

Triveni Engineering Industries Limited

Q1FY08 Results Conference Call

February 4th, 2008

Moderator: Ladies and gentlemen good afternoon. I am Rochelle, the moderator of today's conference call. Welcome to the conference call on the quarterly results with the management of Triveni Engineering. For the duration of this presentation all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of the presentation. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gavin Desa of Citigate Dewe Rogerson, thank you and over to you Mr. Desa.

Gavin Desa: Thank you Rochelle and welcome to the Triveni Engineering Industries Limited's conference call for the quarter ended December 31, 2007. Present with us today is Mr. Dhruv Sawhney, the Chairman and Managing Director of Triveni Engineering along with his senior management team. I'd now request Mr. Sawhney to address the conference and give some perspective on the quarter after which the floor will be open for an interactive question and answers session.

Dhruv Sawhney: Thank you very much. Good afternoon everybody. Welcome to the first quarter investor call. We've had a good quarter in which sales have increased by 13%. The Company has delivered an EBITDA increase of 63% and EBITDA for the quarter stands at Rs. 711 million compared to Rs. 436 million in Q1 FY07. An important development for the quarter was that our sugar and co-generation operation have turned around after three quarters. Our engineering business has been performing well consistently and in some sectors we have recorded a better growth in the order books. Our finance cost is higher than the previous year, but after accounting for this, we still have a much better result than what we achieved in the previous year. Talking about our sugar segment, our sugar operations in the current year are substantially better than what they were last year. As on 31st January, the amount of sugar cane crushed by us stood at 302 lakh quintals compared to 283 lakh quintals last year. This is after accounting for a delayed start in the current season. Our recovery increased by 0.2% to 9.7 versus 9.48 last year. We expect our recovery to be 0.2% to 0.3% higher than last year. We also expect to crush about 7 million

tonnes of cane and produce 15 to 20% more sugar than the previous year. For the country as a whole, we expect sugar production to come down between 26 and 27 million tonnes. Consumption of sugar is expected to be over 22 million tonnes and exports of sugar should be over 3 million tonnes. The world situation has also turned around as reflected by the prices for sugar futures. Brazil has visibly turned towards ethanol and the ethanol sugar mix which is expected to be around 58-60% in the current year up from 48-49% last year. Flexi fuel cars account for 95% of all new sales in Brazil today and with forecasted crude prices over \$75 a barrel, we expect a substantial amount of new cane production in Brazil to go to ethanol. Brazil has been exporting sugar at a price below its production cost. We do not expect this to happen going forward owing to Brazil's shift to ethanol production. Because of this development we expect global sugar prices in the coming months and then subsequently in the next year to remain above current levels and maybe even go up to the same levels as they were three years ago. Current sugar prices are increasing and we do expect a further improvement in the next few quarters. Realization for July – September 2007 stood at Rs 13,460 per tonne, this rose to 13,950 in the Q1 FY08. In January 2008, we had an average realization of 14,420 for the company. Realizations in western UP are almost up to 14,900- 15,000 at present. Realization levels in central UP are a little lower and stand at 14,300, in east UP realization levels stand at 14,800. The NCDEX futures prices for April to July are higher than current prices hence we feel very positive about the probability of an increase in sugar prices. We believe the production in the year 2008-2009 will be even lower than production in the current year and the sugar production should go down to around 21- 22 million tonnes. Substantially low sugar production levels in India will definitely have some effects on sugar prices in the future. The sugarcane pricing issue is sub-judice both for 2006-2007 and 2007-2008. We have accounted for a SAP of 1,250 per tonne last year in our books and we are keeping to those figures. For the current year we have taken a cane price of Rs.1,100 per tonne as per the interim order. The Supreme Court order at the moment for 2006-2007 will be heard on the 12th of February and today in the hearing regarding the 2007-2008 order, the Supreme Court has adjourned the hearing till the end of February awaiting the matter to be heard and a decision pronounced in the High Court of UP in Lucknow. So clarity on both these issues will probably not come till early March. We have our cogeneration business performing as well as it had last year and we do expect carbon credits of 150,000 in the current year. We expect the carbon credits for the period 1st April 2007 – 31st March 2008 to accrue in the second half of the current financial year. We expect 200,000 carbon credits to accrue on an ongoing basis. Our distillery will be operating for around 270 days and our cogeneration units will also run for around the same number of days. That's about 10 days more than last year. Our

orders on hand in the engineering businesses are very good. As on the 30th September, our turbine orders were 4.7 billion and on the 1st February, these have gone up to 5 billion. Our gear orders have increased marginally from 408 million on the 1st October to 419 million now. We have witnessed a substantial jump in our water business. Orders on 30th September were 449 million and they have jumped to 800 million now. We have received a single desalination order for 280 million, which is the largest desalination order for a power plant to date in India. We believe once we have started executing this order we will have the credentials—the necessary pre-qualification credentials to take up even higher volume orders. The water business is expected to have quantum jumps in the next year, similar to what has happened in turbines in the last two years. As you know, our turbines business, for the last two years have increased substantially in both sales and profitability. For example, in 05-06 we had a profit of Rs. 8.2 crore, in the same period last year profits stood at Rs. 22.9 crore which then jumped to Rs.26.6 in the first quarter this year. This is after a loss of production for some 20 odd days owing to some industrial actions, which have all finished. In the second quarter, this will be made up. And in the second quarter we expect steam turbine sales to increase by over 30% over the first quarter and to the corresponding second quarter last year. We also expect over 30% increase in profits in steam turbines in the second quarter compared to Q1 FY08 and Q2 FY07. As such, our engineering businesses in turbines, gears, and water are expected to carry on their high growth in terms of revenue and profits before tax. We have a substantial turn around expected in the next year in sugar, which will come about with a lower production in the country in 2008-2009 and with that and our engineering turnover and profitability increasing at the pace it has in the last 2 years, we expect the company to be extremely strong as a whole. If there are any questions, I'd like to take them on now. Thank you.

Moderator:

Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. At this time participants who wish to ask a question please press “*” and then “1” on your touch tone phone. The first question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade:

I would like to ask a couple of questions. Firstly, what kind of recovery rates have we had and how do they stand as compared to the corresponding quarter last year. What are our expectations about the overall production in UP?

Dhruv Sawhney:

Alright. I'll just repeat the recovery rates. Currently our recovery up to the 31st of January for all 7 units is 9.7% versus 9.48 last year. So we are about 0.22 higher than last year. We expect to end the year between 0.2 and 0.3% higher for the season. So that's around 9.95 to 10% versus 9.7 last year. For UP we expect a

production between 7 and 7.5 million tonnes versus 8.4 million tonnes last year

Achal Lohade: What are the current realizations on the distillery as in the ethanol, the rectified spirit and molasses?

Dhruv Sawhney: Right. I shall ask my colleague to give it to you.

Sameer Sinha: We are not supplying ethanol right now. We are supplying industrial alcohol SDS. The current realizations for industrial alcohol, SDS are about Rs.19.75, this is the weighted average figure after adding the excise duty of 16.5%. Similarly the realization for rectified spirit is in the same range. We also supply extra neutral alcohol and the realizations currently are in the range of Rs.22 to Rs.23 per liter.

Achal Lohade: What are the prices for molasses? Have they improved significantly from the last few years?

Dhruv Sawhney: Molasses prices are around Rs.200 to Rs.220 per quintal and they are higher than last year.

Achal Lohade: And do we expect it to remain high going forward?

Dhruv Sawhney: We do not expect the prices of molasses to come down. We in fact expect them to stay at least at the same level if not increase marginally.

Moderator: Thank you Mr. Lohade, the next question is from the line of Nirav Shah from PINC Research. Please go ahead.

Nirav Shah: I have a few questions. Firstly, what is the unit wise breakup of the carbon credits for the 2 lakh units which we will get? How many carbon credits will we get from Khatauli's first unit, Khatauli's second unit, and how many credits will Deoband yield?

Sameer Sinha: Okay. Deoband and Khatauli first units are about 75,000 each and Khatauli second unit is about 50,000.

Nirav Shah: And sir what is the current debt on the books as of 31st December?

Suresh Taneja: It is approximately Rs. 875 crore, which has got long-term loans of about Rs. 700 crore.

Sachin: This is Sachin here from PINC.

- Sachin:** Just wanted a broad view on how your two partnerships are going? The first one with GE regarding compressors, and secondly with the Chinese company regarding the need for higher engine turbines. What is the progress you have made? Have you started to participate in RFQs and when can we expect the orders to start flowing in?
- Dhruv Sawhney:** Yes that's a good question. We started participating in tenders on both lines. As you know, in the GE compressor business will assist us on the oil and gas pipelines. So a little bit is really dependent on some of the customers. What has happened is that there haven't been any orders that have been finalized since we signed the collaboration. That's the good part. The customers that we have been meeting and talking to have taken our participation very well. So we are on the job. We are also going to start the marketing. We have already started bidding for some high value steam turbines also.
- Sachin:** Coming back to GE, sir what type of pipeline do we expect, and initially we had mentioned about our market share approximately around 20%-25% in the next one to two years. Are we on track of that and could you give some perspective on the type of pipeline we are looking at?
- Dhruv Sawhney:** Well, I think the estimates that we gave initially are exactly the same. In 1- 2 years we expect around Rs. 100 crore going up to Rs. 150 to Rs. 200 crore in two to three years time. Moreover, it really depends on the pipeline projects of companies like Reliance and GAIL.
- Sachin:** Do you expect at least Rs. 30 to Rs. 40 crore from this business for the year ending September 2008?
- Dhruv Sawhney:** No. Firstly, we have to get the orders and secondly, the dispatches have to start. So we have not budgeted any accretion to revenues in the current year 2008-2009.
- Sachin:** Regarding the turbine business, what type of RFQ have you participated in? When can we expect the final outcome for this activity?
- Dhruv Sawhney:** The delivery of large turbines is about 16 months.
- Sachin:** That's in terms of delivery, but in terms outcome that is, whether we win the order. When can we expect to know that sir?
- Dhruv Sawhney:** We will know in the next 3- 4 months.
- Dhruv Sawhney:** Thank you.

- Moderator:** Thank you sir. The next question is from the line of Gaurav Garg from Enam Securities. Please go ahead Mr. Garg.
- Gaurav Garg:** Sir, any major Capex Requirement?
- Dhruv Sawhney:** No. There will not be a Capex requirement right now.
- Gaurav Garg:** What is the total Cogen capacity?
- Dhruv Sawhney:** We have a different season and off season co-generation capacity.
- Sameer Sinha:** Capacity during the season is 68 mega watts. Exportable capacity in season and off season stands at around 45 mega watts.
- Moderator:** Thank you Mr. Garg, the next question is from the line of Mr. Vipul Goyal from Aadhar Securities. Please go ahead.
- Vipul Goyal:** Could you give us the total break even cost for sugar production including all costs?
- Suresh Taneja:** The breakeven cost assuming a recovery of 10% and a sugar cane price of 110 and including finance cost is approximately Rs. 1,500.
- Moderator:** Thank you Mr. Goyal, the next question is from the line of Mr. Rahul Bhangadia from Lucky Securities. Please go ahead sir.
- Rahul Bhangadia:** Could you tell us a little bit about the various segments in the gas compressor markets and which segments we are going to target?
- Dhruv Sawhney:** We are targeting the reciprocating compressor in the oil and gas sector that deals mainly with large pipelines and secondary pipelines. That's the main pipeline form in the Krishna Godavari basin. As you know, the Reliance fields are going to be coming on stream towards the middle of this year. That's when there'll be a huge spurt of activity and really everything is dependent on that.
- Rahul Bhangadia:** These are basically for the transportation along the pipeline?
- Dhruv Sawhney:** Yes.
- Rahul Bhangadia:** These are not reciprocating, these are rotary compressors?
- Dhruv Sawhney:** No, These are reciprocating compressors but they are for transportation of gas through the pipeline. You know, they have compressor stations on the way; and this is true for both the trunk lines and the secondary distribution channels.

- Rahul Bhangadia:** Sir what is the size of this market?
- Dhruv Sawhney:** We believe the market is around R.500 crore a year.
- Rahul Bhangadia:** Rs. 500 crore a year, is it?
- Dhruv Sawhney:** It may go up to about Rs. 800 crore.
- Rahul Bhangadia:** So this is the kind of market that will be available every year for Triveni Engineering to address?
- Dhruv Sawhney:** Yes. We are starting with share of about Rs.100 to Rs. 150 crore going up to Rs. 200.
- Rahul Bhangadia:** Who would be your competitors in this particular field?
- Nikhil Sawhney:** The competition is primarily international participants and some of whom have tied up with Indian companies. They are Cooper, Ariel, and Dresser.
- Moderator:** Thank you Mr. Bhangadia. The next question is from the line of Mr. Nirav Shah from PINC Research. Please go ahead Mr. Shah.
- Sachin:** Just wanted to get a hang on the PBIT margins. I think we have been robust on the engineering side across all the three different fields, gears, water as well as the turbines. So can we expect margins of around 25-30% for the remaining three quarter of the year?
- Dhruv Sawhney:** We expect to maintain our margins going forward.
- Sachin:** Okay. I think, we had some enabling resolution regarding fund raising some time back. What is the status on the same?
- Dhruv Sawhney:** These are still under consideration of the board. This is only enabling resolutions, when we put it forward, the board will take a decision on it and the price. We haven't moved on anything as yet.
- Sachin:** Just in terms of understanding whether it was an enabling resolution or we were actually looking at something. Can we expect to hear something on that front?
- Dhruv Sawhney:** At the moment we haven't taken any firm decision on this.
- Sachin:** Okay. And regarding Capex for the current year, there is not a notable Capex requirement in the current year. So will the cash flow from the engineering division primarily be used to repay debts on the consolidated books or will it primarily be used for investments?

- Dhruv Sawhney:** Cash flow from engineering will be going into retirement of debt.
- Sachin:** Okay. What is the type of debt deduction are you anticipating for the current year?
- Suresh Taneja:** You know as a matter of fact, we do not have any plan in terms of retirement of a specific quantum of debt. So the only thing is as of now our finance cost is very high so is our requirement of working capital. The increased cash flow will help us in terms of containing our cost of working capital.
- Dhruv Sawhney:** We use our cash flows to lower our working capital. The interest rates on working capital are higher than the term loan; so all surplus funds are parked in our cash credit account. So that borrowings are reduced, on a daily basis.
- Sachin:** Would it be fair to say that in the second half of FY08, the interest charges for working capital would be lower than the interest charges on working capital for the first half of FY08?
- Suresh Taneja:** Yes it should happen so.
- Dhruv Sawhney:** You are correct.
- Moderator:** Thank you Mr. Shah, the next question is from the line of Mr. Kaushik Poddar from KB Capital Market Pvt Ltd. Please go ahead.
- Kaushik Poddar:** My question is with regard to the compressor order, what is the value addition? Will GE be manufacturing the compressor and will you be doing the design and the service part of it?
- Dhruv Sawhney:** No. This is a classic packaging agreement which GE and others have globally. They have these agreements with many people in the United States and all over the world. The design is given by GE. The rotary part, which is about 20% of the total order, is supplied out of one plant and is supplied to packagers all over the world including about 10 of them in North America. The orders are taken by the packager. We will be billing for the orders. We take the order and we execute the order.
- Kaushik Poddar:** Out of a Rs.100 order how much is the value addition?
- Dhruv Sawhney:** Rs.20 is the imported GE component and 80 is the value added by Triveni.
- Kaushik Poddar:** Okay. Will it also include a service contract going forward?
- Dhruv Sawhney:** Absolutely. That's where the margins are very high. And those service contracts are all Triveni's.

- Kaushik Poddar:** The contracts are completely Triveni's?
- Dhruv Sawhney:** Yes.
- Kaushik Poddar:** In that GE doesn't have any share in the pie?
- Dhruv Sawhney:** No.
- Dhruv Sawhney:** Their role is to sell the rotating part and to have their brand name, the joint brand name, Triveni GE brand name will enable us to gain a substantial market share. And the service is of course locally provided. We don't need any engineers from GE. They will all be trained by them.
- Kaushik Poddar:** In a similar way, what will be the break up in case of the power turbine that we will be importing from China?
- Dhruv Sawhney:** There the value added is much lower.
- Kaushik Poddar:** How much value will be added in a typical order of Rs. 100?
- Dhruv Sawhney:** May be about Rs. 20. But it really depends whether it is a 300 mega watt order or an 80 mega watt order. It's a very high-spectrum range.
- Kaushik Poddar:** And the spectrum runs from 80 to 300 is it?
- Dhruv Sawhney:** Yes, between 50 and 300, but really there are not many orders for 50 mega watts in the markets. There is something that is much higher than where our range is. So you know we've taken it more as to get a feel of this market.
- Kaushik Poddar:** In your previous communication, you have talked about wanting to move beyond the 20 mega watt range. What is the mega watt range that we are looking into right now?
- Dhruv Sawhney:** We've gone up to 28 mega watts. We are currently executing two orders for 27 and 22 mega watts. The 27 mega watt order has just left this month in fact and it should be in operation by March.
- Moderator:** Thank you Mr. Poddar, the next question is from the line of Vimal Sampat from Radhason International. Please go ahead.
- Vimal Sampat:** Since you'll be having some cash flow this year, will you look at de-merging the engineering division now?
- Dhruv Sawhney:** As I said, we were looking at having both divisions, both businesses viable. We are now seeing a slight turn around in the

sugar business as a whole. We would like this to consolidate a bit more and then re-look at the proposal more positively.

Vimal Sampat: May be next year.

Dhruv Sawhney: Well, More positively! I won't say next year, but I would say that we are reviewing it continually just as we are reviewing the sugar situation. You are quite aware that being a consolidated business we do have several taxation and other benefits.

Moderator: Thank you Mr. Sampat, the next question is from the line of Mr. Rahul Bhangadia from Lucky Securities. Please go ahead.

Rahul Bhangadia: I have a question on your turbine business. Could you reiterate the kind of growth guidance that you've given in the turbine business, steam turbine segment?

Dhruv Sawhney: No, we are giving you the second quarter, because the first quarter had these stoppages. Normally we don't give guidance. But because the first quarter was really not representative of the type of growth we expect for the year, we expect at least 30% growth in the second quarter. And for the year as a whole, we expect 25% growth in profitability over the previous year.

Rahul Bhangadia: Okay. And going forward beyond the current year what kind of growth do you expect?

Dhruv Sawhney: We expect to preserve a growth of 20% to 25%. Our ranges are expanding; we are looking at many different partnerships. Two other things that I should have mentioned which have changed substantially are: Firstly, our service revenue in the first quarter of 2008 has gone up from 10.5% in Q1 FY07 to 14.3% in Q1 FY08. Secondly, our export sales have gone up from 5.1% in Q1 FY07 to 12.8% in Q1 FY08. These are two very encouraging signs. One is of diversifying our product range outside India and two, preserving our margins by going increasingly into services. If you remember, in previous calls I've said that once we've had our capacity expansion, we will be able to tackle the export market. Now that we have had product sales coming in into various different new sectors, our service revenues are also rising rather substantially.

Rahul Bhangadia: Can you take us through the kind of Capex requirement or investments that you need to make for the turbine business?

Dhruv Sawhney: No. At the moment we don't see any substantial Capex requirement in the steam turbine business at all. It's not a very capital-intensive business for us. The capital employed has been approximately Rs. 75 crore which may go up another Rs. 15-20 crore which is rather insignificant investment for us.

- Rahul Bhangadia:** Is this investment adequate for the next 2 to 3 years?
- Dhruv Sawhney:** Yes.
- Moderator:** Thank you Mr. Bhangadia. The next question is from the line of Bharat Lahoti from Edelweiss. Please go ahead sir.
- Bharat Lahoti:** Sir, I just want to know what the sugar cane arrears of Triveni are and when are we expected to pay these arrears.
- Dhruv Sawhney:** As far our 2006-2007 cane arrears are concerned our arrears are around Rs.50 crore. We are looking at getting the excise loan from the government of India, which is for the payment of almost all the arrears. We expect to obtain the government loan very soon and therefore expect to clear these arrears shortly.
- Moderator:** Thank you Mr. Lahoti. The next question is from the line of Mr. Kaushik Poddar from KB Capital Market Pvt Ltd. Please go ahead sir.
- Kaushik Poddar:** A few minutes back you stated that your breakeven point for sugar is around Rs.1, 500 per tonne. Does that include the cogeneration segment or this figure just for sugar only?
- Suresh Taneja:** This is stand-alone sugar.
- Kaushik Poddar:** And what is the typical IRR of the cogeneration part?
- Suresh Taneja:** The cogeneration gives us approximately about 30% to 35% net margin. You know, we calculate the profitability of cogeneration after taking the transfer pricing of bagasse at the market value, which in our region is approximately Rs. 750 per tonne. So taking that into consideration, and taking into consideration the carbon credit income and tax benefits, I think the IRR is around 25%.
- Moderator:** Thank you Mr. Poddar, we have a question from the line of Mr. Kaushik Poddar from KB Capital Market Pvt Ltd. again. Please go ahead sir.
- Kaushik Poddar:** Mr. Sawhney, you've talked a lot on the water business and its tremendous growth. Can you give a kind of number for the kind of growth you see in the water business?
- Dhruv Sawhney:** Yes. I'll ask our chief executive who's here Mr. Agarwal to fill you in.
- B K Agarwal:** This year we should close at around Rs. 80 crore. The next financial year we are targeting a level of Rs. 150 crore and year

after that we should be able to expand to around Rs. 250 to Rs.300 crore.

Kaushik Poddar: And can you give a hang of the profitability of this?

B K Agarwal: You see, this year we should be closing around 10% and next year onwards we should be talking about 11% to 12%.

Moderator: Thank you Mr. Poddar. Ladies and gentlemen if you have a question at this time please press “*” and then “1” on your phone. At this time there are no further questions from participants in this conference call. Mr. Sawhney would you like to add any remarks or closing comments?

Dhruv Sawhney: Thank you very much. It's been a very interesting call. I think we would like to end by saying that we value all of your comments and your good wishes. I think we've seen the worst of the sugar industry behind us. We look forward to a more realistic cane pricing. One last thing I wanted to mention was that I think the whole issue of cane pricing that is coming up in the court is actually a positive development as this has opened up the reasonableness of cane pricing and sugar pricing. So in the long term, this industry will be on a more solid and non cyclical bend than it has been in the past where you will have a sugar price and a certain percentage of that would be shared as cane price. So this will be an advantage to the larger producers and to the more diversified producers. I think our sugar business in the long term is on a growth path. On engineering, we are increasing our focus on a number of new areas. Water is one of them. And so we are very happy that the two key sectors, power and water have not been affected by the sub-prime crisis that are prevalent in the rest of the world. I think you can expect Triveni's role not to worry too much about what the Federal Reserve is doing in the United States. Thank you very much.

Moderator: Thank you Mr. Sawhney, thank you gentlemen of the Management and Mr. Desa. Ladies and gentlemen that concludes this conference call. Thank you for joining the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.

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