

Triveni Engineering & Industries Limited

Investors/Analysts Conference Call

3rd May 2007

Moderator:

Good morning ladies and gentlemen. I'm Johnson, the moderator for this conference. Welcome to the conference call of Triveni Engineering and Industries Limited. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Gavin Desa of Citigate Dewe Rogerson.

Gavin Desa:

Thank you Johnson and welcome everyone to Q4FY2007 conference call of Triveni Engineering and Industries Limited. Present with us today is Mr. Suresh Taneja, Chief Financial Officer, who is accompanied by Mr. Nikhil Sawhney Corporate Vice President and Mr. C N Narayanan who heads the Investor Relations function. We will initiate this conference call with brief opening remarks from Mr. Taneja, after which the floor will be open for questions and answers. I now request Mr. Taneja to initiate the conference call.

Suresh Taneja:

Good morning ladies and gentleman, I welcome you all to the Q4 FY2007 investor call of Triveni. I have with me the entire senior management team to explain to you the results and the business perspective.

Before I give you the highlights, let me inform you that the company has extended the accounting year by six months, and the current financial year FY2007 would be for a period of 18 months, commencing from 1st April 2006. Thereafter, we'll have an accounting year October to September.

The results announced by the company for the quarter incorporates the impact of the down turn in sugar and simultaneously one is also able to see the advantages of the diversified business profile of the company. There is two-stage risk mitigation, which is inbuilt in the company's operation. In the first stage, there is the sugar operation itself, by way of very large cogeneration capacities that we have and also have distillation operation, which has gone on stream recently, which adds to the risk mitigation. And

the second stage risk mitigation comes from very strong revenue and profitability of the Engineering operations.

During the quarter, the sales were Rs. 364 crore, up by 7% and in the 12 months period the sales were Rs. 1,260 crore, up by 6%.

But for sugar, where the turnover is low because of the cumulative play of dispatch and the realization price, all other businesses have done exceedingly well. Cogeneration has done very well with the expansion of capacities, and all the three segments of the Engineering business, be it turbines, gears or water, have done exceedingly well and recorded impressive growth.

With respect to the sugar operations, as of 31st March '07, the cost of inventories were higher than the market value and therefore sugar inventories have been written down to the market value. This has had an impact of Rs. 27.86 crore of write down, which has been considered in the results. Considering this impact, the EBITDA is about 54% lower at Rs. 26.80 crore for the quarter, and 14% lower at Rs. 183 crore for the 12 months period. PAT is at Rs. 5.40 crore for the quarter and at Rs. 90.40 crore for the 12 months period. EPS for the 12 months period works out to Rs. 3.51.

One very interesting thing which could be observed is the revenue mix of the company. Sugar which was about 69% last year, it has come down to 53%, Cogeneration, which was 5% last year has gone up to 7% and Engineering, which was 27% last year, has gone up to 40%. Because of the uptrend in the Engineering and the Cogeneration operations, the company is becoming less dependent on its sugar operations, which augurs very well.

I will briefly apprise you of the projects which were undertaken by the company. We had a very ambitious program in terms of the various projects we planned to implement during this 12 months period. I am pleased to inform you that all the projects planned by the company have been commissioned or are at a very advanced stage of commissioning. During the 12 months period, we have set up three new sugar units, carried out a brown field expansion of one of the sugar units, set up a 23-megawatt cogeneration plant. Distillery capacity has gone on stream in the month of April '07. The manufacturing capacity of the turbine division is by and large complete and the manufacturing facility of the water business group is at an advanced stage and is likely to be completed in Q5.

Now, in respect of the sugar operations, as a result of an increased manufacturing capacity from 40,500 TCD to 61,000 TCD, the total crush achieved by us during this season is 6 million tons, which is approximately 51% higher as compared to the previous season. Recovery has also gone up by about 14 basis points during this season as compared to the earlier season. However, there has been a shift in terms of the sugar prices in Q4 and the average realization price is down by about 14%.

As regards to sugar, the position is fairly grim as of now. There are estimates of surplus production, both domestically as well as globally, and consequently even the global prices have come down very substantially. The slide in the domestic prices was actually triggered in July '06, when the government banned export of sugar. While the ban was lifted in the month of January '07, not much export activities could take place because the industry was expecting the subsidies to come in. Subsidies were finally announced in the month of March, but however, they could not be notified until recently, because of the elections. What has happened in the process is that the country has lost a wonderful opportunity to export 1.5 million tons of sugar at remunerative prices.

Many of the states have come forward in terms of relief packages to the sugar mills as well as to the farmers. However, in the case of UP, where 1/3rd of the country's production takes place, this issue has not been addressed because it's in the middle of an election, and we expect some response to come from the government when it is in place in the latter part of the month. Apart from these short-term measures by way of relief package, there is a great need to have some kind of structural changes in the industry by virtue of which there is some kind of a correlation between the input prices and the output prices. I'm sure in this crisis these issues will be addressed by the government in due course. At the given sugar prices, it is unviable for any sugar unit to start crushing next year, therefore we feel that great deal of rationalization may take place in the cane prices, before the crushing for the season 2007-2008 starts.

As regards to Cogeneration, you would have seen from the investor's communication, there is an increase in turnover and profitability. The most interesting thing to note in the case of cogeneration is that despite a huge loss in sugar operations this quarter, cogeneration operation has been able to mitigate about 58% of the loss to the profitability.

This is a real de-risking model, which will be further augmented once the distillery, which has recently been commissioned, starts contributing.

In respect to carbon credits, our company is making rapid progress. With respect to the Deoband unit, the carbon credits of approximately 1, 70,000 would have accrued by 31st March '07, which is in the process of being verified. We feel that the verification process would be over and these carbon credits would be available for trading by the end of Q5FY2007. We are also eligible for carbon credit in respect to the three cogeneration projects and cumulatively we'll be entitled for approximately 2, 00,000 carbon credits annually.

Our Engineering business is also doing very well. The star performer, of course, is the turbine business. It has achieved a 68% increase in turnover in the 12 months period and in respect of PBIT, it has achieved 132% increase. The best part about the turbine business is the margins. The PBIT margins for the 12-month period have been 20.7%. As of now, the spares and services form only 7.5% of the total revenue of the company. With the massive scaling up which has taken place in the last two years in this business, there is a potential for spares and services revenue to increase at least to 15% in the next two to three years.

The company is also focusing on exports in a very big way. During the 12 months period, it has done exports of about Rs. 30 crore and it is targeted to do exports of approximately Rs 75 to 80 crore in the next 12 months. In the year 2008-2009, we have a target of about 20% in exports. The total order in hand in this business is approximately Rs. 440 crores, which are to be executed over the next nine months.

High-speed gear business group has also done exceedingly well and is in line with the economic growth achieved by the country. It has already diversified into high power hydel gear boxes with in-house technology, now it is contemplating to enter marine as well as niche low-speed gears. Marine makes it both to the Indian Navy as well as to the Merchant Navy. Retro fitment currently is 30% of the total revenue; this is also targeted to increase further as it is very profitable. What was a small business couple of years ago, has achieved a three digit growth in its turnover and a similar trend is expected in the next two to three years as well. The order book for this business is approximately Rs. 39 crore.

The water business is also growing in line with other engineering businesses. The company has been receiving large sized orders in high-end segment as well. The total order position for this business is approximately Rs. 26 crores, with an execution period of about four to five months. I now leave the floor open for Q&A.

Moderator:

Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

Our first question comes from Mr. Kaushik Poddar of KB Capital Market.

Kaushik Poddar:

In your release, you have not mentioned anything about Khushali Bazaar. How is the turnover in Khushali Bazaar accounted for?

Suresh Taneja:

As far as Khushali Bazaar is concerned, let me clarify, that it is a wholly owned subsidiary and the results are only consolidated at the end of the financial year. Since our financial year is for a period of 18 months, the consolidated figures will be available at the end of the financial year. The estimated turnover for this business is about fifteen crore.

Kaushik Poddar:

And can you tell us a little bit on the profitability?

Nikhil Sawhney:

Our model is very asset light, in the sense; we lease our business premises so as to maximize the rental yield available in this business form. Taking that into consideration, the growth margins that are applicable to this business are in the lower teens. This business only started in February 2005, and initially with the startup of a store the businesses breakeven on a profitability basis within the first year of operation. So you would see this business as marginally profitable this year, but we believe that with the maturity of the stores, there will be considerable improvement in terms of margins going forward.

Kaushik Poddar:

And what kind of a role out plan do you have?

Nikhil Sawhney:

Currently we have in excess of about 45 stores in operation, only in the state of Uttar Pradesh. They will be expanded significantly by more than 100% in the following

12 months. We have set a target of about 150 by March 2008, but that might be a little difficult to achieve, so we will say at least maybe 120 or so.

Kaushik Poddar:

Okay, thank you.

Moderator:

Our next question comes from Mr. Nrav Shah of Pioneer Intermediaries.

Nirav Shah:

Sir, what is the sugar inventory level as on March 2007?

Suresh Taneja:

We had approximately about 300,000 tons of sugar.

Nirav Shah:

Why is our sale volume lower, because if you see our results, our production has increased by more than 50%? So any particular reason why our sales volume growth is lower?

Suresh Taneja:

Whatever is the additional production which has been achieved during this season; it will be reflected in the next financial year. Because whatever we have produced, most of it would be sold in the next financial year.

Nirav Shah:

What is the debt level?

Suresh Taneja:

The long term debt is approximately in the region of about Rs. 550 crore.

Nirav Shah:

And working capital?

Suresh Taneja:

Working capital would be another about Rs. 350 crore as of March. You must realize one thing that this is the peak period for the build up of stock, and therefore there is maximum working capital finance and as you go to September 30th, much of the working capital would be liquidated.

Nirav Shah:

As our expansion for distillery is completed, have we received any capital subsidy from the UP government?

Suresh Taneja:

We have already applied to the UP government for the capital subsidy, but because of the election, all these things have been stopped. We expect the government to be in place in couple of weeks and then our applications for the capital subsidy would be taken up.

Nirav Shah:

Okay and revenue subsidies would be also available say 2-3 weeks from now?

- Suresh Taneja:** Revenue subsidies were not very significant this year because we were eligible only from 31st of January. The full impact of the revenue subsidy would be felt next year and roughly speaking about 50% of our total production would qualify for incentives and it's a large amount of subsidy we'll receive.
- Nirav Shah:** Relating to the turbines division, how many turbines you delivered during the quarter?
- Suresh Taneja:** We have delivered 95 turbines. I think it is more appropriate to look at the megawatt of the turbine dispatched, which were 616 MW during this 12 months period.
- Nirav Shah:** And sir, for the quarter?
- Suresh Taneja:** 160 MW.
- Nirav Shah:** How much revenues came from the exports market, domestic market and from the servicing markets?
- Suresh Taneja:** The total revenue which came from the exports market in this 12 months period was Rs. 30 crore and as far as the spares are concerned, the total was approximately in the region of about Rs. 35 to 40 crore, which was roughly about 7.5% to 8% of the total revenue.
- Nirav Shah:** Okay.
- Sachin Kasera:** Good morning sir, this is Sachin Kasera here.
- Suresh Taneja:** Good morning.
- Sachin Kasera:** Couple of questions from my side. One I understand that we had a write down of inventory as on March 2007, because I believe the understanding was that market prices were little lower than the cost of inventory. I understand the prices are declining further. So could you just let us know that when you had done this write down what was the value that you looked at in terms of market pricing and what is the type of realizations we are looking at right now?
- Suresh Taneja:** You must realize that whenever you take a write down of the inventory, you have to apply the test at the end of the period and whatever is the prevailing market price, to that extent the inventory has to be written off. It is a continual exercise.

- Sachin Kasera:** I understand that sir, but what is the price in our case that you would have looked at as on March 31st for this write down?
- Suresh Taneja:** I think roughly speaking it is in the region of about Rs. 14,400, it was the prevailing price at that particular point of time.
- Sachin Kasera:** What would be our realization right now in the last 23 weeks, average?
- Suresh Taneja:** The current prices which are prevailing are approximately Rs. 13,500.
- Sachin Kasera:** What are the breakeven levels we looking at, even after considering the revenue subsidies that we may receive from the UP government, so what would be the standalone breakeven levels for the sugar business?
- Suresh Taneja:** Looking at where the cane prices are today, the cost of production at PBIT level is approximately about Rs. 1,540 to 1,550. So that's the breakeven level. This also includes the impact of a very substantial depreciation because of the recent capitalization that we have done. But the only thing is that today the prices are about Rs.200 less than the cost of production. So, I think a great deal of rationalization in the cane prices has to take place for the mills to be able to crush next year. This is what has happened in the case of Maharashtra. Maharashtra is getting 12% recovery and they are paying a cane price which is much lower than UP.
- Sachin Kasera:** But sir, that differential would be applicable only from the next season, that is season '07-'08.
- Suresh Taneja:** I agree with you.
- Sachin Kasera:** So for the current year's production we may have to basically book a loss?
- Suresh Taneja:** I think lets look at what the UP Government has to offer, because the four other states have already come forward in terms of relief packages and in UP the cane price paid is the highest. So I think we will have to see how the government addresses this issue.
- Sachin Kasera:** And this would be over and above the revenue subsidy that we may receive as part of the mega expansion that we have done, which was announced by the previous government for CAPEX above 300 crore and 500 crore?

- Suresh Taneja:** Yes, that capital subsidy is over and above that.
- Sachin Kasera:** I think sir, there are also certain revenue subsidies in terms of transportation, certain tax, which are exempt, so these subsidies that you are expecting is over roughly Rs.1.50 a kg for all CAPEXs above 500 crores. So this revenue subsidy we are expecting from the government will be over and above the capital subsidy that we are anyway entitled to right now.
- Suresh Taneja:** Absolutely, I mean, this is a separate topic by itself.
- Sachin Kasera:** Okay, and what is the trend in bagasse and molasses prices over the last one or two quarters and how the revenues has been impacted there?
- Suresh Taneja:** In respect of molasses there has been a crash in prices and roughly speaking the prices are in the range of about Rs.500 to Rs.750 per tonne. As far as the bagasse prices are concerned we do not have much of an idea because by and large we are using our own bagasse for our cogeneration activities.
- Sachin Kasera:** Okay and sir what would be the corresponding price for us in molasses around a year back?
- Suresh Taneja:** It was in the region of about Rs.2, 000 per tonne.
- Sachin Kasera:** Okay, so there will also be lot of factors for lower profitability of the sugar business.
- Suresh Taneja:** You must understand in the case of molasses, at this particular point of time there is glut because all the mills were crushing. The moment the season comes to an end you will find there would be some kind of a sanity returning to the molasses prices as well.
- Nikhil Sawhney:** The fact is that it is a question of storage. This happens similarly for sugar as well. There is not enough warehousing capacity for sugar as well as for molasses, say molasses tanks. Since there is no adequate capacity for storing molasses, there is distress sale by sugar factories towards the end of the season when stocks are at the highest. Infact the prices of molasses actually fell down to even Rs.200 a tonne. It's very cyclical because of just the nature of storage. And to a degree, the same thing can be said of sugar as well.

- Sachin Kasera:** Okay, and regarding the cogen business, what is the rate that we charge for the captive power unit?
- Suresh Taneja:** The tariff, which is applicable to us, is about Rs. 2.98 as of now, which increases by about 3 to 4 paisa every year.
- Sachin Kasera:** And the same is applicable when we sell the power even to our sugar units?
- Suresh Taneja:** Yes.
- Sachin Kasera:** I understand that we do billing to both, our internal consumption to the sugar plants, and to the UP State Electricity Board, so the tariff is the same for both of them.
- Suresh Taneja:** Absolutely, it's a basically the transfer pricing as per the market.
- Sachin Kasera:** Okay and if you could just update us a little on the tie up that you are looking on the defense side and I think its been around a year. So what has been the progress of that front?
- Suresh Taneja:** I think we are trying to tie up lot of threads in this respect. One would be our technology tie up, where we are at an advanced stage but there are a lot of formalities to be done. I think this can only materialize by the end of this calendar year.
- Sachin Kasera:** Okay, so maybe we can see some revenues in financial ending September '08?
- Suresh Taneja:** Absolutely.
- Sachin Kasera:** Okay sir, that's from my side, thank you.
- Moderator:** Participants are kindly requested to restrict with one question in the initial round. Our next question comes from Mr. Krushi Parekh of Multiact Assets Management.
- Krushii Parekh:** First of all, are all the capacity expansion plans completed or still any of them pending?
- Suresh Taneja:** All capacity expansion programs have been completed.
- Krushii Parekh:** Okay sir, its 61,000 TCD and 68 megawatts and 160 KLPD, right?
- Suresh Taneja:** Absolutely.

- Krush Parekh:** And is the distillery functioning?
- Suresh Taneja:** Yes. It has gone on stream in the month of April.
- Krush Parekh:** What debt levels can we expect for the year end?
- Suresh Taneja:** Long term debt is Rs. 550 crore.
- Krush Parekh:** Okay and any expectations, you might increase this at some point of time?
- Suresh Taneja:** No, I think we don't plan to add on to the debts this year.
- Krush Parekh:** Okay and can you just explain briefly growth rate you are expecting from your engineering business, from say next two or three years?
- Nikhil Sawhney:** I think we are looking at in excess of 30% CAGR growth over the next couple of years. This is going to be driven by a couple of factors. We are seeing a very strong enquiry book for our turbines business and this will be supported by increased sales in the export market. Profitability will be significantly supported by the fact that we will have a larger installed base and therefore more sales from spares and servicing. As far as water and gears go, they will record a very good growth as well, but they are smaller in size to our turbine business.
- Krush Parekh:** Okay, so this 30% is kind of a conservative?
- Nikhil Sawhney:** Yeah we would say it is conservative because we maximize our capacities to the extent that we don't take orders which are outside our delivery period. Therefore, when we say our order book is to the extent of Rs. 440 crore for our turbine business, the delivery period there is between 9 to 10 months. And our enquiry book is what supports our figures in terms of growth for the future.
- Krush Parekh:** Okay and any cane arrears issues?
- Suresh Taneja:** Because of the fact that the season is ending everybody has got the normal kind of a cane arrears, so there is nothing unusual about it.
- Krush Parekh:** Okay, thanks.
- Moderator:** Thank you sir. There are no further questions. Now I hand over the floor to Mr. Suresh Taneja for closing comments.

Suresh Taneja:

Thank you very much for being here. Though it was not the best of quarter in terms of profitability, the diversified business profile of the company has really insulated us from the fluctuations we have in the sugar business. And I think this is a very, very strong feature which will put it in good stead. Thank you very much.

Moderator:

Ladies and gentlemen, this concludes your conference for today. Thank you and have a pleasant day.

- ENDS -

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