

TRIVENI ENGINEERING AND INDUSTRIES LIMITED

Annual Report 2004-05



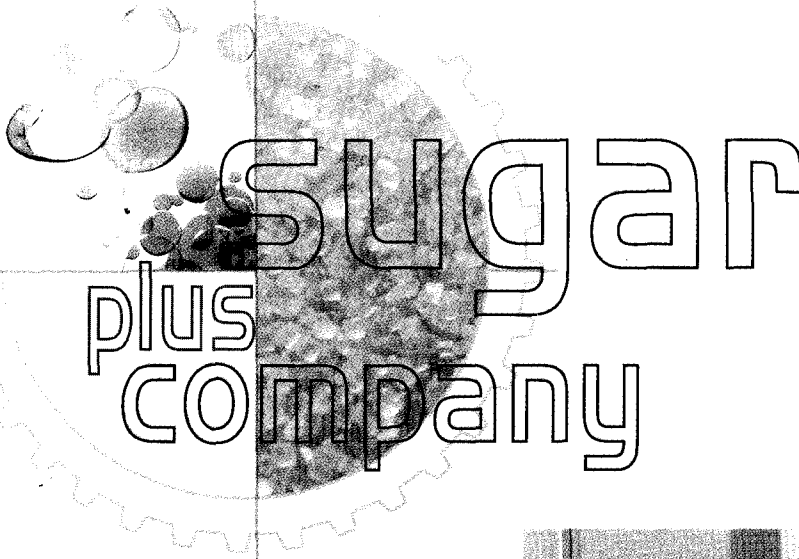
Contents

About Triveni	1
Chairman's Overview	2
Management discussion and analysis	8
Financial review	40
Social and community service	44
Directors' report	46
Corporate governance	56
Auditors' certificate on corporate governance	67
Auditors' report	69
Annexure to the auditors' report	70
Balance sheet	72
Profit and loss account	73
Schedules to accounts	74
Cash flow statement	94
Consolidated financial statements	97
Information on segment reporting	105
Accounts of subsidiary companies	
Triveni SRI Ltd.	107
Triveni Power Generation Ltd.	121
Corporate information	128

sugar gears turbines water treatment

Triveni is an established, dynamic and professionally managed Rs 10 bn company. Our core competencies are in the areas of sugar, steam turbines, gears and water & waste water treatment, derived from years of experience and through an excellent blend of people, technology and entrepreneurship.

- ☐ One of the 250 largest companies in India.
- ☐ One of the largest producers of sugar in India.
- ☐ Leading producer of steam turbines up to 15 MW and a provider of comprehensive solutions for steam-based power generation ranging from 0.5 MW to 50 MW.
- ☐ Market leader in high speed gears and gear boxes.
- ☐ Technology based solution provider for the water and waste water treatment industry.



sugar plus company

"Triveni can be best described as a technology-focused, sugar-plus company"



Chairman Mr. Dhruv M. Sawhney reviews the company's formidable strengths in the marketplace

Overview

How would you sum up the strengths of your company?

Triveni can be best described as a technology-focused, sugar-plus company. Our competitive edge is our comprehensive customer-centric orientation: for instance, Triveni has not only employed its technology capital to reduce its costs and deliver comprehensive solutions to customers but in doing so, it has also helped customers reduce *their* costs and make better end products. It is our firm belief that engineering excellence contributes a significant value to technology-intensive businesses like turbines, high speed gears and water & wastewater treatment and also to commodity business like sugar manufacture.

How will you enhance the shareholders' understanding of the company's diverse businesses?

Through a couple of initiatives: first, I must assure shareholders that Triveni is present in businesses that are aligned with the long-term national direction, government policies and our perception of people's needs. Our belief is that there will be a growing national demand, both at a corporate and

consumer level, for all our business, products and services. Secondly, we have segregated the performance of each of our businesses in the annual report, which will facilitate a better understanding of their stand alone prospects.

Can you explain the long-term national direction ?

Take power, for instance. The country is currently facing a significant power shortage calculated on peak demand, which is only expected to increase. It would be reasonable to assume that since power now represents a raw material for life, it will be the highest priority on every government's agenda over the next few decades. Triveni is one of the most attractive proxies of this industry in its capacity as a manufacturer of turbines and high-speed gears as well as through the operation of clean energy cogeneration plants from non-renewable sources. Nearly 21 per cent of the company's turnover was derived from the products delivered directly to the power industry.

Or take sugar, where consumption is only expected to increase as per-capita incomes rise in India and in which India has the potential of playing a lead role in the international market. The relevance of waste & water treatment is reflective of the state of industrial effluents and quality of India's water infrastructure, which is way below international benchmarks. So I will encapsulate our relevance in a single sentence: Triveni represents an excellent proxy for the future of a modern, dynamic and internationally competitive India.

The company's presence in these diverse businesses represents diverse risks.

On the contrary, our presence in these diverse businesses represents prudent de-risking: each of our businesses is in various stages of the maturity cycle. In my opinion the businesses have a prudent balance between some that will deliver stable growth, while others that will grow significantly faster. For instance, sugar and turbines represent the upper end of the maturity index, high-speed gears is a reasonably mature business while water treatment and wastewater treatment businesses are relatively nascent but enjoy aggressive growth prospects. In a dynamic global environment, we perceive this business mix as an attractively de-risked proposition holding out prospects of sustainable growth over the foreseeable future.

There are a number of companies in each of these businesses. What is Triveni's differentiator?

There are two distinctive differentiators: in sugar, it is our economies of scale and thrust on technology to achieve world-class operational efficiencies, whereas in engineering, we strive to provide customised engineering solutions dovetailed with a lifecycle service relationship. We design our engineering products around a customer's specific needs; thereafter, we don't walk away from the product: we sell it, run it and service it. This is particularly relevant in a world where a number of manufacturers need to run their machines with a near-zero downtime. As a result, we see ourselves as enhancing their competitiveness through product, solution and service - a formidable customer proposition.

You emphasised the company's technology focus. How do you manage the risk of obsolescence, which would perhaps represent the company's biggest risk?

Good question. We enjoy decades of presence in a technology-led business like turbines, where we have evolved from mere purchaser of foreign technology to a point where, through absorption capabilities, we are either enjoying strategic relationships with international technology leaders or are delivering robust products through our captive or pooled technology capabilities. The result: we are proactively and continuously enhancing our product and solution delivery capabilities through research and development, innovation and through feedback from all our customers. We enjoy market leadership across most of our products and each of our divisions is focused on customer delight.

Performance

Were you pleased with the company's results in 2004-05?

Absolutely, considering the environment that the company had been in over the last few years: the sugar industry was in a difficult spot and the economy had been in a slowdown. So the performance of the company in 2004-05 was a vindication of an important strategy: our diverse business mix, in which a stagger in one division was more than offset by an upturn in another. As it turned out, a sharp increase in steel prices took some sheen off the performance of our engineering division, but an increase in sugar realisations accounted for nearly 80 per cent of the over four-fold increase in our post tax bottomline of Rs. 995.2 mn during the year under review.



SUGAR DIVISION

A number of shareholders will point out that perhaps the sharp sugar-led increase in profits was more a play of the marketplace than Triveni's effort during the year under review.

Sure, but the increase in profits would have never transpired had we not got down to doing one of the most challenging things in any business; investing during the down years in patient anticipation of the better. Even during the down turn, we invested in the modernisation of the sugar units to achieve benefits which are fully under our control and invested additionally in the cogeneration plant to insulate ourselves from the sugar cycle, developing an alternative stable revenue stream. Besides, we invested in state-of-the-art vacuum pans in a joint collaboration with Sugar Research International of Australia. This translated into lower losses, higher bagasse savings and a higher return on our invested capital. The result of these initiatives is that when the industry turned around, Triveni was in the right place at the right time with the right capacity and the right efficiencies. This enabled us to capitalize on the industry rebound during 2004-05.

There is a fear that the sugar prices may not sustain at these levels and the business may demonstrate its notorious cyclicity once cane availability increases from the 2005-06 season onwards.

My estimation is that from now onwards, the cyclicity will be less pronounced for a number of

reasons: the government did not permit the import of white sugar during the last two years even when a shortage was evident, but quite pragmatically allowed the import of raw sugar under an Advance License Scheme with corresponding export obligations. This will ensure that the surplus sugar production in the future, if any, will be offset by such exports. Considering all factors and as described in detail in the Management Discussion and Analysis, the sugar outlook appears stable till 2007.

How has the division capitalised on this upturn with a view to make its business more sustainable?

We embarked on two broad initiatives: cogeneration of power at Deoband and a further increase in our installed sugar crushing capacity.

- We commissioned a 22 MW co-generation unit in 2004-05. The result is one of the most efficient cogeneration plants in India with a high availability of the plant. Following the favourable experience that emerged from its commissioning, we are now setting up a similar 23 MW plant in Khatauli in 2005-06. Since these projects will utilize the captively generated bagasse and generate a return that will be completely insulated from the fortunes of the sugar industry, we will be mitigating the cyclical impact on this business.
- We intend to become a large regional player. The Khatauli sugar unit is being modernised and expanded to 16,000 tcd and we are planning to set up three new sugar units, one of which will be set up at Sabitgarh, district Bulundshahar, UP. All these units would have capacity of 5000-7000 tcd, expandable to 12000 tcd. As a result, we expect our sugarcane crushing capacity to significantly rise over our current base of 25250 tcd. These projects will enable us to avail of incentives under the UP Government Sugar Policy.

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TURBINES BUSINESS

Even as the power generation industry is growing rapidly, the turbines business did not appear to perform well during the year under review.

'Did not appear to perform well' is relative. On the positive side, the division grew its turnover by more than 20 per cent during the year under review, which is fair in the circumstances. On the other hand, the significant potential latent in our business did not translate into reality during the year under review as there was a sharp increase in steel prices, which dented our margins temporarily with respect to fixed price orders. However, the revised pricing for the subsequent orders will restore our margins.

When will the division unleash value?

This will transpire from 2005-06 onwards for a number of reasons: there is a sharp increase in the demand for turbines under 15 MW at a time of robust industrial rebound; three of our main industrial

consumers – steel, cement and paper – are doing well; we hold a 60 per cent share of the market (including imports) in our products; we are enhancing our capacity from 550 units to 1200 units during 2005-06; our business prospects from this division are covered by orders in hand, which are over 180 per cent of last year's sales.

What gives you considerable optimism that this business will do well into the long-term?

Let me address the macro perspective: the power industry is going to boom over the coming years with an increased investment in generation, strengthening prospects for turbine manufacturers like us. We are in the right product segment, enjoying high margins in an oligopolistic environment, protected from increasing competition by our intellectual capital. The captive development of taper twisted blades will take us into another league, strengthening our margins over time. I also expect that the high multiples generally given to large turbine manufacturers like Siemens and BHEL will gradually rub off on our company, enhancing value for our shareowners.

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HIGH SPEED GEAR

A number of shareholders will want to know what role this division is playing in an otherwise high growth and high turnover company?

At Triveni, we are convinced that this division, which supplies gears for mechanical drives, for primarily steam turbines, will play a progressively bigger role within the organisation. For a number of reasons: it may be a relatively low turnover business today but when compared with the other businesses within the company, it is a high margin business. We already possess the competence to enhance our scale and influence: for instance, our quality and reputation are reflected in the fact that we not only supply to direct end customers but also to turbine manufacturers like Siemens and BHEL who eventually compete with our turbines in the marketplace. This is the biggest endorsement of our capability.

What represents the competitive edge of the division?

A prudent combination of technology and customer service. For instance, we commissioned machines in the last financial year which made it possible for us to grind at higher speeds and therefore, shrink grinding time from 100 hours to a mere 15 hours. We are investing Rs. 250 mn in the business between 2004-05 and 2006-07, which will help us to treble our output. We shall be signing a seven-year agreement with Lufkin Industries in the next few weeks, which will take our licensed manufacturing capacity upto 25 MW for complete gear boxes including rotating parts. We expect to protect our margins as we grow and, as a result, this business will contribute attractively to the company over the foreseeable future.

Report  junction.com**WATER/WASTEWATER TREATMENT****This business accounted for a topline of Rs. 80 mn during 2004-05. What is the vision that you have for it?**

This business has vast potential. One has to only assess the growing waste water problem in the public domain to realise that we are sitting on a grave hygiene problem if the situation is not addressed with urgency. There is one example where existing technologies have not been able to address this effectively: they have not been able to minimise the coliform content in the waste water to the extent that is required by any mature society. As a result, even after the treatment of industrial effluents discharged into rivers through existing technologies, much of the water continues to be grossly unfit.

What value does Triveni expect to bring to this national priority?

We are introducing a generation of technology that is so far ahead of the prevailing standard that I am tempted to say that there is virtually no competition for it. Our combination of membrane and CEDI technology represents the delivery of higher water purity at a lower operating cost, which represents a far greater value than the prevailing membrane and resin based technology. Our big markets will be the municipal and industrial sectors and even though the business is still at a nascent point today, we are convinced that even one large order could translate into a significant revenue potential.

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Sugar division

Turnover, 2004-05	: Rs. 8.13 bn
Turnover growth	: 68 per cent
Turnover growth CAGR (5 years)	: 16 per cent
Division turnover as a proportion of the company turnover, 2004-05	: 78 per cent
Plants	: Khatauli and Deoband in West UP, Ramkola in East UP