Triveni Engineering Limited

Q1 FY11 Earnings Conference Call Transcript
February 15, 2011

Moderator: Ladies and gentlemen, good day and welcome to the Triveni Engineering and Industries Limited Q1, FY11 Earnings Conference Call. As a reminder for the duration for this presentation all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of the opening remarks. Should you need assistance during this conference please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Rishab Barar of Citigate Dewe Rogerson. Thank you and over to you Mr. Barar.

Rishab Barar: Good day everyone and a warm welcome to all of you participating in the Q1 FY2011 results conference call of Triveni Engineering & Industries Limited. We have with us on the call today Executive Directors, Mr. Tarun Sawhney and Mr. Nikhil Sawhney and Mr. Suresh Taneja – CFO along with other members of the senior management team. I would like to mention before we begin that some statements made in today's discussion may be forward looking in nature, and a statement to this effect has been included in the conference call invite, which was mailed to everybody earlier. I also would like to emphasize that while this call is open to all invitees it may not be broadcasted or reproduced in any form or manner. We would start this conference with opening remarks from the management followed by an interactive question and answer session where you can discuss your views and key issues. I would now like to hand over to Mr. Nikhil Sawhney to share some perspectives with you with regards to the company's operations and results for the quarter under review. Over to you Mr. Sawhney.

Nikhil Sawhney: Thank you Rishab. Good morning everyone, good afternoon and welcome to the Q1 FY11 conference call for Triveni. As you have seen in our quarterly brief and reports, the net sales for the company for the quarter were higher by 21% over the previous quarter of the proceeding year, and our PBIT came in at ₹ 497 million, with a PAT of ₹ 239 million. The sugar business has shown a positive EBIT after three quarters which indicates fundamental stable operations in that line of business.

\` The company is paying only SAP as of now and the recoveries are being considered to be better than what we have experienced last year. In view of the increased volume of crush, the increase in sugar production and a stable pricing situation for the allied products such as power and alcohol, the overall business sentiment on sugar seems to be positive. On the engineering side there was 29% increase in our turnover for the 27%

increase in our EBIT. The order book stands at ₹ 11.3 billion, a year-on-year growth of 36%. The legal process for the demerger of our turbine business is currently in progress and it is expected that sanction of the court may be obtained in Q2 that is this current quarter of this year.

Our gears business has also entered into a long-term relationship and expanded the relationship with Lufkin Industries which I will go into a little bit later. During the current quarter, the finance cost has increased by 13% on account of increased funding for working capital owing to a higher value of opening sugar inventories. The total outstanding debt at the end of the quarter was ₹ 8.13 billion including working capital loans of 2.14 billion. We anticipate that the long-term loans would come down from a level of ₹ 595 crore to between ₹ 425 to ₹ 450 crore by the end of the year which is 30th September.

On the sugar front, we found that farmers holding the harvest due to intense cold and fog led to a reduced cane supply in the last fortnight of December which continued till mid January. The estimates of yield for plant cane is expected to be higher than that for the ratoon crop and therefore our overall estimates on sugar crush remain at an increase of 15% with an increase in sugar production by 20% owing to a higher recovery level. The average sugar prices during the quarter remained more or less in the narrow range and the free sale sugar price was at approximately at ₹ 28 per kg. The current prices are at approximately ₹ 28.3 per kg and we expect this to be stable if not on a slightly rising trend going forward. The cost of production for our sugar as of the first quarter was at around ₹ 27.5 /kg which is also our inventory holding cost. We believe that this is considerably higher than what our average for the full year will be due to the higher recovery level that we will have for our sugar crush as we proceed along with our season. Our initial estimate of₹ 25.1 PBIT sugar cost for the full year has slightly increased to approximately ₹ 26 owing to an expectation of slightly lower increase in sugar recoveries.

The co-generation business has performed commendably as well and we anticipate with the increased crush and availability of bagasse that we would be increasing our power exports by 20% with the caveat of a sustained merchant pricing in the off season. The distillery had showed a lower turnover primarily driven by a lower opening inventory. We anticipate that this will pick up steam as the season progresses and with the availability of molasses in our distillery increases. Our steam turbine business showed a dispatch of over 200 megawatts in the current quarter and 18% of our turnover was reflected by spares refurbishment servicing and aftermarket businesses. The outstanding order book of this business is at ₹ 555 crore representing 912 megawatts, a 5% increase over the same quarter of previous year. We anticipate this level to increase going forward with the sustained inquiry book coming from a variety of sectors such as steel, IPP, and a variety of sugar co-gen applications. 11% of this order book is also from the export market.

The GE Triveni joint venture for steam turbine manufacturing between the range of 30 to 100 megawatts is well underway and we have received a very good response both from the domestic market as well as global markets, and we anticipate this to pick up considerably in the coming quarters, which of course will get reflected in terms of turnover in FY12 and the beginning of FY13. The high speed gears business recorded a very healthy turnover growth of 25% with the margin in excess of 30%. The outstanding order book in this segment is also higher by 13% when compared with the previous quarter of last year.

A very significant piece of agreement was entered into by the company with its license partner, Lufkin Industries, in January 2011 where it renewed its license agreement for a further period of 12 years, and renewed the agreement to cover an expanded market of a range of gearboxes covering up to 62 megawatts, including gear boxes for compressors, load gear boxes for gas turbines apart from gear boxes for mechanical drives like pumps, fans, blowers driven by electric motors, steam turbines or diesel engines. The geographic market coverage is also increased to include major makers in Southeast Asia such as Malaysia, Indonesia, Singapore, Thailand, with the possibility of enhancing the territories in the future as well. This goes extremely well for this business which will afford it visibility in terms of heightened growth and profitability in the coming years. The water business also continues to perform exceedingly well, and the order book position is very robust. This business is cyclical in the nature of billing from quarter-to-quarter though we are optimistic that we will attain a growth of over 50% in the current year while maintaining margins at our previous levels. With that I would like to hand it over back to you to ask any questions that you may have.

Moderator: Thank you very much. The first question is from the line of Kenin Jain of Voyeger Capital. Please go ahead.

Kenin Jain: In this rising raw material price scenario, how do you foresee the operating margins across our engineering businesses which are turbines, gears and water. I just want to get a sense whether inherently we have a pricing power to pass on these prices because if we look at your last four years' margin on the turbines and other businesses, it has remained the same, so what is your view on these?

Nikhil Sawhney: Well there are two-three things that we look here from business-to-business. While you are very right, a significant portion of our cost is raw material which is primarily driven by steel and other metal prices. We are a large consumer of alloy steels which are not directly reflective of the base metal price, but do have a certain correlation to it. On those materials, we have long-term pricing contracts with our vendors, and sub-vendors and suppliers, so that to be reasonably agnostic to the price increases which would be fully passed on to customers. Of course, the margins in these businesses are ably supported by the aftermarket which is not dependent on raw material prices, which is more a services business. As we look forward we believe that all cost increases in our steam turbine and gears businesses will be passed on to customers to retain the margin levels as they currently stand, and in our water business, majority of our contracts include escalation in raw material prices, so we believe that as a company we would be reasonably agnostic to these increases in the raw material pricing.

Kenin Jain: You mentioned that you have received an extremely good response in your GE Triveni JV both in domestic and international markets, so can you elaborate on that?

Nikhil Sawhney: Well the value proposition is very robust for this business. We believe that we have globally benchmarked technology backed by a high degree of service and with a very strong brand of General Electric from international perspective as well as Triveni from a domestic perspective. In this segment, the question is of cost as value proposition including technology and we believe that coupled with the demand and a lot of the economies which are rebounding, specifically in North America and Southeast Asia, that there has been good enquiry levels that have been generated. As and when orders flow through, we will be informing you.

Kenin Jain: So this 30 to 100 megawatt what would be the addressable market for this JV both in India and abroad totally. Just to get a sense as to the size of business opportunity for us?

Nikhil Sawhney: The market changes from year-to-year, and if you look at the current year, we believe that the Indian market would represent approximately 2,500 megawatts of opportunity while the global market maybe four times that, so the values would differ significantly with the Indian market being approximately half the value of the international market.

Kenin Jain: So Indian market would be like Rs. 50 lakhs per megawatt broadly to your understanding, or it would be higher?

Nikhil Sawhney: Broadly you can take that of course it depends on scope.

Kenin Jain: Right, and internationally Rs 1 crore per megawatt, right?

Nikhil Sawhney: You could take that approximately as well depending on scope.

Kenin Jain: You mentioned that your long-term debt level will come from Rs 600 crore at the start of this quarter to around Rs 425 crore by the end of the year. Reduction will happen through what medium?

Nikhil Sawhney: It could be through internal generation.

Kenin Jain: Okay so that would be Rs. 175 crore debt reduction?

Nikhil Sawhney: That is right, Rs. 175 crore.

Kenin Jain: Right, and lastly from an enquiry perspective from the customers, in your engineering side, What kind of feel are you getting in terms of both the inflows and the execution? How are things panning out?

Nikhil Sawhney: Well you see the power sector always has very strong demand and if you look at in terms of the markets and the markets in which we are currently seeing our enquiry book being built it is being driven by the midsize IPPs , which is driven by the fact that large scale IPPs are facing increasing problems in terms of getting regulatory approvals etc., so the power generation market is quite strong coupled with the steel and sponge iron markets, and the sugar market of course which is what we are seeing currently as segments of growth. The cement waste heat recovery market is also something that is picking up considerably. The markets that have actually declined slightly are the paper markets and the rubber market, but apart from that we actually see the end users which are medium scale industries having a robust demand.

Moderator: Our next question is from the line of Harmendra Gandhi of Nomura India. Please go ahead.

Harmendra Gandhi: The communication said that sugar prices corrected in Jan 2011, so what was the average during Jan?

Nikhil Sawhney: Well you see at the end of December 2010, the price was approximately ₹ 29.50, and as I said our current price is about ₹28.30, so it is to that effect that it has been corrected from that levels and both prices are considerably higher than the average for the first quarter though.

Harmendra Gandhi: You said your initial estimate for the cost has gone up from ₹ 25.1 to ₹ 26 now for the year?

Nikhil Sawhney: It will be a little bit below ₹26 or somewhere around there.

Harmendra Gandhi: So for this quarter what would be the estimate of cost approximately?

Suresh Taneja: In the first quarter we had a cost of ₹ 27.50, and based upon projected level of crush and recovery, we estimate the total cost to come down to ₹ 26 approximately. For the year, for the season.

Harmendra Gandhi: Okay, and any estimate for this quarter?

Suresh Taneja: This quarter I think but for, two or three factories which would be running for some period in the month of April, by and large I think the cost would be around this level by 31st March at around ₹ 26.

Harmendra Gandhi: Okay, and this order book for the turbine business that has gone up only 5% year-on-year basis, how should we look at that going forward?

Nikhil Sawhney: Well you see generally, I mean if you look at our order intake cycle, the second and fourth quarters which are basically due to tax reasons etc, are months where orders that are placed are more heavy. So, I do not think that is reflective of the normal though having said that we have got very significant orders in January and our expectations for February and March are quite considerable.

Harmendra Gandhi: Okay, on the demerger timelines you mentioned that in this quarter, Jan, Feb, March you expect that court order will come, is that right? And after that it will go through SEBI.

Nikhil Sawhney: Well what we are looking at is if everything goes as planned as we are estimating that the issue of shares that happen sometime in the beginning of April which would be the record date.

Moderator: Our next question is from the line of Sangam Iyer of Alfaccurate Advisors. Please go ahead.

Sangam Iyer: Could you give some quantifiable outlook in terms of the kind of growth that we are looking at in the steam turbine and our engineering segment in particular?

Nikhil Sawhney: Yes, as per our previous conference call we are sticking to our guidance in terms of growth of these businesses which for our turbine business is somewhere in the region of between 20% and 25% and our gears business is somewhere in the region of 25% to 30 plus percent, and our water business is somewhere in the region of about 50% to 60% retaining margins in all businesses.

Sangam Iyer: When we say retaining margins in the water segment we have been seeing that the margins are coming down somewhere around 9-10%?

Nikhil Sawhney: No that is pretty simple, yes the fact is that you have to look at it from a yearly perspective because execution of certain projects is lumpy and if you look it through the cost of the year, we had certain high margin projects which when we account for it on AS7 we have to do it on that basis, but we have an idea of our execution cycle, and how that will reflect through the end of the year.

Sangam Iyer: So if it normalizes, would the water business be contributing around 14% or 13% at the EBIT level?

Nikhil Sawhney: We have not done that calculation precisely, but I think if you can just multiply you could come up with the numbers yourself.

Sangam Iyer: Okay, and on the distillery segment, as the press release indicates, in Q1 there was a lower inventory which led to the lower sales from the segment, how do we see that going forward, and could you give us some more idea on the pricing, etc., on that?

Sameer Sinha: Well going forward, as we have mentioned that the crush increasing therefore the transfer of molasses would increase to the distilleries, so we are looking at a significant increase in the production over there, but since the opening stock was lower, at the end of the day, we might have an increase in sales of about 10% going forward on a year-to-year. In terms of pricing, our pricing will be higher than that of last year especially seeing that the ethanol program has taken off now, so a substantial amount of alcohol would go out of that system, and we are confident that since our primary segment remains the ENA wherein we should get a better realization.

Moderator: Our next question is from the line of Achal Lohade of JM Financial. Please go ahead.

Achal Lohade: How do we see the sugar production for the country as a whole as well as for UP? For Uttar Pradesh what is our production estimates for this season?

Tarun Sawhney: The production estimate for Uttar Pradesh is about 5.9 million tonnes plus-minus 0.2 million tonnes, and for the country our estimate is between 24 million tonnes and 25 million tonnes.

Achal Lohade: Okay, and if I remember it correctly, the sugar mills association earlier was expecting about 6.5 million tonnes to 7 million tonnes, so what could be the reason for the cut in the estimate by a million tonne or so?

Tarun Sawhney: While I am fully in support of the ISMA estimates, we tend to take a very conservative approach in offering these numbers especially on our calls. Now at the moment we have seen a vast degree of competition from the unorganized sector, the khandsari and gur manufacturers sector. Going forward if prices paid by kohlus and crushers in Uttar Pradesh decline from the existing levels, and that is a function of what sugar prices and gur prices are in the mandis then we will see a greater proportion of the ritual cane coming to our sugar factories like it did last year. My assumption is that the prices will stay about the same paid by the factories which is SAP and the prices paid by the gur manufacturers which range in Uttar Pradesh between Rs. 185 per quintal to Rs. 230 per quintal depending on where you are and what variety of cane you are supplying to the gur manufacturers and kohlus, I anticipate that we will only see about 5.9 million tonnes of production maybe 6 million tonnes of production in Uttar Pradesh.

Achal Lohade: What is our volume assumption in terms of the crushing volume? What has it increased to year-on-year?

Tarun Sawhney: Year-on-year, it will be approximately just over 10% increase.

Nikhil Sawhney: For Triveni or for the state?

Achal Lohade: For our company?

Nikhil Sawhney: For the company we are anticipating a 15% increase in cane crush, and a 20% increase in production driven by the difference being the recovery and for the state it is about 10% in terms of crush.

Achal Lohade: A lot of news reports said that there are issues in terms of the yields as well as recovery rates in UP. Could you throw some light on these two variables for UP?

Tarun Sawhney: The yields in UP for ratoon are higher than the corresponding yields for ratoon in the previous year, and the yields for plants that we are seeing is better than our yields for ratoon and what was previously forecast. Now we have dealt with some climatic factors which to our detriment for example the flooding that occurred in second half of last year, plus the inclement weather in December and January that we have spoken about. Having said that, recoveries by and large are higher. For Triveni as a group the recoveries are significantly higher year on year and for the industry as a whole we have seen a 0.3% increase in recoveries and for Triveni it is almost 0.4%.

Achal Lohade: Okay, on the UP sugar promotion policy what is the status, I believe there was some court order in terms of for Bajaj Hindustan. Just wanted to get a sense as to what is the status and how much benefit have we accounted for in our books?

Tarun Sawhney: Well the status is that the matter is still subjudiced and I cannot comment on an order that another company has received, but as far as we are concerned the matter is still subjudiced

Suresh Taneja: And from the last year onwards, we have not been providing for any incentive in our books other than what is allowed as per the court order that means the remissions we are accounting for because we do not have to pay in the first instance itself, and as far as all incentives on reimbursement basis, we are not providing for.

Moderator: Our next question is from the line of Mukesh Modi of Vikas Advisory. Please go ahead.

Mukesh Modi: My question was basically around the sugar business. You have shown a revenue of ₹ 35 crore for the co-gen business in the first quarter, correct?

Nikhil Sawhney: Yes.

Mukesh Modi: So I am assuming at full capacity about Rs 25 crore came from bagasse and Rs 10 crore came from coal, is that right?

Nikhil Sawhney: No, pretty much everything came from bagasse because the season started a little bit earlier compared to the previous year, you could just look at it in number of days. It is very proportionate to that. If you remember the month of October was extremely poor for merchant pricing, and therefore we did not actually run our boilers on coal at that period of time. While we expect that usually merchant pricing in the pre-monsoon months of summer of March, April, May, June are very high, and so will be running it at that point.

Mukesh Modi: Okay, now the EBIT that you calculate for the co-gen generated power, is that done on a transfer price for bagasse and if so what is that price?

Nikhil Sawhney: Yes see there are two factors actually, co-generation produces as the name suggests steam and power, so there is a costing for steam which is done on an enthalpy basis, which we think is extremely fair from our perspective. The bagasse transfer rate is at approximately ₹ 1,250 per tonne.

Mukesh Modi: Alright. So, okay that is one part of it, and then the second part of it is that basically your distillery how many days do you think you are going to run it in the whole year based on the availability of molasses this year which is supposed to be higher?

Sameer Sinha: We think we should be running for about 230 days to 240 days,

Mukesh Modi: You are currently getting about ₹ 31 from ENA?

Sameer Sinha: We are currently getting ₹ 31 that is right.

Moderator: Our next question is from the line of Keshav Harlalka of BHH Securities. Please go ahead.

Keshav Harlalka: I have been following your scheme of demerger and nothing seems to be happening why is it taking so much of time?

Suresh Taneja: It is basically a court process which has got its own timeline, and in addition to that we had a meeting with the shareholders, meeting with the secured creditors and unsecured creditors, and the proposal was cleared by all these three stake holders unanimously, but there has been one objection by one of the suppliers.

Keshav Harlalka: Absolutely, basically he wants to get something out of the company. I have been in touch with the secretary Geeta Bhalla and what has happened is I just wanted to update you that the Supreme Court in a similar case wherein one aggrieved shareholder had filed some objections objecting to the amalgamation of Sesa Industries with Sesa Goa, it is a similar case wherein a shareholder passed some objection, and the merger was held, so what has happened is that the Supreme Court has passed a judgment saying that the merger should be allowed and the shareholder, whatever objections he has, will be addressed to in due course, they cannot hold up an amalgamation wherein all other shareholders are affected.

Suresh Taneja: The scheme has to be passed by the Allahabad High Court but there are certain court proceedings which have to be followed.

Keshav Harlalka: Okay, I am just saying you could use this in your favor; you could use the citation because this judgment has just come out on 7th Feb.

Suresh Taneja: No, I think there are a lot of other court judgments also on the similar lines, and especially unsecured creditor one out of 10,000-15,000 unsecured creditors have put in an objection. The court has to follow a certain mechanism which the court is doing that, and we are hopeful of getting rid of this objection pretty fast, that is why Mr. Sawhney has said we are expecting the sanction in Q2 FY11.

Moderator: Our next question is from the line of Devendra Bhandari of Joindre Capital. Please go ahead.

Devendra Bhandari: I want to know the cost of production of sugar, you said for ₹ 26, what it includes?

Nikhil Sawhney: It includes everything.

Devendra Bhandari: No but for this your ethanol profit is included in it, or not?

Nikhil Sawhney: No, this is for sugar business.

Devendra Bhandari: I understand. The ethanol, the molasses is transferred at what price?

Nikhil Sawhney: Yes it's exactly.

Devendra Bhandari: What price molasses is transferred?

Suresh Taneja: We basically go by the market value, the last quarter the average price is about ₹ 200.

Devendra Bhandari: Okay, at what rate are we selling ethanol now?

Sameer Sinha: It is at ₹ 27.

Devendra Bhandari: And I am told that government has not yet fixed this price, and group of ministers will be deciding in line with the fuel price.

Sameer Sinha: Yes, there is an expert committee, on the ethanol pricing and whose report is expected in the next few weeks so in the interim and we believe while it may not be correct to speculate but if we have a strong case for the price to remain at least around ₹ 27.

Devendra Bhandari: Not more?

Sameer Sinha: It could be even higher because one of the variables would be fuel pricing

Devendra Bhandari: If it is linked to the fuel right now.

Sameer Sinha: One of the variables could be that it could be linked to the fuel pricing.

Devendra Bhandari: Fuel pricing, then it can be ₹ 31 - ₹ 32 petrol price.

Sameer Sinha: We would not like to speculate, let the expert committee come out with its recommendations.

Devendra Bhandari: What is the sugar production likely to be for this year?

Tarun Sawhney: Between 24 and 25 million tonnes for the country as a whole.

Devendra Bhandari: For Triveni?

Tarun Sawhney: We are expecting a 15% increase in crush which will equate to 20% increase in sugar production.

Devendra Bhandari: What was our last production?

Nikhil Sawhney: It will be somewhere in the region of 500,000 to 520,000 tonne **f**or the current season.

Devendra Bhandari: Okay, so this will leave us with about ₹ 2 kilo profit, ₹ 26 is the current price, the price is stayed at ₹ 28 so sugar itself will be EBITDA of ₹ 2.

Nikhil Sawhney: Yes that is for you to decide.

Devendra Bhandari: No, if the prices remain at this level because this ₹ 26 cost.

Nikhil Sawhney: Your math is right, it is not EBITDA it will be EBIT because depreciation already takes it into consideration.

Devendra Bhandari: Yes, depreciation is not considered for this ₹ 26 cost.

Nikhil Sawhney: It is already inside ₹ 26.

Devendra Bhandari: The depreciation interest is inside ₹ 26?

Nikhil Sawhney: Not interest, it is EBIT.

Moderator: Our next question is from the line of Ranjit Shivram from B&K Securities. Please go ahead.

Ranjit Shivram: In your turbine business like what you are doing is mostly around 30 megawatts or so, what kind of competition do you have, because looking at your EBITDA margins north of 20% like will you be able to maintain this because lots of other players are also getting into the same segment.

Nikhil Sawhney: Actually we are not finding anyone entering this segment. The existing competition is quite robust which includes primarily Siemens and certain imports. Our market position is testimony to our strengths in this market where we actually have a market share in excess of 75% -80% in the below 20 megawatt range of about 35 odd percent in the 20-30 megawatt. What we find is that this is a growing market but the barriers to entry are reasonably high. The competitors who would come in are in the large utility space, and on the margins fronts you are right that India is an extremely competitive marketplace, you have to look at our margins in two fronts, one is that we have a product margin, and we also have an aftermarket margin which is on the long-term basis depend on the sale of product, but it is independent from a quarterly perspective, and as you see our percentage of sales and servicing as an aftermarket as a percentage of turnover is increasing and therefore that is lending towards the maintenance of the support to the margins. Actually I have no reason to believe that this will actually come down going forward.

Ranjit Shivram: Okay so these kinds of margins are sustainable provided that the service and spares mix keep on increasing going forward?

Nikhil Sawhney: Not necessarily keep on increasing, I think we are at a sustainable level, you know the fact is that product margins are still reasonably healthy for us, in our current order book, we do not see any reason to be concerned on that.

Ranjit Shivram: Okay, and what kind of incentive somebody for buying a 20 megawatt like because the economies of scales are not great so, what kind of industries generally give you any orders for this time?

Nikhil Sawhney: All industry, you see any industry that requires Steam as part of the process that what include all processing industry such as fertilizers, chemicals, petrochemicals, sugar, all agro, paper, rubber, etc., that requires Steam as part of the process would necessarily use a steam turbine as well as certain industries that produce heat such as metals and cement space would also need it, and of course is a very large market from the Biomass and IPP segment.

Ranjit Shivram: And how is the economic front generally for a large steam turbine ₹ 5- ₹ 6 crore per megawatt so, how much does it work around for this?

Nikhil Sawhney: Well, you know it all depends on scope, we say pricing is approximately ₹ 50 lakhs a megawatt, but it is an engineered product so the price could be even ₹ 80 lakhs a megawatt but it all depends on what the scope of that particular order is but if you take on average ₹ 50 lakhs a megawatt the total cost of a project would somewhere come to about ₹ 3.2 to ₹ 3.4 crore per megawatt.

Ranjit Shivram: Okay, and you're manufacturing gears especially for turbines if I understand it rightly. So is it a backward integration and you are doing because you will be manufacturing the turbines so gears also you will be manufacturing and you will be utilizing a part of it for your own captive use, is it right?

Tarun Sawhney: No, gears business has been around since 1969, it is not a new business. Clearly it is linked with our turbine business and it was set up to support the turbine business but for the last few decades it is been an independent entity where we supply a portion of our gears and gear boxes to our captive business however we have the majority about 80% of orders that come from other companies including OEMs in the steam turbine space, gas turbine space, compressors space, and fan blower electric motor space. So, the OEMs, and the aftermarket from other customers is a very significant portion of that business, but it is important to mention that it is a completely separate and independent business.

Ranjit Shivram: Okay and lastly regarding the water business, your margins are coming down. Is it that you are cutting on in the pricing front to get market share.

Nikhil Sawhney: No, this is just an aberration in terms of what we believe our annual results will be, we will revert back to our normal margin. This is primarily driven by certain orders that we were executing in this quarter which were low margins as well as the fact that we had a slightly lower billing than what we thought we would have and therefore the allocation of overheads was higher.

Ranjit Shivram: Okay, and what is your average size of orders for this water business.

Nikhil Sawhney: It all depends, we operate in three distinct areas here, one is municipal segment, the other is the industrial segment and lastly equipment business. Equipment business manufactures conventional water treatment equipment to sell to other EPC and OEMs where the order values are considerably low as you would imagine. On the industrial side we provide to large utilities and institutions as well as small, so those size orders can come down, but on the municipal side we have say upwards of maybe ₹ 20 crore or minimum orders.

Ranjit Shivram: Regarding your technology do you use both RO and membrane or is it only one.

Nikhil Sawhney: Well, water is a very large space when we look at treatment it is somewhat akin to looking at power in the form of generation so you have when you look at treatment you have biological, chemical, and filtration means for treatment of water and we provide a fully comprehensive suite of technologies to our clients mainly for their requirement. So it includes RO, UF, it includes biological such as MBR, MBBR, SBR, activated sludge, it includes chemical DM, MB, it includes the conventional processes as well.

Ranjit Shivram: Are you into sewage treatment like in the municipality.

Nikhil Sawhney: Yes we are.

Ranjit Shivram: Okay, do you have the technology to convert sewage for the industrial use?

Nikhil Sawhney: Well, in fact actually as far as recycling what is this principle is known, there may be about 5 or 6 orders in the country where we have actually seen recycling, and the company Triveni is probably executing four of those, we have a very high market share in the segment.

Moderator: Our next question is from the line of Sachin Kasera of Lucky Securities. Please go ahead.

Sachin Kasera: The realizations that you mentioned of around ₹ 28 a kg that is after factoring in the levy of 10% or depreciation?

Nikhil Sawhney: That is free sale price.

Sachin Kasera: So with levy, the relation for us would come down.

Nikhil Sawhney: Yes, I think the numbers are there in front of you.

Sachin Kasera: Okay, and in the terms of the debt reduction that you mentioned, this is factoring in the cash flow from the turbine business or that would not be able to.

Nikhil Sawhney: No, it will not include any turbine business cash flow which is already been kept separate even though it is on a consolidated account right now we are keeping this on a separate basis pending the demerger.

Sachin Kasera: Basically this ₹ 175 crore long term debt reduction that we are talking of is primarily going to come from the sugar business, the water, and gear business?

Nikhil Sawhney: And co-gen and distillery.

Sachin Kasera: Okay, and you mentioned about a 20% crushing we are just looking at this quarter number Y-O-Y the crushing and the production is almost 1% or 2% up so, is it that in March quarter we are looking at a substantial increase?

Nikhil Sawhney: We are looking at a 15% higher crush, and not 20%. Well, just so that, well more than that you have to actually see the fact that as of even now we are getting small supplies of ratoon cane in some of our factories, so, there is ample cane availability.

Sachin Kasera: No, you mentioned that the overall production of sugar for the year will be 20% higher and the crushing will be higher by 15%. For the December quarter the crushing was 1.44 versus 1.47 and production was 129 against 128.

Tarun Sawhney: You raised a very good point. It was only marginally higher and part of the reason for that was the inclement weather that we experienced in the latter half of December and going into the first half of January. Since that point we have seen crush levels higher than our estimates and our budgets and therefore we have some confidence in giving this projections to our investors.

Sachin Kasera: Which would mean that we are looking at a significantly higher production for the March quarter or March quarter last year?

Tarun Sawhney: Absolutely.

Sachin Kashera: What would be the cost of the inventory as on December sir?

Nikhil Sawhney That is the cost of production which is ₹ 27.5.

Moderator: Our next question is from the line of Kaushik Poddar from KB Capital Markets. Please go ahead.

Kaushik Poddar: See in case of your sugar sector what are the other major initiatives other than this reduction in the debt plan, will you be doing anything extra other than that?

Nikhil Sawhney: Well, all our efforts in terms of initiatives in this sector are not capital intensive, they would be all field based activities in terms of developing cane areas, improving cane yields and recovery levels for our farmers and working very closely with them. We have no large Capex plans apart from maintenance Capex in this segment.

Moderator: Our next question is from the line of Snighter Albuquerque of KJMC Capital Markets. Please go ahead.

Snighter Albuquerque: Did you mention that the record date for the demerger would be somewhere early April?

Nikhil Sawhney: Well, Its pending court approval but this is what our expectations are.

Snighter Albuquerque: Okay, could you give me a date? Second half or so.

Nikhil Sawhney: Sorry, it is not going to be possible, I mean even though if we wanted to we cannot.

Snighter Albuquerque: Alright. What is your cost of debt?

Suresh Taneja: Roughly speaking both for working capital as well as for long-term loan it is approximately about 8.9% for this quarter.

Snighter Albuquerque: What is your PLF operating at?

Sameer Sinha: You see our projected levels in terms of efficiency we have always been maintaining about 95% plus in terms of capacity utilization of the plant but as Mr. Sawhney did mention that from, let us say, the second half of December till the first half of January our crushing was lower because of inclement weather, and to that extent the bagasse transport was lower so during that period our capacity utilization had come down but since the increased bagasse transfer our capacity utilization is looking up, so it would be a function of the cane crush over there, and we definitely hope that we will come back into the 90's level.

Snighter Albuquerque: As of now, what was the level?

Suresh Taneja: As of now it would be more in terms of you know the capacity that you know the units generated you can work out the capacity utilization so far.

Snighter Albuquerque: Could you give me a feel of the clientele in the steam turbine business? In terms of the clientele and not the sector.

Nikhil Sawhney: I do not think it will be possible for us to go into particular names, the fact is that we sell over a 100 turbines a year, and this year we anticipate to sell about 110 or 120 turbines, so for us to go through every single name would be a little difficult but suffice to say that we cover a broad spectrum of industry.

Moderator: Our next question is from the line of Ankush Sehgal from Kotak PMS. Please go ahead.

Ankush Sehgal: Could you give a breakup of your long term and short term debt as on the end of the year?

Nikhil Sawhney: This is difficult to say what our short term debt will be but as you know sugar inventories are the lowest at that point in the year so, if you look at it in terms of the closing inventory of working capital as on 30th September 2010, and relate that with slightly higher inventory levels as off 30th September 2011, you would be able to work that out.

Ankush Sehgal: But how much will long term be?

Suresh Taneja: That is like we said our long term loans are approximately as on 31st December are approximately ₹ 595 crore, and we anticipate this to come down to somewhere between ₹ 425 to ₹ 450 crore by the end of the year.

Ankush Sehgal: Okay, could you explain on how the agreement with Lufkin has expanded the scope?

Tarun Sawhney: Sure, the expansion is on four front, and this is in no order of priority. The first is the expansion in steam turbines where we will be manufacturing gear boxes all the way up to 62 megawatts, above that, it is a gearless solution. In the past we were manufacturing up to 25 megawatts and above that it has been a joint manufacturing program, that no longer exists, we would be the manufacturing the entire range. The second development is the manufacture of high speed gear boxes for gas turbine applications, this is a brand new addition to the agreement and we will have customers such as Siemens and BHEL to give you an example. The third development is an expansion in terms of compressors so this includes air centrifugal as well as other types of compressor applications where previously we were limited up to only seven and a half megawatts, now the range has expanded to include all compressors. The fourth and probably the most significant development is the expansion of territory where we will be covering the entire ASEAN region which was previously absent, this means countries such as Malaysia, Thailand, Indonesia, Vietnam, Philippines, etc., Suffice to say that it would be if you total these countries it would be a little bit larger than the Indian market in term of total addressable market that we have added to our addressable geography.

Ankush Sehgal: So to cater to this market you will need to take share from existing players there or will it be an expansion of the market?

Tarun Sawhney: Well clearly somebody is servicing the product in those regions and supplying into those regions so yes we will be taking market share away from others.

Ankush Sehgal: Okay, so the 25% to 30% guidance of growth for this year should get expanded going forward after the scope having expanded?

Tarun Sawhney: You know the guidance that we have given is for this year, the gearbox has a delivery time anywhere between six to nine months depending on the complexity and the size and nature, so orders picked up in the South Asian Market, will only be reflected in next year's turnover. So, there will only be a very few number of orders from this expanded territory reflected in this year's revenue.

Ankush Sehgal: Yes, so for next year the growth will be higher than 25% to 30% because of these orders getting reflected?

Tarun Sawhney: We have not really prepared the budget for the following year; we will have to give it to our board first before I can comment on that.

Ankush Sehgal: Okay, is there a low speed gears agreement on the lines of this one?

Tarun Sawhney: We are looking at entering the niche low speed market, the low speed market is typically plagued with low margin products, however, there are certain specific segments which are high margin, that require a great deal of engineering knowledge and design knowledge. That is an area of interest to us and we are exploring possibilities to enter that sector.

Ankush Sehgal: And will this agreement again be with Lufkin or you could look at other technology supplies as well?

Tarun Sawhney: Well, at the moment we are at the inception stage of exploring possibilities in the niche low speed sector so it could be unjust to comment on that.

Ankush Sehgal: Is there potential for accelerated growth for the turbine business once the GE JV starts taking orders actually?

Nikhil Sawhney: Yes, of course.

Ankush Sehgal: So you are saying that from the current guidance of 20% to 25 % you could see acceleration going forward once this JV starts?

Nikhil Sawhney: That is a separate company so it would be reflected in that company's turnover.

Ankush Sehgal: But will be serviced by.

Tarun Sawhney: Yes, you are right that the product will be manufactured by Triveni initially and therefore yes, there will be an expansion in revenues once the orders are finalized and commence execution.

Ankush Sehgal: So will the margins be maintained, will there be an arm's length pricing or will there be some benefit given to the JV in terms of margins being at go?

Nikhil Sawhney: Well, we own 50% plus one share in the joint venture and so therefore we will be consolidating the joint venture in our turbine business. What is important for you to consider is the fact that this JV will address both India and the global market, and what we are seeing in terms of pricing levels is that for global markets depending on area to area has a higher pricing of somewhere between 25% to may be 100% than India so the split in the margins would more than compensate anything that we may lose.

Moderator: Our next question is from the line of Mr. Nirav Vasa of SBI Cap Securities. Please go ahead.

Nirav Vasa: My question pertains to your sugar business. What are the steps which are taken by the industry as a whole to make sure that the availability of cane is increasing?

Tarun Sawhney: You know the steps that are taken are primarily on an individual company-to-company basis. For a company like ours, we believe very heavily in partnering with our farmers and in helping them improve yields, in helping them improve better sugar varieties, bring about varietial change, bring about better agronomic practices, so these are initiatives and there is a vast line of initiatives and if you would like to call we would have somebody take you through all of them. I would not spend more time going through them, but there is a long line of initiatives that we undertake, and that we are in the process of undertaking for this season's cane developmental plan, but this is primarily a company-to-company initiative. Clearly, you do have the sugarcane research institutes that are run by the state government, and we do partner with them but for us and specifically to benefit Triveni, we have to do all the work ourselves.

Nirav Vasa: In this season the pricing for sugarcane was anywhere between ₹ 205 to ₹ 210 per quintal. What is the mood in the farming community at this price because next year pricing is not yet decided, and do you think farmers will continue with their ratoon cane at this price?

Tarun Sawhney: The mood is extremely upbeat at ₹ 205 to ₹ 210 as there is a good remuneration to farmers, now when you look at the mood; you have to also factor in not just the price of sugarcane, but also the price of other competing crops and alternate crops. This year because of the floods that we had in September, October, across Uttar Pradesh influencing primarily Western and Central basically the Ram Ganga region on both the left and right banks it has wiped out crops that were unable to withstand this flood, so to give you an example, paddy, menthe etc., so the damage to farmers because of inclement weather has been very, very significant. Consequently, the mood of sugarcane is upbeat, it is a sturdy crop. Yes, like other crops it does get influenced but nowhere by a flood for example but nowhere near to the same degree. We are seeing in terms of booking of seed etc., part of our cane development program a very healthy increase year-on-year and we anticipate higher planting for this year which we in fact will be seeing the following year.

Moderator: Our next question is from the line of Harmendra Gandhi of Nomura India. Please go ahead.

Harmendra Gandhi: Assuming the demerger order takes place in April what exactly happens after that, we have Triveni Engineering getting off the exchange and then what are our timelines after that tentatively only?

Suresh Taneja: You know after issuance of the shares, we have to approach the stock changes and file all documents which are required for a company to get listed, then the stocks exchange, and the SEBI take their normal time- line which is in the case of an average company should be around eight weeks of time, but it could be less or it could be more depending on the complexities involved.

Harmendra Gandhi: And during that time the company is not listed?

Suresh Taneja: The resulting company till the time it gets permission to list would not be listed.

Harmendra Gandhi: Okay and then first Triveni Engineering gets listed, and then Triveni Turbine gets listed?

Suresh Taneja: Triveni Engineering is already listed.

Harmendra Gandhi: Okay, Triveni Engineering does not go off the exchange?

Suresh Taneja: It continues to be listed.

Moderator: Our next question is from the line of Kenin Jain of Voyager. Please go ahead.

Kenin Jain: In this ₹ 2 EBIT on a 5,20,000 tonne volume we will adjust it by the levy sugar but this does not include anything from co-gen or distillery, right, that has to be separately counted?

Nikhil Sawhney: Correct. And I do not know where you came out with the ₹ 2 EBIT also because.

Kenin Jain: It was discussed by the past participant broadly.

Nikhil Sawhney: Okay.

Kenin Jain: And what would be the annual interest cost presuming that year end we would be ending with ₹. 425 crore, so is it right to presume around ₹ 65 to ₹ 70 crore for full year?

Suresh Taneja: I think working capital is something you can calculate yourself once you have an idea regarding the production etc., and regarding the term loan Mr. Sawhney has already given a figure of ₹ 425 crore to ₹ 450 crore by the year end. The opening term loans it can be calculated very easily. We have given you the cost of funds.

Kenin Jain: What could be the annual profitability in terms of EBIT from your co-gen and distillery business based on your assessment broadly?

Nikhil Sawhney: I think the fact is this business like I said would do well and would record growth. I think if you would like to go through the numbers as to how they build up, and you can take it offline, but we do not provide guidance on these.

Moderator: Ladies and gentlemen that was the last question. I will now hand the conference over to the management to add closing comments.

Nikhil Sawhney: Thank you very much for attending our conference call. We hope that you would be able to join us again next quarter, and we would have significant news on our demerger by then. Thank you.

Moderator: Thank you very much members of the management team and Mr. Barar. Ladies and gentlemen on behalf of Triveni Engineering and Industries Limited that concludes this conference call. Thank you for joining us for the Chorus Call conferencing service and you may now disconnect.