



Triveni Engineering & Industries Limited

Q3 & Nine Months FY 16 Earnings Conference Call Transcript

January 21, 2016

Moderator: Good Day, Ladies and Gentlemen and Welcome to the Q3 and 9-Months FY 16 Earnings Conference Call for Triveni Engineering. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you sir.

Gavin Desa: Thank you. Good Day, Everyone and A Warm Welcome to All Of You Participating on Triveni Engineering & Industries Q3 & 9M FY-'16 Earnings Call. We have with us today on the call Mr. Tarun Sawhney -- Vice Chairman and Managing Director; Mr. Suresh Taneja -- the Group CFO; Mr. Sameer Sinha -- President, Sugar and other members of senior management team.

Before we begin I would like to mention 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 'invite' which was e-mailed to you earlier.

I would also like to emphasize that while this call is open to all invitees, it may not be broadcast or reproduced in any form or manner. We would like to start this call with opening remarks from the management followed by an interactive Q&A Session where in you can discuss your views and key issues.

I now invite Mr. Tarun Sawhney to commence the call. Over to you, Tarun.

Tarun Sawhney: Thank you, Gavin. Good Afternoon, Everybody and Welcome to the Q3 Fiscal 16 Earnings Conference Call for Triveni Engineering & Industries Limited. Let me start off by of by saying that we are delighted with the numbers that we put forward in front of you; quarterly profit after several painful quarters. For the quarter under question, our net sales stood at ₹ 511 crore with PAT of ₹ 14.1 crore; for a 9-month basis this was in fact a fall in revenues, it is on account of lower sales of sugar of ₹ 1,446 crore with loss of almost ₹ 54 crore. The improvement in this quarter under question is mainly due to the changes in the Sugar operations and of course the higher prices of Sugar prevailing in the country in the region, especially towards the very end of the reporting period. Sugar inventory were accounted at cost without any inventory write-down at the end of this quarter. The Co-generation and Distillery Operations for the business were satisfactory and overall, the Sugar segment recorded a profit which is in front of you.

The performance for the Engineering businesses was subdued. Although the order booking was healthy during the 9-months and especially during this quarter, we did

feel a little bit of strain on the Engineering businesses and this is primarily due to the postponement of some of the deliveries as far as the Gears business is concerned and also because we were not able to complete some of the billing, etc., as far as the Water business was concerned.

The overall debt of the company as on 31st December, 2015 is approximately ₹ 893 crore which was lower by 13% in comparison to the 31st December, 2014. The term loan as on 31st December '15 was ₹ 575 crore including ₹ 241 crore of loans under interest subvention and the short term loan accounted for approximately ₹ 318 crore. The total outstanding order book for the company stood at ₹ 722 crore which was a year-on-year growth of 42%. So I should at this point highlight the fact that even there has been lumpiness in the financial reporting specially in this quarter in the Engineering business, but the forecast in the future looks very healthy especially with such a robust increase in the order booking.

Turning to the Business Highlights of the Sugar business: After incurring substantial losses over the last few years, the business appears to be moving in the right direction post some key policy actions and of course the estimated lower production both domestically and internationally.

Just a few days ago, the Uttar Pradesh Government has announced SAP for sugar season '15-'16 at ₹ 280/quintal with a subsidy of ₹ 35/quintal. ₹ 11.70/quintal will be in the form of remission of taxes and Society commission etc and the balance ₹ 23.30 will be based on the realization and recovery, etc.,

The sugar realization during the quarter has shown an improvement of 13% quarter-on-quarter with an average realization in Q3 fiscal '16 of ₹ 2,753/quintal. The current sugar prices today are of course higher and are approximately ₹ 3,000/quintal.

The export in power from our incidental Cogeneration plants at Chandanpur, Milak Narayanpur and Sabitgarh have also resulted in revenue of over ₹ 4 crore for the quarter ended December '15. The Sugar inventory as of 31st December stood at 15.18 lakh quintals valued at ₹ 29.46/Kg or ₹ 2946/quintal. This of course included approximately 5% of the previous year's production of Sugar which was valued at cost. Of course as and when that sugar from the season '14-'15 is sold the profits from that would accrue in this coming quarter. The cane crush comparing this quarter with the previous quarter of the corresponding year was slightly different; the cane crush this year was 1.286 million tonnes versus figure of 1.417 million tonnes in the previous October-December quarter 2014; however, this was due to the later start of the sugar factories, but on the positive side the recovery enhancement has been to the tune of almost one full percentage point. The recovery for the October-December '15 quarter stood at 10.33% whereas the same quarter in the previous year, the recovery for our sugar factories was only 9.36%. So an increase of 0.97% quarter-on-quarter which is quite staggering and therefore despite the lower cane crush the sugar production was approximately same at the same level of 132,000 tonnes.

As far as the Co-generation is concerned the operating efficiencies of the plant continues to be excellent. Year-on-year we are very proud that our Co-generation facilities conform to the very highest standards and are able to deliver PLF of the very best plants across the country. An income of ₹ 2 crore has been realized during the quarter and ₹ 3.8 crore during the 9-months from the sale of renewable energy certificates with respect to Khatauli and Deoband.

Moving towards the Distillery which is of course now the product mix of our distillery is very heavily skewed towards the Ethanol program for very obvious

reasons -- the realizations being significantly greater, the opportunities to generate profits of course is significantly greater and, the emphasis not just from the central government were from all around in order to ensure that the EBP10 program the resounding success for the country. Nevertheless, the Distillery sales quantities and average realizations have been higher in the 9-months under review by 8% and 7% respectively against the corresponding period of the previous year, which has enabled us to achieve higher turnover and profitability. The share of Ethanol sales for the 9-months of fiscal '16 is about 84% of total sales volume, which is more than double in comparison, and, of course, this number will go even higher for the sugar season '15-'16. In a nutshell, almost everything that can be produced will be converted into Ethanol and supplied to the oil marketing companies. And Triveni has participated very aggressively in the first and second tenders and whatever small balances that we may be able to tweek out with respect to process improvement, etc., we will be supplying that in the 3rd tender which is forecast to come sometime in February 2016. E10 is as I mentioned one of the most positive moves and has a potential of ensuring huge security for the country along with conserving foreign exchange at the same time and of course it provides flexibility to sugar mills to change the product mix. To give you an example, the State of Uttar Pradesh, the Excise Commissioner has recently circulated a notification allowing the manufacture of Ethanol using the B heavy molasses. This has been done at a very early stage. Clearly, there are no sugar mills that are using B heavy molasses to generate Ethanol but nevertheless as the pricing of Ethanol improves I am certain that many mills will look over this option very-very seriously. The only qualification here is that the storage of the heavy molasses has to be done in a separate vessel. .

Turning towards the Engineering businesses which comprise of Gears and Water. The overall market is still impacted by the slowdown in the Capital Goods segment. The turnover for the 9-months '16 has been marginally higher while the quarterly turnover was lower by about 16%. The main reason for that of course is the postponement of orders from Q3 to Q4. So there has been a little bit of lumpiness as far as the Gears business is concerned. The order intake of ₹ 73 crore is marginally lower in the 9-months period but the outstanding order book as on 31st of December, 2015 stood at over ₹ 55 crore, all of which is executable in a few months' time. Bulk of it in Q4.

As far as the Water business is concerned during the quarter and 9-months, we have suffered due to the lower order intake in the previous year and a late completion of some of these projects due to financial constraints with our customers and the under absorption of overheads that have consequence has led to the lower turnover and the higher losses. This is something that I have ventured in our previous calls as well that the lumpiness in this important sector is primarily due to our customers delaying projects and our customers are primarily in the municipal space and therefore you will see this type of lumpiness to continue. Nevertheless, our order intake has improved substantially to about ₹ 309 crore, of which the operation and maintenance portion is approximately ₹ 81 crore. We have participated in many enquiries and many RFQs over the last quarter and we have come out as L1 in a couple of them. Very large orders that may be placed in this Q4 FY-16. And if that does come to state of fruition we will see a much healthier and a much greater order book at the end of this fiscal year.

Turning towards the Sugar industry in specific and talking about some of the highlights, policy related and of course company related: I think I would like to spend a little bit of time in going over this because there are some very important developments that have taken place over the last 3-months. As per the industry estimates the country's Sugar production for '15-'16 is estimated in the range of approximately 26 million tonnes and that is going to be lower by about 2.3 million tonnes from the previous year. Now, a lot of this contribution will happen from the

central states of Maharashtra and Karnataka. As I have always maintained the real swing states in India are Maharashtra and Karnataka and to some extent Tamil Nadu which is of course much smaller and it is not really Uttar Pradesh, so the variation in crush and Sugar production in Uttar Pradesh plays a very little role in terms of the fortune of the overall sugar industry. So this entire fall from 28.3 million tonnes to approximately 26 million tonnes forecast for this year is a result of the shortfall in Sugar production from the Central and Southern States. Up to January 15th 2016, the All India Sugar Production was higher at about 6.8% at 11 million tonnes, and this is primarily because of an early start to the Sugar year, year-on-year. If we look across the country we can see that the plant cane has started coming pretty much across to the country and therefore we will, despite having produced more sugar at a specific date and time were still looking at a lower overall Sugar production. The sugar production in Uttar Pradesh was higher by 8.4% and this is primarily due to a significant increase in recoveries from sugarcane which is due to climatic factors and of course varietal change that has been happening across the state over the course of the last couple of seasons. Now across the state, the average increase in recovery has been approximately 0.5-0.6% whereas for the group we can see that the change is almost one full percent. Maharashtra in the same time has produced 4.4 million tonnes of Sugar at an average recovery of 10.6% which is approximately 2.3% higher than the corresponding period in the previous year. Maharashtra as a state has faced a lot of challenges especially with acute water shortage, etc., which has impacted the 15-month planting and will also impact the 12-month planting which is underway as we speak, and it would also lead to an early close to their season. So we will see million tonnes plus a difference in production between Maharashtra this year and Maharashtra last year.

An important development in the last quarter and a notable development was that Central Government notification of mandatory export of 4 million tonnes of Sugar. This has been allocated to all the sugar mills across the country. As you are all very well aware of as long as sugar mill exports 80% of their quota, which in effect means that the Central Government is expecting 3.2 million tonnes of sugar to be exported out of the country. As long as each sugar mill is able to comply with that it will then be able to avail ₹ 4.5/quintal subsidy based on the crush for this sugar year. Now this is a very good scheme and if we are able to reduce the domestic stock pile and improve the Sugar balance sheet across the country, we will certainly see higher Sugar prices from the base point today of ₹ 30 I see ₹ 2.5 very easily coming in terms of an increase in Sugar price provided we are able to export a substantial part of this 3.2 million tonnes of Sugar. To give you some idea of numbers, approximately a million tonne of sugar has already been contracted. All these contracts are in the form of white crystal sugar. I am not aware of any contracts that have been entered into for raw sugar and I am also not aware of any sugar factory that have started producing raw sugar, nevertheless, there is still time for our coastal millers to produce raw sugar for export under this scheme. Out of that approximately 600,000 tonnes of sugar has physically moved out. Because this sugar is physically moved out, that is one of the most important reasons why we have seen an increase in Sugar prices which had touched a low as you all know of ₹ 22 in July-August of last year to approximately touched even ₹ 31 and then of course receded in December 2015.

The Central Government is also pursuing demand for Fuel Ethanol targeting 10% blending with petrol. Now, this is a program that is very much under the careful eye and has the blessings of the Hon'ble Prime Minister of the Country. It is being followed up by the Ministry of Food with great regularity. The fact of the matter is that we are moving towards a scenario where we are looking at fuel Ethanol really from an environmentally conscious perspective. Of course, the fact that our foreign exchanges earnings are also withheld within the country is another positive contributing factor. But the message that has come from the Ministry of Petroleum and the Ministry of Food is very clear – “Push this Program” I expect that this year

we will achieve approximately maybe 7.5% maximum, not the full 10%, and with some capacity expansions that are underway across the industry and some capacity enhancements and new capacities coming up, we can certainly look at EBP10 going forward. And, of course, one must not forget that we have the possibility of using B heavy molasses as well. So once we look at some kind of price parity happening in the future, we will have more diversion of sugarcane juice towards the ethanol as well.

The SAP for Uttar Pradesh has also been announced just a few days ago at ₹ 280, I mentioned that in my opening remarks; total subsidy of approximately ₹ 35 has been announced which is ₹ 5 less; however, the benchmark price which was ₹ 3,100/quintal last year below which if the average realization was below that the industry could expect a subsidy from the state government, that has been raised to ₹ 3,178 per quintal of sugar. Now that is an important increase and despite the fact that we have got ₹ 5 less total subsidy that is available from the state government I still think that this is a very positive move by the state government and especially in this troubling time.

The first installment of payment to farmer, another important point to mention is ₹ 230/quintal. So Triveni has no dues for the previous Sugar season and has started paying its cane dues for the current season.

Let me turn to the Outlook for our Engineering Businesses; let me take the Gears business first: As I mentioned that there is overall sluggishness in economic activity and the capital goods market across the country and we have experienced that within the estimation of our company. While the overall revenues have not declined we have and did anticipate an increase in sales. A lot of that has actually been pushed out into Q4. So the order booking that I had mentioned, bulk of it will be executed in Q4 of Fiscal 2016.

With reference to our relationship with GE-Lufkin, we are seeing some amount of hesitation in terms of orders and products going into international markets and this is really because of a massive international slowdown in the Capital Goods market with oil prices below \$28, there has been a huge impact in the Capital Goods market internationally and we are seeing that with respect to the orders that are being placed. Now the orders that are coming to us we are getting all of them simply because our cost of production, etc., is that much more competitive. But having said that the overall quantum of orders in the industry is a little bit of precarious situation internationally. Having said that as far as the company is concerned I still maintain that we will certainly improve our business going into Q4 of this year and we are exploring new avenues, new products, new diversification strategies that will come into place for the next fiscal year.

Lastly, with respect to the Water business, we have received exciting new orders and we have come L1 in a couple of exciting orders in the last quarter. They have not yet been finalized and therefore they have not yet been added into our order book which, we expect that to happen over the coming few months. Now the company continues to successfully leverage its engineering relationships with industrial sector customers as well. But, I should mention as a caveat that the uncertainty in order finalization still lingers on, but there are various policy initiatives of the Central Government and of the State Governments for subsequent treatment of waste water, the provision of adequate water to the citizens of India and we believe that we are very well positioned to provide these services to the Centre, Municipal and State Governments going forward.

Very lastly, of course, with respect to the Scheme of Arrangement, the company had initiated a process of restructuring its businesses with a view to have focused

attention on both the business segments -- Sugar and Engineering -- for facilitating growth of both the businesses as well as creating value for its stakeholders. The in-principle approval has been received from SEBI in the stock exchanges and the Scheme has been filed with the High Court. In the meetings convened under the directions of the High Court, the shareholders and creditors have approved the Scheme. The next hearing is scheduled for the 16th of February 2016. Thank you. With that I would like to turn over the floor for Questions.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. First question is from the line of Abhishek Jain from K R Choksey. Please go ahead.

Abhishek Jain: My first question is on the Ethanol part. How are the refineries buying because now the petrol prices have also fallen considerably? What kind of feedback you are getting from refineries?

Sameer Sinha: They are continuing to buy and they are not making any losses even at this crude prices simply because of the high taxation on petrol which they have to pay and which is not there in this case.

Abhishek Jain: Second question, sir, is there any clarity in terms of taxation on anhydrous alcohol because right now the Ethanol has been touted under anhydrous alcohol kind of thing. So, is there any changes in tax rebate in terms of Ethanol sale?

Sameer Sinha: There is a notification which has waved off the excise duty to be paid on Ethanol ex-factory but that is only on Ethanol produced from Molasses of '15-'16 season and we will start dispatching that from early February.

Abhishek Jain: What is the feedback you are getting from south-based because I was reading in ISMA notification that in Andhra Pradesh, some of the mills have not started crushing till January 15th, what kind of overall production you are expecting from the south-based mills especially for Sugar?

Tarun Sawhney: The mills in Andhra Pradesh has started crushing. If you are talking about Ethanol, of course, each state has its own set of challenges. The one thing I can certainly say is that the State of Uttar Pradesh is quite progressive with respect to Ethanol certainly and allowing that blending to happen seamlessly. With respect to Sugar as far as South India is concerned everybody is crushing.

Moderator: Thank you. The next question is from the line of Arun Malhotra from Santalum Capital. Please go ahead.

Arun Malhotra: I have a couple of questions; firstly, on the Sugar. You mention that overall production is going to be less especially Maharashtra is going to produce 1 million tonne less, but YTD numbers Maharashtra and U.P., both are showing positive means +3%, +8% as compared to last year while Karnataka is also of 19% YTD. So, what gives you the confidence that this year the production would be less than last year?

Tarun Sawhney: There is only a specific amount of sugarcane that is there in every state that every factory has. The factories in both Uttar Pradesh, Maharashtra and Karnataka as you have asked have all started their operations significantly earlier this year than they did last year and therefore they have had many more operating days under their belt this year and that accounts for the higher total quantum of Sugar produced. What I am also trying to say is that they will end their operations significantly faster and earlier this year as compared to last year.

- Arun Malhotra:** Regarding the Gears business, wanted to ask, what would be the total size of opportunities with GE Lufkin and GE Oil & Gas?
- Tarun Sawhney:** I think it is an excellent question. As we go down the spectrum of products that are available we are able to manufacture pretty much the entire requirement of gearing that is procured by GE and we can certainly support Lufkin in the Gear Boxes that they sell internationally. The point really is that it is very difficult to put a specific number to that relationship. What we have right now is a strategic agreement where they can buy as much from us as they would like under contracted terms. Given the softness that is being experienced internationally, even compared to our own forecast we have had a lower off take from GE. Going forward I can see that business being many millions of dollars business for us in the years to come.
- Arun Malhotra:** Are we substituting as one of the vendors of GE or are we complementing or what is our competitive strength to supply to GE?
- Tarun Sawhney:** Triveni has had a license agreement with a company called Lufkin Industries since 1998. Lufkin Industries was acquired by GE in 2012. So as far as GE is concerned, we are very much a part of their supply chain and they treat us as just another manufacturing facility as part of their chain. So we are not replacing anybody, we are simply adding on to their global manufacturing base.
- Arun Malhotra:** Out of this ₹ 55 crore order book as on 31st December in the Gears business, what percentage of it would be from the GE group?
- Tarun Sawhney:** We have not broken it up, but it is a tremendously small portion.
- Arun Malhotra:** On the Gears business, going forward let us say three years down the line, what percentage of Gears business would you want to be from a strategy point of view from GE?
- Tarun Sawhney:** Even now if one asks our largest customer accounts for some 20%-odd of our revenues, going forward in 3 or 4-years' time when the quantum of customers of OEMs increases very substantially, I see that no customer should be greater than 10% to 15% of our total revenues and that would be the hope.
- Arun Malhotra:** On the Water business, we have seen a very-very encouraging commentary from the management in the last quarter and in this quarter especially on the order book side. But the execution seems to be disappointing. Whatever execution we are doing is still a bit large business. I have raised this issue in the past calls also. Why are we still showing a negative EBIT for this business? What gives us the confidence – is it a different set of customers or is it a higher margin orders going forward that we will be able to make money in this business?
- Tarun Sawhney:** So let me start off by answering your questions in a reverse order. Yes, there are newer customers. Yes, the margins are healthy. To answer your last two questions, I would say, yes, to both. I think the orders that have come in recently and the orders that we are expecting for both of them we are expecting healthy margins and we are expecting new customers and new relationships to be fostered. With respect to the physical numbers in this quarter and the lumpiness in numbers I know that I have mentioned this on several occasions of these calls, a lot of that has to do with execution. When you are dealing with municipalities in a vacillating economic environment people have a tendency to start pushing off final deliveries or accepting deliveries. We can only account for revenues once we have done the work. Therefore, if we have not physically done the work we cannot account for revenues and therefore there is under absorption of our overheads. You have seen that in the last quarter and the one before that as well. That is a significant reason

for the losses. Now going forward I see a lot of that getting reversed as we actually go out and physically start completing these orders and recognizing those revenues. So I would encourage you to take this point and then look down one year from now and see how much the business has improved in that period of time.

Moderator: Thank you. The next question is from the line of Aman Sonthalia from Suvidhi Capital Markets. Please go ahead.

Aman Sonthalia: What is the valuation of the closing inventory?

Tarun Sawhney: The Sugar stocks have been ₹ 29.46.

Aman Sonthalia: How much inventory loss you have taken in the last year of the corresponding quarter?

Suresh Taneja: I think significant; I think it was approximately about ₹ 40 crore.

Aman Sonthalia: In the fourth quarter of the last year it was also very high?

Suresh Taneja: That is right, yes.

Aman Sonthalia: I am following this industry since last 12-years and I have talked to the people in Maharashtra, Karnataka, Tamil Nadu, Uttar Pradesh and many other states and even I talk to the Maharashtra people they are saying that their production will be at least less by 30 lakh tonnes this year and in Karnataka it will be around 15 lakh tonnes and in UP also they are saying that it will be 2-3 lakh tonnes because of very low yield there. So in that calculation, the total production for the year is coming at around 230-235 lakh tonnes. So where is my calculation wrong, can you throw a light on this?

Tarun Sawhney: I do not want to question where you got the information from. But our estimates are based on our physical research teams covering the country, speaking to farmers and looking at satellite imaging data. ISMA itself does the same exercise of looking at satellite data which looks at unharvested cane and looks at sugar produced up to this time and rather harvested cane and then does its estimation of how much would be produced. So, it is done on a very scientific basis, both the calculation done by Triveni and also the announcement done by ISMA. ISMA is having a meeting tomorrow and there will be a press release tomorrow. So I do not want to preempt the numbers coming from ISMA. But Triveni's own research estimates towards production of 26 million which is a drop of 2.3 million from last year to this year. Now, what you are suggesting is that the drop can be far more acute. My perspective is slightly different; I think in Uttar Pradesh while the area is down and the yields have vacillated. You had a staggering increase in recovery across the state, unprecedented. As far as the recoveries in Maharashtra and Karnataka are concerned, they are pretty much par-on-par year-on-year. So yes, there is less quantum of cane in both those states, but I think the numbers that you are talking about to come down to the levels of 23, 23.5 million tonnes is not going to happen this year.

Aman Sonthalia: What was the export quota for the company this year? How much quota you have sold and at what price?

Tarun Sawhney: Our total quota was approximately 80% of total quota was 58,000 tonnes of Sugar and the entire quantum of 58,000 tonnes of Sugar has been contracted by the Company.

- Aman Sonthalia:** The loss was accounted in this quarter?
- Suresh Taneja:** No, it will be accounted for in the next quarter as and when it becomes accrued but simultaneously one should not forget that it will be compensated by the production subsidy of ₹ 4.5/quintal.
- Aman Sonthalia:** Mr. Gadkari, Transport Minister, is talking of flexi-fuel cars for India. So if this type of car come into India, what are the chances that they will get sufficient amount of Ethanol, because I do not think India has so much of Ethanol because we have 3% of total requirement?
- Tarun Sawhney:** I disagree with you. The availability of Ethanol is more than ample. I think there are some portions of the country that need to be convinced to actually convert the distilleries into ethanol distilleries. From the sugarcane industry, I think the support for any such program we are not just willing to support it completely but we have been wanting such a program to happen for a long period of time. With respect to the availability of Ethanol, it is certainly there with B Heavy Molasses, the permission for that having come about now I think there is no question, that if the flexi fuel program does get underway the Sugar industry as a whole will certainly support it. Let me also add that the first place where you will find great support will be within the State of Uttar Pradesh.
- Aman Sonthalia:** I have talked with the industry people that ₹ 28.50 is Sugar price, Ethanol at ₹ 45 is viable but at ₹ 45 I think nobody will go for production of Ethanol?
- Tarun Sawhney:** The price of Ethanol will be decided from year-on-year and you will have points time for it will be viable just to take B heavy straight into Ethanol. That is the kind of structure that needs to be created to foster such a program. It is closer to the Thai model.
- Aman Sonthalia:** Suppose I have 100 shares of Triveni Engineering right now. So how much quantity I got this demerged company, I fail to understand all these things, sir, so whether I will get two company share or whether I will get three company share?
- Tarun Sawhney:** You will get two company shares; so for every one share that you have in Triveni Engineering & Industries Limited under the proposed scheme you will remain to have that one share in Triveni Engineering and you will get one share in Triveni industries.
- Moderator:** Thank you. The next question is from the line of Nirav Shah from Geecee Investment. Please go ahead.
- Nirav Shah:** A few questions; first is on the Gears front. So what is the status of our expansion?
- Tarun Sawhney:** Yes, our status of expansion is almost complete. By the end of May 2016 this year we will have completed our expansion, which is on target.
- Nirav Shah:** One clarification on the last call; you mentioned that the revenue potential post this expansion will be ₹ 250 crore. So is that only products or it is segment as a whole?
- Tarun Sawhney:** I am not exactly clear how you asked the question, but let me say that post the expansion that will be the capacity of our manufactured product.
- Nirav Shah:** So we have a very high share from spares refurbishments....

- Tarun Sawhney:** That product as well.
- Nirav Shah:** That includes, I mean, for the segment as a whole, you mean to say?
- Tarun Sawhney:** Correct, for the segment as a whole, it includes original product, repair and service.
- Nirav Shah:** You mentioned the target recovery rate. What is likely for this current season, whatever current feedbacks do you have regarding the quality and without any further environmental, steady state basis continue they are?
- Tarun Sawhney:** I think at this point in time we are still crushing ratoon crop in Uttar Pradesh. I assume you are familiar with ratoon plant. So we are still crushing ratoon at all of our factories. Plant cane is yet to start at any of our factories. Plant cane when it does come, it is all the effort that our cane development team has done last year. In the March through May sowing season of 2015 that cane is yet to come. The varietal balance of that cane for Triveni is significantly better than that of the ratoon cane; however, even when we have the ratoon cane, we manage to achieve a very good level of recovery. My anticipation and expectation from our plant cane is that it will be significantly better. To attribute a number at this point is very challenging, very difficult.
- Nirav Shah:** In another way, what is the kind of total proportion that we are expecting from ratoon and first year cane?
- Tarun Sawhney:** A very good question that you asked. This year actually we have seen very interesting scenarios developed with respect to diversion, etc., So classically what you would have experienced is approximately 55% to 60% ratoon then the balance being the plant. This year I would expect it to be anywhere between 50 to 55% ratoon and the balance plant.
- Nirav Shah:** For the season that the recovery rate that you have achieved, would it be among the top three in U.P.?
- Tarun Sawhney:** I have not compared ours as against the others.
- Moderator:** Thank you. The next question is from the line of Satish Mishra from HDFC Securities. Please go ahead.
- Satish Mishra:** Just to understand the Cane pricing. What I understood is that last year Sugar price is ₹ 31. So we were getting a subsidy of ₹ 20 and below that for every one rupee we were getting a subsidy of additional ₹ 10, right?
- Tarun Sawhney:** No, that is not right. Last year there were two elements to the subsidy. There was ₹ 8.60 subsidy that was given regardless, the balance ₹ 11.40 was remission of taxes and duties that was also given. This is usually over and above the price of ₹ 280. There was a further ₹ 20 subsidy that was given. The calculation of that subsidy use a base rate of ₹ 3,100/quintal of Sugar and it had a base rate for Molasses, Press Mud and Bagasse. As it transpired the prices of all three were well below the set benchmarks and the entire amount of ₹ 20 was paid by the state government directly to the farmers. As far as this year is concerned, it was my understanding and our deliberations with the state government that the benchmark price would be raised ₹ 31.78. Formally, it has not happened. But we believe that there are very good chances that the government will keep it and raise it from ₹ 31.00 to ₹ 31.78. Nevertheless the government has decreased the total subsidy from ₹ 40 to ₹ 35. Now the remission of taxes and duties still remains and then the balance form part of a subsidy which will be then deliberated and decided upon by

a committee headed by the Chief Secretary of Uttar Pradesh. That is where we stand this year. The last point that I will mention is that last year the first payments to farmers was ₹ 240 and this year the first payment to farmers stands at ₹ 230 as per the government's notification.

Satish Mishra: If say I take a case sugar price is say ₹ 31.78, all I have to pay to farmer is ₹ 280-35=245, is that correct?

Tarun Sawhney: No, that is not correct. Assume that the government accepts average price of ₹ 31.78 which means that is starting from October all the way until the committee sits which is the end of the season, say, May, you have to achieve ₹ 31.78 which means that price they took up a ₹ 35/Kg for that average because the previous quarter was much lower. But let us assume in your scenario, the average does come up to ₹ 31.78. In that case you have to pay ₹ 280 minus ₹ 8.3, approximately ₹ 271.

Satish Mishra: Second question is related to Ethanol. You mentioned in one of the points that in Ethanol they need not pay taxes whereas in petrol they have to pay taxes. So my understanding was like earlier also if you see the case when crude was say \$100 and petrol was available at \$40 plus. Is that correct that on Ethanol volume they need not pay taxes?

Tarun Sawhney: No, I think the question that was previously asked was regarding why the oil marketing companies was sourcing Ethanol even at crude price is being sub-\$28. The answer to that is the Government of India levies duties on imported oil and therefore the oil marketing companies do not pay \$28 a barrel, they pay a much higher number. Now, that higher number for imported crude when compared to the ₹ 45 odd per liter of Ethanol, that parity still works.

Satish Mishra: With the available facilities, can we directly route B-Molasses for Ethanol production?

Tarun Sawhney: I had mentioned the notification that has come from the state excise authorities clearly states that you have to have a separate storage facility for B-Heavy Molasses. Yes, we have many storage tanks, we can clear one and create that for B heavy. So, as far as Triveni is concerned, if we ever do take that decision to utilize B-Heavy Molasses, we do have that capability and provision.

Satish Mishra: What is the comparable number between Sugar price and Ethanol price say Sugar is at ₹ 30? I think in one of the questions you highlighted something.

Tarun Sawhney: Actually it was a comment placed by somebody else, it was not my comment, but to the best of my knowledge, Sugar price of ₹ 27 is comparable with Ethanol price of ₹ 45.

Moderator: Thank you. The next question is from the line of Siddharth Mohta from Principal India. Please go ahead.

Siddharth Mohta: Just two quick questions; on the Sugar side, how much is the industry total to meet the 10% norm of mixing, so how much is the shortfall in your opinion in terms of billions of liters or whatever that number is?

Tarun Sawhney: So the total number that the industries acquire to give for 10% is the 180 crore liters.

Siddharth Mohta: 180 crore liters needs to be supplied for 10%?

- Tarun Sawhney:** 180 crore liters needs to be supplied for 10% blending across the major states of India. All of which we have short fall of approximately 50 crore liters in terms of tendered capacity. The capacity is there; we have the capacity to give 180 across the country. It is just a matter of certain distilleries choosing their product mixes and not making Ethanol and not tendering. So the capacity is there. This is a common misconception. I am glad that you asked this question. The capacity to meet the total requirement till 100% across the country. There are individual factors company-to-company that prevents this from happening. But I am hopeful that with the third tender happening, we may not touch 180 crore liters, but we will certainly rise from the levels which we are at right now.
- Siddharth Mohta:** On the Gears business, you had mentioned in the last call that we are the only manufacturer of High Speed Gears, so you have refurbishment, you have gears, both high speed and maybe non-high speed, all of that put together. Now, is the high speed gear a substantial portion of the turnover?
- Tarun Sawhney:** Yes, of course, it is the bulk of the turnover.
- Siddharth Mohta:** In terms of overall competitiveness from where GE-Lufkin is sourcing this particular Gear, do you think we have a significant advantage in terms of ramping this up just in case let us say theoretically the demand doubles tomorrow then we have the wherewithal to do it?
- Tarun Sawhney:** We certainly have the capacity. We will certainly have the willingness to be able to participate in any orders that are coming from Lufkin or any other OEM so to speak. But for that to happen we need some more changes in the overall global market.
- Siddharth Mohta:** But in terms of the cost curve, we are among the lowest cost suppliers?
- Tarun Sawhney:** In terms of the cost curve, I do not think there is anybody cheaper.
- Siddharth Mohta:** On the Water, you had mentioned that there is a mismatch in terms of the overall capacity, the ordering and the offtake?
- Tarun Sawhney:** The lumpiness is basically due to revenue recognition actually. The fact that we can only recognize revenues as and when we complete such elements of a job and that being pushed out by our customers for various seasons, those delays happening, for a whole variety of reasons. Now, our fixed cost of course have to be incurred on a month-on-month, quarter-on-quarter basis. But what happens with the push out is that it creates this lumpiness and overhead absorption gets impacted therefore creating the negative dues.
- Siddharth Mohta:** So as a natural corollary to what you said, would it be fair to assume that most of our legacy orders are out of the way?
- Tarun Sawhney:** Yes, you are right.
- Siddharth Mohta:** Those will have reasonable profit in your opinion?
- Tarun Sawhney:** Quite right.
- Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

- Achal Lohade:** The press release for the Cane price announcement is not yet published I believe. In that case, I am just wondering because some of the news reports have talked about that the ₹ 11.3 which is what the exemptions or remissions, they also may not be available after ₹ 32.5 average realization. I am just puzzled as to why there is so much of delay? What is the Cane price currently you are accounting for?
- Tarun Sawhney:** So there has been a press release. If you would like to contact us offline we will be happy to share it with you; e-mail it to you. You are right that the UP government in its press release there is a fair element of vagueness. But it is undue for me to comment on that because the track record of the government is that even last year, they recognized the price and they gave the subsidy. So for me to turn around right now and question that, is not fair at this point.
- Achal Lohade:** If I could get for 2014-15 what was the Cane price effectively for user?
- Suresh Taneja:** It was approximately ₹ 251/quintal.
- Achal Lohade:** Excluding the transport cost?
- Tarun Sawhney:** Absolutely.
- Achal Lohade:** What would be the total cost including transport? I do not think there was any purchase tax or sales this time.
- Suresh Taneja:** I think you should add about ₹ 8 to 10 more.
- Achal Lohade:** If I look at the opening inventory, it was upwards of 10 million tonnes. We might produce 25-26 million tonnes and the consumption is around that. I am just trying to understand, your comfort in terms of the pricing. Do you see there is a reason for prices to go up sharply from here?
- Tarun Sawhney:** So let me start off by saying that I think your opening balance numbers, the ISMA numbers or Govt of India numbers or even our numbers are more like 9 million tonnes, not 10 million tonnes that you assumed. We have a difference in about a million tonnes. It is just the opening balance. If you have 26 million tonnes being produced in the country that leads to a scenario where you have 35 million tonnes of total availability in the country. Even if it is the same as last year, last year's consumption was 25 million tonnes. I would say the consumption would be higher by at least half million tonnes this year, but let us take the worst case scenario I take 25 million tonnes. It means there is a balance of 10 million tonnes left. Now after that you have your mandatory exports. Out of the 3.2 million tonnes I firmly believe that we will achieve at least 2.2 million tonnes even if it is white crystal sugar by the end of this sugar year. Therefore, you have a scenario where you have 7.8 million tonnes if not lower, and then of course if you take added consumption you have about 7 million tonnes. 7 million tonnes of the closing balance in this Sugar year is only less than three months' consumption and that is fairly robust as far as Sugar pricing is concerned. There is a very important element that I have left out that you must also consider; this is just looking at the balance sheet for this year. What we are not talking about and what we should start talking about is the Sugarcane planting that will happen over the next 4-months which will be the Cane supply for next year. That is down very-very significantly. The news reports for the Adsali 18-month crop in Maharashtra and the 15-month crop in Maharashtra was down by over 50%. So you may have an opening balance of 7 million tonnes, but you may be going into another Sugar year where there maybe actually a physical shortage. Whether that happens or not, there is no point postulating it, because we do not have the physical numbers of planning at this point in time. But I am just saying that since your question is leading to my

confidence in a slight increase in Sugar prices, I have tried to lay out all the parameters that are important in that consideration.

Achal Lohade: Just one question on the exports part. You said you are looking at a minimum of 2.2 million tonnes. What is the current net export realization in your view for White and Raw Sugar as compared to the domestic price?

Tarun Sawhney: I think the loss as far as White Sugar export is concerned, it is a shade higher than ₹ 3, as far as raws are concerned, nothing has really been contracted. So there really is not the market. But I would imagine that would be no higher than ₹ 4-4.5.

Achal Lohade: I am just trying to understand if the loss is ₹ 3/Kg, for listed players for those who have got good balance sheet, they may be looking at the holistic view and till the way your company is contracted might do. But I am just trying to understand that may not be more than 20 or 25% of overall country's production or the capacity. How about the small players – would they really take this hit of ₹ 3?

Tarun Sawhney: I do not want to correct you, but it is not a hit, because under the MIEQ Program, the Government of India is giving you ₹ 4.5/quintal of Sugarcane on this year's crush as a subsidy provided you export. So in effect, for a North Indian miller it comes to close to approximately ₹ 4 loss and for say Maharashtra miller it comes to something like ₹ 3.75. So at a loss lower than those levels you are actually going to end up earning a little bit more money.

Achal Lohade: So basically the subsidy is taking care of that part?

Tarun Sawhney: At these pricing levels, certainly it is taking care of that part and that is why, I firstly am encouraging all the members of the industry to really aggressively look at this program and to export their Sugar.

Achal Lohade: Just in terms of the potential, we keep reading that the potential for White Sugar is just 1 million tonne or 1.2 million tonnes, incremental Sugar export has to be in the raw form. I am just trying to understand which countries you would target or you expect this Sugar go to?

Tarun Sawhney: About a million tonne has already been contracted. I have not kept up with exactly where it is going but a large part of the destination have been countries in Southeast Asia. Clearly, for larger quantum of Sugar to go out especially in crystal form, you will have to find a home and a destination for that quality of Sugar. There are various possibilities – South Africa, West Asia, and of course, continued purchase from South and Southeast Asia. But 1 million tonne of White have already been contracted and frankly speaking everyday there are more being contracted. This is being followed up by various ministries, various senior officials, etc., on a weekly basis. So the data points are fairly accurate.

Moderator: Thank you. The next question is from the line of Rukun Tarachandani from Kotak Asset Management. Please go ahead.

Rukun Tarachandani: Just wanted to have clarity on the Gears business. How much of the revenues would be contributed by Oil & Gas?

Tarun Sawhney: That is a very good question. I have not taken out that segment data, but for it to guess it would be the single digit.

Rukun Tarachandani: Of the GE-Lufkin part, is the large part of that business mostly into Oil & Gas?

- Tarun Sawhney:** No, not necessarily. General Electric has a large Oil & Gas business, but Lufkin is a Gear Box manufacturer that sells to everybody else like we do, cement companies, paper, steel, aluminum, power etc., We are not confined to the Oil & Gas market.
- Rukun Tarachandani:** I was just trying to understand because I just sensed that compared to the last quarter call, this quarter call the commentary has been slightly sluggish partly because I think you noted that because of the decline in crude oil prices, how much of that would be impacted to your future growth prospect?
- Tarun Sawhney:** I think you are terribly astute in terms of noticing that slight difference in it and it is unintentional, let me start off by saying that, but very well picked up by you. Let me be very candid and say that, oil prices has impacted the sales of capital goods globally and generally. But as far as we are concerned, we are still very buoyant. If we have not got orders in the same form as we expected last quarter, we will get next quarter and going forward we are very-very bullish about it.
- Rukun Tarachandani:** So the bulk of the sluggishness that we saw this quarter is because it is just a delay from one quarter to the next quarter, it would be most of it, right?
- Tarun Sawhney:** Yes, there have been some delays; some clients of us have asked us to put out orders from Q3 to Q4. We usually do not say no, because they want to recognize revenue in Q4. So sometimes it just moves out. So nothing for us to be concerned about it.
- Rukun Tarachandani:** The margin contraction that we have seen in that Gears business, is it because of the operating leverage?
- Tarun Sawhney:** I would recommend that you look at it from a year end basis rather than just focus on the Q3 number. I agree with you, a little bit of an anomaly.
- Rukun Tarachandani:** Coming to the Sugar business, how much of it was inventory gain, the profit this year?
- Suresh Taneja:** It does not have any inventory gains at all because whatever is the old inventory which we have in stock that is the production of the month of April and that is at cost.
- Rukun Tarachandani:** So if we were to look at the economics of the business and assuming that the Sugar prices stay where they are, is this a fair reflection of the economics of the business, the current quarter numbers?
- Suresh Taneja:** No, I think there is a possibility of tremendous improvement actually. Just to give you a little bit of an idea, in the current quarter, there has not been any sale of sugar stocks produced in the season 2015-16. Obviously, it is not an indication.
- Rukun Tarachandani:** In the Water business, how much of your revenues come from the municipalities and how much of it is from industry?
- Tarun Sawhney:** It is about 50:50.
- Rukun Tarachandani:** But is it possible to shift that towards largely catering to industries?
- Tarun Sawhney:** We are actually moving the other way round.

Rukun Tarachandani: But is it not the working capital stress increase of municipalities?

Tarun Sawhney: It is far more acute with respect to industrial customers. Working with PSUs is very different the fund come from the state government for multilateral funded project, etc.,

Moderator: Thank you. The next question is from the line of Levin Shah from Value Quest Research. Please go ahead.

Levin Shah: My question pertains to the GE-Lufkin's business. Answering a previous question you had said that you are not going to supplement any of their manufacturing facilities or any of their business. So in the current global scenario where the situation looks very weak and on the demand side there are huge headwinds. So how confident are you about getting a larger pie of the GE-Lufkin business?

Tarun Sawhney: As far as I am concerned, they are outsourcing products to us. As their business grows, it makes logical sense that they will place orders on Triveni going forward. With respect to our own growth plans, yes, it plays an important role but it is not the only growth role in our business, our business has multiple other avenues for growth as well and therefore we are not just confining growth based on one customer.

Levin Shah: You had said that no single customer would be more than 10% of our business?

Tarun Sawhney: At this point of time we have a customer that is 20% of our business. I am saying as an ideal we would not like our largest customer to be more than 15%. But we do not know if we will achieve that ideal.

Levin Shah: More than 15%. That includes GE-Lufkin business as well?

Tarun Sawhney: That includes Triveni Turbines as well on a long-term basis.

Levin Shah: On the Water business as you have said that majority of our business comes from the municipal side of the government agencies. So, like currently, we are seeing that there are issues on the execution front from the ordering agency itself. So though we have a large order book, what makes us feel confident that those issues will not come in the future for the present order book as well?

Tarun Sawhney: I think you raised an excellent question. A lot of it is has to do with sensing the preparedness of our customers to go ahead with projects in a time-bound manner. That is more of a subjective feel to it. Having said that and I know I have said this in previous quarters that we require that patience. But I am confident to say that that mood has changed. The allocation of funds by municipality is greater, the push by municipality, state government, etc., is greater, and we are seeing that development change quite quickly.

Levin Shah: Like we have a very good order book, but on the execution front, the agency is not ready to execute the project, then again though our order book will look quite big, but on the numbers front, again, we will see a weak quarter or a year?

Tarun Sawhney: That is the operating part of the business to ensure that we actually execute and deliver on a continuous basis so that we avoid this lumpiness.

Levin Shah: So none of the orders are like low margin orders or loss making orders, right?

Tarun Sawhney: We do not take any loss making orders.

- Moderator:** Thank you. The next question is from the line of Dikshit Mittal from Shubhkam Ventures. Please go ahead.
- Dikshit Mittal:** Out of the current order book of around ₹ 667 crore in Water, so how much is the legacy orders that are slow moving in your view?
- Tarun Sawhney:** I am sorry; I do not think I have the numbers with me right now, but it is not a large portion.
- Dikshit Mittal:** What is the execution cycle for this order book that you anticipate at this point in time?
- Tarun Sawhney:** Typically, we would look at about 24-30 months.
- Dikshit Mittal:** You mentioned the loss in this division is basically due to lumpiness of the revenue recognition. So what is the ballpark fixed cost per quarter that we should build in for this segment?
- Tarun Sawhney:** The business breaks even at about ₹ 200 crores of revenues annually.
- Dikshit Mittal:** This is at EBITDA level or EBIT level?
- Tarun Sawhney:** Net level.
- Dikshit Mittal:** In Gears, you mentioned your first nine months' total revenue is around ₹ 62 crore. So what is the breakup in terms of service revenues and original equipments revenues?
- Tarun Sawhney:** If you call us offline, we are happy to share that numbers with you. We do not have them with us right now.
- Dikshit Mittal:** In terms of your outlook on Sugar prices, you mentioned next year sugar output is expected to be quite bad. This year you mentioned Sugar is around 25 to 26. But considering the current sugarcane crop in Maharashtra, you mentioned next year's Sugar production can be much lesser?
- Tarun Sawhney:** It could be lower based on the planting that happens over the next 3-4-months. So it is not just Maharashtra, we have to look at Karnataka. Right now, Tamil Nadu has had a lot of water as we all know, dams are all full. So we can see Tamil Nadu coming back up the record levels. It came down very-very sharply because of severe water scarcity but it can bounce back up very-very stiffly. So we will have to be able to quickly judge that over the next 4-months and in 4-months we will have a very good picture as to what the estimates for next year could be.
- Moderator:** Thank you. The next question is from the line of Manish Bohra from Param Capital Please go ahead.
- Manish Bohra:** Can you just mention about the kind of a rate of 1 million tonne contract that has been taken by the sugar industry?
- Tarun Sawhney:** I do not have any idea because it is done by individual mills, it is done by in collaboration with different agents, etc., they are all individual contracts; however, the Ministry of Food looks at it from an aggregate perspective on a weekly basis and the data emanating from the Ministry of Food is that a million tonne has been contracted.

- Manish Bohra:** Are you part of that 1 million tonne?
- Tarun Sawhney:** Yes, we are.
- Manish Bohra:** What about your rate of contract?
- Tarun Sawhney:** I would prefer not to give it on the phone.
- Moderator:** Thank you. We will be taking the last question from the line of NK Arora who is an individual investor. Please go ahead.
- NK Arora:** Cabinet has approved a new power tariff policy yesterday. In that power plants have been mandated to use the treated water from the municipal sewage treatment plant. So if these power plants use this sewage treatment plants water, how will it alter the economics of the municipal sewage treatment plants?
- Tarun Sawhney:** It is more to look from the perspective of availability of water for all these plants. But I do not think there would be a significant increase in the input cost of the power plants on an operating basis.
- NK Arora:** Secondly, GE-Lufkin has been a very strong backing for technology to us. They are ready to buy back our products also. So do we have to pay any kind of royalty or they have to take any stake in our company?
- Tarun Sawhney:** No, we have a long-term license agreement with Lufkin since 1998 and under the terms of that license agreement, would be royalty-based products that we sell utilizing the technology. That continues to this date.
- Moderator:** Thank you. I now hand the conference over to the management for their closing comments.
- Tarun Sawhney:** I would like to thank you all for joining us for the Q3 Fiscal '16 Earnings Conference Call for Triveni Engineering & Industries. I look forward to speaking to you in a few months' time. Thank you for your time. Good Afternoon.
- Moderator:** Thank you very much, members of the management. Ladies and Gentlemen, on behalf of Triveni Engineering that concludes this conference call. Thank you for joining us and you may now disconnect your lines.