



Triveni Engineering and Industries Limited Conference Call Transcript February 15, 2018

Moderator Ladies and gentlemen, good day and welcome to the Triveni Engineering and Industries Limited Q3/9M FY 18 Earnings Conference Call. As a reminder, all participant lines will be in 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 "*" and then '0' on your touchtone phone. 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 afternoon, everyone, and a warm welcome to all of you participating on Triveni Engineering and Industries Ltd. Q3 and 9M FY 18 Earnings Call. We have with us today, Mr. Tarun Sawhney – Vice Chairman and Managing Director; Mr. Suresh Taneja – Group CFO; Mr. Sameer Sinha – President (Sugar), as well as other members of the senior 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. We would also like to emphasize that while this call is open to all invitees, it may not be broadcast live or reproduced in any manner. We will start this conference call with opening remarks from the management, followed by an interactive Q&A session.

I would now like to invite Mr. Tarun Sawhney to open the call. Over to you, Mr. Sawhney.

Tarun Sawhney Thank you, Gavin and good afternoon to everybody on the call. Welcome to our 9M FY 18 results call for TEIL. The gross revenue for the period nine months stood at Rs. 2,677 crore, which was a 32% growth over the corresponding three quarters of the previous year. We had a record profit after tax for the same period at Rs. 221.2 crore, which is a growth of 15%. As far as the sugar business was concerned, there were significantly higher sales volume and a lower finance cost, which resulted in improved business performance for the nine-month period.

Sugar prices did, however, decline quite considerably at the end of the third quarter, in the month of December 2017. There's encouraging operating performance for Sugar Season in 2017-18 and I will discuss that later on in my opening remarks. And we at Triveni have revised the output of the country's sugar upwards fairly significantly, and again, I'll be talking about that in greater detail.

As far as the Engineering businesses are concerned:

The market has shown good visibility for the Gears business and which has registered excellent growth during the quarter in terms of turnover, profitability as well as order booking. There has however been muted performance for the Water business, primarily due to the overhang of macroeconomic factors, which resulted in lower turnover and consequently, profitability. A provision has been made for the additional losses in the Water business resulting from delayed project and the consequent cost overrun. The outstanding order book of our Engineering business stood at just under ` 740 crore.

Looking at the financial highlights for the company:

The gross revenue for the quarter, third quarter was ` 772 crore, with an EBITDA margin of 13% and a profit after tax just higher than ` 60 crore. The total debt of the company on the 31st, December 2017 was just under ` 740 crore, which is a substantial 57% lower than on the 31st of March, 2017 and 31% lower than the same time of the previous year, December 31st 2016. The term loan as on the 31st of March 2017 is ` 194 crore, including ` 52.4 crore of loans, with concessional interest or interest subventions and the short terms, including cash credit at approximately ` 545 crore. During Q3, the Company repaid total debts of just over ` 61 crore and a prepayment of about ` 23.4 crore. I would like to mention that there is some prepayment of loans that will also take place in Q4, which is the quarter that we're in right now and therefore, the total long-term debt position would be further reduced by the end of this fiscal year.

Looking at the business highlights:

As far as the Sugar business is concerned, cane crush for the quarter was 2.8 million tonnes, which was substantially higher than 2.26 million tonnes for the previous season. Similarly, the recovery was 16 basis points higher at 10.48%, which has of course substantially grown over the months of January and February. Dispatches were approximately 165,000 tonnes for the quarter at an average realization of ` 36,940 per metric tonne, again both higher than the previous corresponding quarter. I would also like to mention that both the dispatch of sugar, the total quantum and the realization price was substantially higher than what we believe for our peer group and is testament to the good work that has been done by the operating teams of the business.

Sugarcane crushing at our units is very much in line with our budgeted expectations. The cane crushing after the 13th of February 2018 was 19% higher year-on-year, with an increase in sugar production of approximately 22% due to an increase in our recovery of 28 basis points as of the 13th of February. Our on-date sugar recovery for all seven units as an average is exactly 12% and to date recovery is 10.78%. This of course, is all publicly available information.

When I had spoken to you on our last Earnings Call, I had anticipated a 15% increase in production for the group. I can confidently say that it will be higher than this 15%, at approximately 20% for the Group for this Sugar Season. Stocks have been written down to the net realizable value as of the end of the quarter and there has been a total inventory write-down of ` 24.7 crore, which has been considered by the management. The cost of production during the initial period of the season up to the 31st of December, 2017 is transitory and we expect it to substantially decline as the recoveries improve and as the operations of the factories take better effect. The inventory as of the 31st of December stood at 20.8 lakh quintals, which was valued at ` 32.8 per kilo.

The income from incidental co-generation at our Chandanpur, Milak Narayanpur and Sabitgarh units resulted in revenues of just about ` 8 crore for the quarter and I would like to mention that while sugar prices did decline at the end of December and continued in the month of January, as of early February, prices have risen and current prices are at approximately ` 35 per kilo for the sulphitation sugar and ` 36 per kilo for refined sugar. The recent lows were about ` 31.5 for sulphitation and ` 32.5 for refined sugar at the very end of January 2018. Our pharmaceutical sugar plant has been certified and that production will be sold from sugar produced of this year.

Regarding the industry scenario against an overall Indian sugar production, which was previously estimated at approximately 25 million tonnes, Triveni has revised its estimates upwards due to a lot of research, that we conducted, at approximately 27.5 million tonnes with the bulk of sugar production coming from Uttar Pradesh and Maharashtra, about 10.5 million and 10 million for both states respectively. In view of the supply pressure to pay cane dues and estimates of higher production, the sugar prices did fall in December and January, about almost ` 5 per kilo, then of course, they've risen as I just mentioned.

The Government has been pragmatic in comprehending the grave situation and has taken three significant initiatives. Firstly, it has removed stock holding limit on the trade. Second, it has increased the duties to 100%. We believe that the duties can be further increased to 150% by the Government under the terms negotiated with the WTO. And third and most importantly, the factor that has had an impact on pricing is the introduction of reverse stock holding limits.

As a very simple explanation of what these reverse stocks holding limits mean, the Central Government announced these limits on the sales by sugar mills under which, each sugar mill will have to keep with it at the end of February 2018, not less than 83% of the closing stock as of the end of the previous month, January 31st and in addition, the February production less the exported amount for February 2018. 86% of the closing stock as of the end of February 2018 will have to be kept as of the end of March 2018. In effect, this is very similar to the old quota regimes that were prevalent. And the reason why we've experienced this very substantial increase in prices is because there was absolutely no sugar pipeline. In the month of December and January, when we had very significant falls in prices of sugar, the trade including large industrial consumers did not stock any sugar, in a declining market, they were buying hand to mouth and so, with the introduction of stock holding limit and a zero pipeline, we saw an immediate bump because this pipeline, which can absorb approximately 1.5 million tonnes just under a month's consumption of sugar is absolutely empty and so, until this pipeline gets filled, we will not see any significant volatility and we will see aggressive buying by industrials and by the trade.

I won't spend much time talking about the changes in cane price. As you know in the last quarter, sugar prices were increased by the UP government, by exactly ` 10 per quintal over the previous season. The Central Government has raised the ethanol price by 5% from ` 39 per liter to ` 40.85 per liter for the marketing year 2017-2018 starting in December 2017, for a total of ` 313 crore liters, which is about 12% higher year-over-year. This tender sadly was only released a month late, which impacted productions of distilleries across the country, especially with respect to manufacture.

Currently, OMC's have released tenders worth ` 313 crore liters for the current marketing year and as of today, there has been another tender, the latest tender has been announced today for a further ` 118 crore liters. This tender will close out on the 8th of March. From an international perspective, sadly we are expecting a

bumper year, with almost 4 million tonnes of surplus being added to the global stockpiles and this has resulted in timid pricing both for raws and whites on the international exchanges and there is no real news on the horizon that is going to be changing that anytime soon.

The Brazilian harvest, which is all but over has also shown a substantial increase and despite mills producing the maximum amount of ethanol due to a bumper crop has been a huge production of sugar as well. Similarly, Thailand has seen almost a 20% increase in its sugar cane crop and sugar production and all of that will add the global stockpile.

With respect to the co-generation business, the operations were considerably higher, which resulted in a substantial increase in profitability year-on-year. The operating efficiencies of the co-gen plants continue to be excellent and ` 5.2 crore of income was realized during the quarter from the sale of RECs with respect to Khatauli and Deoband units. As far as the distillery is concerned, it remained closed for a month during the first half of FY 18, which impacted the overall production of the distillery. The ethanol tender, as I've mentioned was delayed, did impact supplies during the quarter and resulted also in a lower sales volume. The company has received a ` 2.72 crore liter contract for ethanol supply, for the 2017-18 period, at an administered price ` 40.85 per liter of ethanol.

The current operations within distillery are normal. And I should mention over here that with such a large bumper season, there has been a production of excess molasses, which will not be consumed by the distillery. We had anticipated this in October-November 2017 and sold our anticipated excess into the market when prices were much higher. And therefore, we're beneficiaries; the company is beneficiary for that amount of quantity that was sold because prices have declined quite precipitously for molasses as well over the last three months.

Turning to our Engineering businesses:

The Gears business recorded revenues of ` 28.2 crore, which was considerably higher than ` 19.7 for the corresponding quarter of the previous year and the order booking for the quarter stood at ` 33.7 crore, which was more than double the order booking of the previous corresponding quarter. The activities during the nine-month period have picked up, as indicated by the order booking. The order booking has improved by 115% in the quarter. For the nine-month period, I should add, the order booking was a shade under ` 150 crore, which included ` 50 crore of orders that were executable beyond FY 19. The overall market looks stable, with substantially positive signs in few sectors, where we've been receiving excellent business.

The business has also received strong inquiries from defense and is hoping for concluding some of those in the coming quarters. It's very difficult to be able to anticipate when these orders get closed out, because there are factors that are beyond certainly our control. The outstanding order book on the 31st of December stood at ` 138.1 crore, which were executable beyond FY 18. A large quantity was executable beyond FY 18. Unfortunately, our order book is not necessarily in the public domain and therefore, we cannot provide the split of these products as per our different business segments within the Gears business group.

Turning to the Water business group:

There has been a slow progress and delay in the completion of certain projects, which have resulted in cost escalations and have adversely impacted the results.

We did have several large economic events that occurred, including the implementation of GST that did throw a slight amount of confusion, not slight, actually substantial confusion for our partners that we were implementing solutions for and we believe that these have pretty much been sorted out and therefore going forward, I anticipate that such long delays will not be the case. The outstanding order book on the 31st December stood at ` 601.5 crore, which included ` 254 crore towards Operations and Maintenance.

Looking at the outlook for our businesses and I will spend just a few minutes talking about it:

Returning to Sugar, we have revised our estimates for the Sugar Season to 27.5 million tonnes. But I must mention that there is an immediate requirement to export 1 million tonnes of white sugar out of the country. If we look at the supply and demand scenario and given the fact that we have additions to the stock pile and even if we have about 1.5 million tonnes that get added to the pipeline, we still have an extra 1 million tonnes. And if we are to maintain prices at a reasonable level, we will need to export 1 million tonnes and the company as well as the association has been petitioning the Government. And we hope that the Government will implement such a solution sooner rather than later.

Regarding the sugar prices, provided we have a quota system for the next couple of months, we will be able to see reasonable prices at this point. However, the moment quota system does go away and the pipeline gets filled up, then we will have a potentially downward declining price environment, which can be arrested with the export. So I believe that, that is exactly what will probably happen over the next few months.

Looking at our Engineering business:

The outlook for Gears in the capital goods segment is steadily advancing towards the stages that it was a few years ago. The turnover from OEMs has gone up quite substantially in the nine-month period, year-on-year, which augurs very well for new business, while the services and retro business is an important component to our business, especially with respect to profitability. It is the ongoing supply of complete products to OEMs that augurs well for the future and that has seen a good solid increase, especially over the last quarter. The company is exploring new products and geographies to expand and to further improve its turnover and its profitability.

With respect to the Water business:

Finally, the company has participated in a large number of tenders that I've been telling you about over the last couple of quarters and we're expecting significant order booking towards the end of this current quarter Q4 and the beginning of next quarter Q1. The results really are again turning towards GST. The problems especially in terms of rewriting the commercial terms of tenders, after the implementation of GST took its toll on in terms of order finalization. And that of course now, as I mentioned has abated. So we see one more major hurdle out of the way. And therefore, I'm fairly confident in saying that we can see a good amount of order booking coming forward in the next three months or soon. And we are extremely well placed in order to secure some large municipal orders. The company continues to successfully leverage its existing relationships, especially the engineering relationships with industrial sectors and industrial consumers in order to be able to also get some more business in the water segment.

So thank you very much. I'd like to now open up the floor for some question and answers.

- 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 Aman Sonthalia from AK Securities. Please go ahead.
- Aman Sonthalia** Sir my question is regarding that whether the government is planning to impose cess on sale of sugar and when this export announcement may come?
- Tarun Sawhney** I think Aman, you've asked an excellent question. One route is to bring back the cess that we had before the implementation of GST, that cess was collected and utilized as a part of the sugar SDF for various schemes. At this point in time, there are no additional accruals to the SDF and so whatever money stays in there, and that's about it. And the SDF did form a crucial part of the support that was offered by the Government, especially financial support to the industry. So, one route would be the implementation of a cess. I don't think this government is very happy looking at the imposition of additional cesses after the implementation of GST and so, I think that is something, while I believe is under consideration. I don't see it happening anytime soon unless circumstances change very dramatically and necessitate that type of implementation.
- Aman Sonthalia** Sir because, next year hopefully the production will be much higher than this year. So it requires a huge amount of money to support the exports. By the way the Government is working, I don't think that they will monetarily support from their own pocket. So do you think that cess is the only way out or they may support in any other way to the industry?
- Tarun Sawhney** You know it's a very tough question. You are right that if exports have to take place then the government has to allocate funds, either it accrues those funds through imposition of a cess on consumers or it allocates some of the budget in terms of supporting any type of MIEQ program with a DBT payment to farmers. Now as far as the latter is concerned, the likely scenario is that the Government is weighing its options, devoting its current budget towards DBT to farmers, is again a substantial political decision and one that is being considered at this point in time. So there are no signs one way or the other from the government as far as Triveni is concerned in terms of which type of implementation the Government will follow. But we do know this that in the international market and in the domestic market, 1 million tonne of exports is beginning to get factored. Once announced, there will be a substantial boost, but it is certainly getting factored in, into prices.
- Aman Sonthalia** And, sir my next question is about the water business. When we can expect profits from this division?
- Tarun Sawhney** Well, I had mentioned in our last call and I will stick to that position as well that this was a year of real change for us in terms of doing some minor restructuring of the business and cleaning up the entire business, taking off all the write-offs that we had to. And I think we're pretty much towards an end of that and so, one expect that the next year is going to be a positive year for the business.
- Aman Sonthalia** The last question is about the distillery. Molasses prices have come down a lot and we are not fully integrated in distillery. So whether are we planning to put another distillery in some of the units?
- Tarun Sawhney** There are proposals that are under consideration, but the moment it gets finalized and orders get placed, I will come back to you and report it.

- Moderator** We have the next question from the line of Vijay Gupta, Individual Investor. Please go ahead.
- Vijay Gupta** So my first question is as I asked in the last concall as well, the value or the quantity of projects in Water business where we are L1, in fact that is the information could not be shared even offline, so can you please give us some light on the same?
- Tarun Sawhney** Well, if we're L1, then we received the project and if we received the project, we counted it as part of our order book. So it's fairly simple, in terms of orders that we have lost, we don't share that data.
- Vijay Gupta** Because in the last concall, you actually mentioned that probably you will provide this information offline, that's the reason I'm asking this again probably, so?
- Tarun Sawhney** I have no information to share with you, I am sorry.
- Vijay Gupta** Okay. Sir any specific reason our distillery production is low these nine months?
- Tarun Sawhney** Yes, I answered that in my opening remarks, I'd repeat them. There were two or three reasons. But firstly, the most substantial reason was, the distillery did remain closed for a month during the first half of FY 18 and I addressed that in the previous call. In addition to that, we've had a month delay in terms of finalization of the ethanol contract order, both of the factors that have impacted the performance of the distillery, and therefore the profitability, which is accounted for the slight shortfall in the nine month numbers.
- Vijay Gupta** But we are very hopeful of meeting the targets that are there. So what is the production that we expect by the end of the year, overall, in distillery ethanol?
- Tarun Sawhney** We don't give you forward-looking numbers, so I can't offer that, operations are normal as of now and therefore, they will conform to our budgeted estimates.
- Vijay Gupta** Okay. So in the Gears business sir, the outlook also suggests that we are expecting a good number of orders from new geographies or products. And the company's focus seems to be in the same direction. Can you please give me some numbers, if any order that we have received from let's say marine, defense or GE Lufkin?
- Tarun Sawhney** I'm afraid not. As I mentioned in my opening remarks, this is competitive information, and we do not offer a bifurcation of our order book for our Gears business due to the sensitive nature of that information.
- Vijay Gupta** Any other new product categories where we are venturing in, beyond marine and defense?
- Tarun Sawhney** Not in Q3 of FY 18.
- Vijay Gupta** Q3 is already gone, so maybe about Q4?
- Tarun Sawhney** Nothing as of yet. No. Though we're focused on a large number of sectors, I think our energies have diverted towards all those sectors and a significant number of them are showing signs of improvement, and therefore, our resources and time is focused on capturing businesses in particular areas where there has been growth.

- Vijay Gupta** Okay. Sir any plan, given that now that for the last two, three quarters, there is good performance in the Engineering business at least on the gear size, next year we expect Water business also as you just right now mentioned to be better, any plan of re-introduction of the scheme of arrangements in the near term or maybe by the end of the year?
- Tarun Sawhney** So, I must compliment you firstly on asking the same question every quarter on every call, but let me be clear and say that, the Board has not contemplated any such move and as and when it does, it will be announced to the stock exchange first before it comes to this forum.
- Vijay Gupta** Sir my last two questions are sir one is regarding the sugar and the other is regarding dividend policy or dividend distribution plan of the company given such beautiful results by now. In the Sugar business, this may be slightly forward looking, but I would appreciate it if you could just try and give an answer to this, what is the cost of production that we expect by the end of the year per Kg and the sugar stock value as on date?
- Suresh Taneja** You know, based upon our estimates of crush in the balance part of the year and the recoveries we are hoping to achieve, I think our cost of production would be somewhere around 32.5.
- Vijay Gupta** And any numbers on the sugar stock as on date?
- Tarun Sawhney** Sugar stocks as of 31st of January, our stock was approximately about 31 lakhs.
- Vijay Gupta** And any idea on 13th of Feb or 14th of Feb?...
- Tarun Sawhney** We don't have that figure available as of now.
- Vijay Gupta** Okay. And the last question sir, any plans of dividend, any news on the company in distributing the profits to the shareholders for the year?
- Tarun Sawhney** You know, as far as the dividend is concerned, our dividend policy is in the public domain. Obviously, at the time of final accounts for the year 2017-18, the Board would take an appropriate decision in this respect.
- Vijay Gupta** But no concrete thinking has gone into it?
- Tarun Sawhney** Actually, Mr. Gupta, a lot of concrete thinking has gone into it, which is why we have a formal dividend policy. I'd encourage you to refer to it in our Annual Report.
- Moderator** We have a next question from the line of Praveen Motwani from NMV Securities. Please go ahead.
- Praveen Motwani** Sir, I have one question on your Gear business. So sir, which sector contributed the most in Q3?
- Tarun Sawhney** So, we don't split up businesses in terms of sectors like that and we certainly don't report on various sectors. And let me give you a reason for that. A gearbox is an intermediate product. It gets attached to a compressor, it gets attached to a turbine, it gets attached to a pump, to a whole host and variety of different larger machines that drive the gearbox and then those get placed around various industries. So as far as we're concerned, we focus more on our OEMs rather than, on which of these industries there are final sales. Now, this is a function of the high-speed gearing business which we cater to. If we were a low-speed gear manufacturer, then it's

more relevant about which sectors have seen that growth and traction. To answer your question in a different way, we've seen excellent growth with respect to our OEMs and I mentioned that in our opening remarks, where our OEMs have contributed substantially, not just in terms of order booking, but also in terms of our sales in Q3 FY 18 and that augurs very well. It means that they are seeing business growth in some or various industry segments. But as far as we're concerned, this leads to greater possibilities of further business in terms of spares and service in the years to come.

Praveen Motwani Okay, sir and then, how you target the new product, when you are not giving us the sector wise data, then how do you target the new product in the Gear business?

Tarun Sawhney We target new OEMs. So there are a variety of OEMs especially in the domestic market, they bulk buy from us, whereas a small portion that don't buy from us. And so that leaves a market to be penetrated. In addition to that, we have access to certain global markets, where there are OEMs that do not buy from us or buy very small quantities from us and therefore, the growth for us, is in terms of targeting those OEMs and their business going forward.

Moderator We have a next question from the line of NK Arora, Individual Investor. Please go ahead.

NK Arora Sir, my first question is regarding the Gears business. So we are getting a lot of orders, gears business group is doing very well. So congratulations for that. What I wanted to know was that, is it the domestic economy which has revived and we are getting a lot of orders or we are getting some orders from the international market also?

Tarun Sawhney We are getting orders from both the domestic and international. We have seen buoyancy in the domestic market as well. This is something that we have not experienced when I spoke to you on the last earnings conference call and so I'm happy to report that the increase in order booking is pretty much in both domestic and international.

NK Arora Secondly sir, I wanted to know about molasses. It has been reported in the media sometimes that UP government is considering some decontrol of molasses or allowing exports of molasses outside of UP. Has anything been done by the state government in this respect?

Tarun Sawhney They are actively considering it and you are very right that our proposals that have been going around and have been put forward to the UP Government by the Industry Association and by millers, we expect a decision by the UP Government very soon. I think the Government and the Chief Minister himself have said that he is actively looking at implementing this proposal. The timeline specifically is something that I'm unaware of. I expect it to happen sooner rather than later.

Moderator We have a next question from the line of Aman Sonthalia from AK Securities. Please go ahead.

Aman Sonthalia Sir, my question is that, while valuing the closing stock, what is the price of molasses and bagasse that you're taking?

Suresh Taneja You know, bagasse is normal. Whatever is our selling price, based upon that, we value the stock also accordingly.

Aman Sonthalia And what was molasses, sir?

- Tarun Sawhney** Same for molasses. You know, we go on the basis of market price. If the market price goes up, our price also goes up or if it comes down, our price also comes down.
- Moderator** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments. Over to you, sir.
- Tarun Sawhney** Thank you very much for joining us on the Q3/9M FY 18 earnings conference call for Triveni Engineering and Industries Limited. The Company, as far as the Sugar business is concerned is recording new highs in terms of its operational performance. We are seeing excellent growth in our Gears business and we hope to see good order booking in the next few months as far as our Water business is concerned. And so from an overall perspective, the Company is performing well. There are certain factors that are out of our control given sugar prices or prices of other commoditized products and we are hoping that the Government does enter in timely, to ensure that we have some stability in these sectors. I look forward to speaking to you approximately three months from now and good afternoon to you all.
- Moderator** Thank you, sir. Ladies and gentlemen, on behalf of Triveni Engineering and Industries Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.