** And why the ISMA is not coming out with this country's production? We are not getting any information regarding this year production. Earlier every fortnightly we would get this estimate or production figures but now I think ISMA has stopped giving it, so what is your estimate for the current year's production, do you have any estimate?
- Tarun Sawhney** I would urge you to speak to ISMA frankly speaking, I cannot speak on behalf of the industry organization.
- Aman Sonthalia** And what about you, your estimate for the current year production?
- Tarun Sawhney** 20.1 million tonnes.
- Moderator** We will take the next question from the line of Ritesh Badjatya of Asian Markets Securities. Please go ahead.
- Ritesh Badjatya** In the press release you have talked about uniform cane pricing policy post the UP Government is likely possibility in the coming year.
- Tarun Sawhney** It is our hope.
- Ritesh Badjatya** Sir if you can throw some more light that how it is game changer, does the cropping pattern changed due to this and cane arrears which is a problem for this industry so that can also help to get a volatility in the sugar production every 2-3 years that cycle is changing. In that manner and it is going to be a game changer or does it attract a lot of the investment from company side so that the recovery rates can be increased?
- Tarun Sawhney** No, the game changing part of it is that if you have this type of the uniform policy, there is a move towards converting sugar mills into quasi tollers. You are protected thereby by the ups and downs of sugar cane availability and of rising and falling sugar prices and it is that type of buffer that is created in terms of variability of cane pricing that will give protection to sugar mill producers that's the game changing part of it.
- Ritesh Badjatya** If you can give one data point to me that in the last 10 years how the SAP prices have moved up and how are the sugar prices moving?
- Tarun Sawhney** You can contact us off-line, we have this data. I don't have it with me off hand.
- Ritesh Badjatya** So after this if that will be a reality that sugarcane pricing formula, so can we expect good investment from the company side also so that recovery rate can be increased going ahead?

- Tarun Sawhney** Of course if the economics in the industry are more robust across the board, across the country you would see more investment in terms of better seeds, higher yield, higher recoveries etc. that is certainly logical. But as I was trying to explain through the investor brief as well that this is something that the industry would hope for. Now it is not certainty that it is going to happen just because you have got the same government in the center because it is a political decision at the end of the day and one that we can certainly only canvas for.
- Moderator** Thank you. As there are no further questions from the participants I now hand the floor back to the management for closing comments. Over to you sir.
- Tarun Sawhney** Thank you very much of joining us for the Fiscal 17 Results for Triveni Engineering & Industries Limited. As I had mentioned we have great hope and promise for all the various business segments going forward for this fiscal year. I look forward to discussing our results with you at the end of this quarter. Good afternoon.
- Moderator** Thank you members of the management. Ladies and gentlemen on behalf of Triveni Engineering & Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.