Triveni Engineering & Industries Limited

Q3 & 9M FY 22 Earnings Conference Call Transcript
February 03, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Q3 and Nine Months FY 22 Earnings Conference Call of Triveni Engineering & Industries Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I'll now hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you sir.

Rishab Barar: Good day everyone and a warm welcome to all of you participating in the Triveni Engineering & Industries Limited Q3 and Nine Months FY 22 Earnings Call. We have with us today on this call, Mr. Tarun Sawhney, Vice Chairman and Managing Director; Mr. Suresh Taneja, Group CFO; Mr. Sameer Sinha, CEO, Sugar Business Group, as well as other members of the 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 the statement to this effect has been included in the invite which was sent to everybody earlier. I would also 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 will start this call with opening remarks from the management, following an interactive question-and-answer session.

I will now request Mr. Tarun Sawhney to open the call. Over to you, sir.

Tarun Sawhney: Thank you very much. Good afternoon, ladies and gentlemen and welcome to the Q3 & Nine Months Earnings Call for Triveni Engineering & Industries Limited.

The overall performance of the company during the nine months ended December 31st has been quite satisfactory, keeping in mind the COVID related challenges and the climatic conditions during the start of the sugar season 21-22. The increase in cane prices by ₹ 250 per tonne for the sugar season under review have been largely offset by the recent increase in sugar prices.

And for the nine-month period, the company's gross revenues from operations stood at ₹ 3,501 crore with a profit after tax of around ₹ 315 crore, which gave a growth of approximately 50% over the corresponding period of the previous year. The net turnover declined by 1% in the quarter and 8% in the nine-month period due to lower sugar sales volumes by 18% and 22% in the aforesaid periods. No exports have taken place with respect to season 21-22. And all other segments have registered increased revenue in turnover, except for the 6% lower turnover in the Water Business for the nine-month period.

I must mention that the lower sales volumes are directly related to the monthly sales quotas that are received from the Department of Food. And given the fact that the two periods of comparison, have had greater production in Maharashtra and the South, that relates to somewhat of an explanation to the lower allocation towards North India.

We remain excited about the Engineering Business which has largely overcome the impact of COVID on its operations, and the performance of the customer base has improved tremendously over the past quarter. A broad-based economic recovery, which is underway is likely to keep demand strong for both our engineering businesses.

Looking at the sugar business, India's sugar production for sugar season 21-22 is estimated to remain at 31.45 million tonnes with a diversion of 3.4 million tonnes for ethanol production by means of sugarcane juice or B-heavy molasses. This is 64% higher than the previous season. We witnessed a delayed start to the sugar season 21-22 due to an extremely high rainfall in Uttar Pradesh in the month of October. However, the improved weather conditions over the last month or so and what we forecast here on, will facilitate an uninterrupted crush with improved recoveries as the season continues. The company continues to pursue the change in varietal balance and vastly reduce our dependence on the Co-0238 variety.

The sugarcane crush in Q3 stood at 2.49 million tonnes with a recovery of 10.08% after a diversion of sugar in B-heavy molasses. The gross recovery before diversion was 10.97%. The distillery segment continued its strong performance driven by high sales volumes and realization prices due to the improved product mix. Owing to some approval delays, inclement weather and COVID related constraints, we are now expecting the first tranche of the 220 KLPD distillery expansion to commence by March of '22. I'd mentioned at the fourth quarter earlier so, basically the 220 KLPD facility will be in production in March of this year. The balance 120 KLPD which was expected to be operational during Q1 of fiscal '23, that remains very much on target in Q1 of fiscal '23. The company's overall capacity after both expansions will rise to 660 KLPD.

The aggregate sugar and distillery segments during the quarter and nine-month period achieved an increase in profitability of 22% and 12% respectively. There's been a substantial increase in sugar prices in the quarter, which has helped sugar operations maintain the profitability. In respect to the distillery operations, both sales volumes and high realization prices have contributed towards an increase in profitability.

Turning to the Engineering Business. The businesses have reported a 12% increase in turnover, primarily driven by the Power Transmission Business. Both power transmission and water have registered marked improvement in profitability and have ended the quarter with an order book of ₹ 1,808 crore which is a reasonable increase over the last quarter of the review and certainly over the previous corresponding quarter. The engineering businesses have reported strong revenue increases of 38% and 12%, and increase in profitability of 114% and 76% in the quarter and nine-month period.

Looking at the financial highlights of the quarter, as I had mentioned, our EBITDA margin for the company stood at 19% which was 4% higher than the 15% of Q3 fiscal '21. The total debts on a standalone basis for the company is ₹ 525 crore as on Dec 31,2021 versus ₹ 550 crore of the previous corresponding quarter. And this ₹ 525 crore comprised of term loans of ₹ 385 crore and almost all such loans were with interest subvention or at subsidized rates of interest. The cost of funds average for the company stood at 4.17%. We can expect this average to go lower in subsequent quarters, as the rating of the firm has improved as we announced during the past quarter, and we benefit from better rates in the market.

A more in-depth analysis of our businesses. If we turn to the Sugar Business under review, during the October to December quarter, the company crushed 2.49 million tonnes for sugar as I mentioned, which was 11% lower than the previous year. The gross recovery, if we normalize recoveries and convert everything without B-heavy or raw sugar, stood at 10.97% for the quarter, which was 0.04% higher than the previous corresponding quarter.

During the quarter, we also dispatched 2.2 lakh tonnes of sugar which was 18% lower than the previous corresponding quarter. However, the realization price stood at ₹ 36,452 per metric tonne, 11% higher than the previous corresponding quarter. As I mentioned in my opening remarks, there was excessive rainfall in the month of October. And that, of course, resulted in the lower sugarcane crush. However, we believe that during the course of the year, we will certainly make up for the loss in crush through a better daily crush at the sugar factories and a better performance this year versus last year. And we anticipate that we will be ending our total crush numbers a little bit ahead of the previous year.

Looking at the quarter that's gone by, the lower sales volume were certainly offset by improved realization prices and this was on account of the amount of export that was entered into by firms across the country. We ended the quarter with sugar inventories of 26.21 lakh quintals valued at ₹ 33.7 per kilo. As I was mentioning the cogeneration operations of the company achieved external sales of ₹ 33 crore during the nine months of fiscal '22 against ₹ 39 crore in fiscal '21, a decline of 16% primarily due to the lower operating days.

Sugar prices as of yesterday, stood at ₹ 34.25 per kilo for sulphitation sugar and ₹ 35.5 per kilo for refined sugar. This large delta for refined sugar is certainly augurs very well for the company's production of 45% of refined sugar across its sugar factories. And we will certainly look at improved qualities of sugar when we look forward to the next sugar year from Triveni Engineering.

If I turn to the industry scenario, from the domestic industry, as I mentioned, the estimated sugar production is 31.45 million tonnes. However, the estimated production in Uttar Pradesh is expected at just above 10 million tonnes or 10.18 million tonnes according to reports, which is almost a million tonnes lower than the previous year, and this is due to lower sugarcane yields, lower recoveries, climatic factors and larger diversion towards ethanol. It's estimated that 1.25 million tonnes of sugar will be diverted towards ethanol in Uttar Pradesh compared to 0.69 million tonnes last year. So, net-net, the overall production of sugar or the sugar value in Uttar Pradesh would still be slightly down compared to last year.

Maharashtra is expected to produce 11.7 million tonnes versus 10.65 million tonnes produced in the previous year. And this is primarily due to better yields and better recovery. Maharashtra will divert 1.13 million tonnes of sugar to ethanol, according to expectation versus 0.71 million tonnes last year. Similarly, for Karnataka the estimated production is 4.5 million tonnes of sugar versus 4.47 million tonnes, so, broadly, the same year-on-year. However, mills are expected to divert 0.74 million tonnes of sugar towards ethanol versus half a million tonnes in the previous year.

With no export assistance announced for the sugar season 21-22, exports are estimated to be at ~ 5-6 million tonnes. We are a shade above 4 million tonnes of contracted values as of today, but the 5 to 6 million tonnes is broadly in line with the Government's expectation of 6 million tonnes but lower than the 7.1 million tonnes achieved in sugar season 20-21. Of course, that sugar season was aided by export subsidy. We must note that during Q3, we have seen fairly buoyant international market prices, and I am going to cover that and that has really assisted the bulk of this contracted value of about 4 million tonnes of sugar.

Turning towards ethanol. The Government of India has announced for this sugar season – for the season starting December '21 to November '22, an increase of almost ₹ 1 in the price of C-heavy molasses to ₹ 46.66 per liter. An increase of ₹ 1.47 per liter for Ethanol from B-heavy molasses to ₹ 59.08 per liter, and ethanol from sugarcane juice has increased by ₹ 0.80 per liter to ₹ 63.45 per liter. Ethanol from maize and damaged food grains stood at ₹ 52.92 per liter and ethanol from surplus rice supplies available through the FCI route stood at ₹ 56.87 per liter. The increases bode well certainly for the overall ethanol program, and the outlook of the ethanol program for the nation, but also for the sugar industry.

The oil marketing companies have allocated 369 crore liters of ethanol for supply during the Ethanol Year 2021-22 against the requirements of 459 crore liters to meet the 10% blending target that has been set by the Government of India. 41 crore liters have been lifted up to 16th of Jan '22. The average blending percentage for the country till the 16th of January stood at 8.43%. As you all know, the recent announcements of an additional excise duty on non-blended petrol augurs very well for this industry. In fact, it points very clearly, that the Government is supporting the 10% blend target for this year and beyond the 20% by 2025. I'm happy to discuss this further when we come to the Q&A part of this conference.

Looking very briefly, at the international sugar scenario, we can see that there's a deficit in the 21-22 season of 3.9 million tonnes of sugar, which is higher than the deficit in the previous year was 1.4 million tonnes. This, combined with the fact of greater diversion towards ethanol in Brazil, has resulted in quite a lot of buoyancy in Q3 in international sugar prices. However, since then, we've seen both New York and London come down quite substantially. We've seen a great reduction. In fact, as of last night, New York closed at 17.93 cents per pound whereas London white sugar at USD 489/tonne.

Now this is certainly below prices that were prevailing in the last quarter, and definitely below the prices where Indian sugar was contracted for export. And this was all without any subsidy. And so, if we are to see any more sugar to be contracted beyond the 4 million tonnes that has been contracted, we will need to see some amount of buoyancy and some amount of appreciation in international sugar prices. However, with 8 months to go, before the end of this sugar year, I think we stand in a very, very good scenario for additional export.

Turning towards our Alcohol Business performance. Production was 3% lower in this quarter versus the previous corresponding quarter and stood at 24,713 kiloliters. The sales were higher at 26,638 kiloliters, 18% higher than the previous corresponding quarter, with an average realization of ₹ 55.2 per liter which is 16% higher quarter-on-quarter. The higher sales volumes and improved prices due to the product mix have led to a stronger growth in turnover.

During the quarter the company produced 86% of ethanol from B-heavy molasses compared to 43% last year. Likewise, ethanol produced from B-heavy molasses constitutes 88% and 80% of sales volume in the quarter and nine-month period. This year Sabitgarh sugar unit is also following B-heavy molasses. It followed C-heavy molasses last year.

The company under its Alcoholic Beverages vertical, started producing IMIL towards the end of Q3 fiscal '21 at its bottling facility in the premises of its existing distillery in Muzaffarnagar. The company has expanded its distillation capacities as you know, and we're expecting that by March 160 KLPD will be operable at Milak Narayanpur, which is a flex fuel capability to operate at multiple feed stocks and 60 KLPD grain facility within our existing distillery complex of Muzaffarnagar.

The estimated CapEx as I've mentioned to you in the past stands at ₹ 280 crore for these two projects. In Q1 of fiscal '23, we expect the further expansion from 540 KLPD to 660 KLPD and this will be through a low capital cost, incidental expansion and some debottlenecking at our existing four distilleries.

Turning quickly to our Engineering Business, the Power Transmission Business has had an excellent quarter under review, with revenues increasing by 66% to 35.41 crore, and the PBIT increasing by 96% to a shade under ₹ 11 crore. It's important to note that the order booking increased to 88.5 crore, 163% increase. This is our highest order booking in any Q3 in our history. And the closing order books stood at approximately ₹ 214 crore, and this includes long duration orders and ₹ 42 crore of orders received during the quarter. And this ₹ 42 crore is defence orders received during the quarter, which will be executable in subsequent years.

The operations during the nine months have been hampered, and even during the quarter through minor state lockdowns, they have been hampered. Yet the power transmission business has reported excellent revenues and profitability. The scale of operation and cost optimization has been the primary reason for this performance.

Turning to our Water Business. We've seen a 28% increase in revenues to 77.3 crore in the quarter with an improved PBIT of ₹ 12.1 crore, a 133% improvement versus the previous corresponding quarter. We have received a very healthy ₹ 133 crore worth of orders, which is one large project plus some equipment orders during this quarter. Closing order book stood at a shade under ₹ 1,600 crore. The above results on a consolidated basis which includes our SPV executing the Mathura project awarded under the Namami Gange Programme.

The profitability is due to better cost control, and certainly due to efficient project execution. Those areas where the company has made a great deal of emphasis, given the fact that over the last 7 or 8 quarters, we've seen a fairly tumultuous ride, lots of ups and downs with respect to execution, COVID, etc. And I think this augurs very, very well, for the Water Business for the future.

As far as the outlook of our businesses are concerned, the Sugar Business with stocks, closing stocks estimated at just about 6.5 million tonnes in the country. We forecast that sugar prices are going to remain robust for the remainder of this sugar year, certainly. And we're going to see a continued diversion of sugar towards ethanol, not just this year, but certainly to next year. We hope that the Government addresses the long pending issues with the Minimum Selling Price (MSP) of sugar. As you know, this is something that the industry has taken up quite vigorously with the Government. However, we've not had an increase in MSP for quite some time, and we hope that, that will be rectified, perhaps in Q1 of the next fiscal year.

On the pricing side, though, prices have come off their recent peaks in both domestic and global markets, we are expecting them to improve as we move forward for the next couple of quarters. In fact, the month of February has seen an improvement in prices already compared to the month of January.

With global deficit anticipated again this year, as I mentioned, we expect sugar prices to stay firm. And it appears that without any export assistance, we will probably achieve between 5 to 6 million tonnes of export, mostly from the coastal states of Maharashtra and Karnataka.

Looking at the Engineering Business. The domestic economic recovery is certainly underway especially in sectors such as steel, cement, oil and gas, which includes petrochemical, fertilizers, and chemicals. This bodes very well for the business. We've been focusing quite vigorously on exports, as well as on our defence vertical. And we expect to see great improvement in the coming quarters for export revenues, for power transmission as well as for the defence vertical.

Our Water Business has participated in a number of tenders that we expect coming up to a stage of fruition during this quarter and in Q1 of the next fiscal year. We stand very well poised in the orders. However, of course, they are tenders so they are subject to the lowest. But we think we stand very, very well with the number of orders that are coming up for finalization. And therefore, I think for the engineering businesses as a whole, at this particular point in time, it's a very comfortable scenario with respect to overall record.

With that, ladies and gentlemen, it comes to an end to my opening remarks. Now, I'd like to open up the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2'. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: Yes. So, my question was, ramping up of new plants given that there has been a delay in the commissioning of those plants, so will they be ramped up and the utilization be at optimal levels from Q1 onward?

Tarun Sawhney: So, I assume you're talking about our ethanol plants.

Resham Jain: Yes, sir. Yes.

Tarun Sawhney: We had always said that our ethanol plants, the 220 KLPD, would be online in Q4 of this fiscal year. So, there has been a small delay. I mean, ideally, we would have expected that the plants would have operated by the end of January. We're now expecting about 30-35 day delay. And this is primarily due to COVID and some supply chain issues at vendors. But it's not a substantial delay because we had, sort of forecast that we would be operating within this quarter. From the first quarter of the next fiscal year, we expect a slow and steady ramp up. I wouldn't say that we will be at 100% capacity at both the new facilities but certainly by the end of Q1 we would be touching 100% at both facilities.

Resham Jain: Okay, understood. And sir, in terms of diversion from sugar to ethanol, once the capacity will be fully operational, how much sugar will be sacrificed and how much ethanol in terms of crore liters will get added?

Tarun Sawhney: So, it's an interesting question. I think it's not just ethanol, we can look at total, I can give you the numbers of, actually it includes, it will include a little bit of grain as well. But we're anticipating that from next year we will be in a much more improved position in terms of our total diversion with both juice as well as B-heavy being diverted towards the manufacture of ethanol. And I will ask Suresh to come in with the exact numbers for diversion in terms of quintals.

Suresh Taneja: Last year we diverted approximately about 7.5 lakh quintals of sugar. And this year, we are looking at more than 10 lakhs, it will be closer to that.

Resham Jain: 10 lakhs.

Suresh Taneja: 10 lakhs, yes. So, this is the kind of diversion we are planning this year. And obviously, when we go to the next year, our total ethanol production is going to increase to about 18.5 to 19 crore liters. So, the diversion would be more at that time, at that particular point of time.

Resham Jain: Okay. I was asking at the full optimal level, not talking about season. How many crore liters you will be able to manufacture?

Sameer Sinha: We will be doing about 18.5 crore liters for the coming year. And the subsequent years on the same capacity, we should be somewhere around 21 crore liters. That's one. The second point was about the feedstock. The feedstock, we'll definitely experiment with cane juice. But at this point of time, we believe, this facility as Mr. Sawhney mentioned in the beginning, has a great flexibility in terms of having both grain, utilizing grain as a feedstock versus cane juice and B-heavy molasses, everything can be used in this. We believe that while gaining experience on cane juice, the cane juice contribution is at the lower end compared to the other two feedstocks. So, we'll be doing more of B-heavy and depending on the grain prices, portion of it will also be on grain.

Resham Jain: Okay. Got it, sir. And sir, my last question is on the overall utilization of cash over the next 2-3 years. The large part of sugar CapEx seems to be coming to an end, and you'll be generating maybe more than 1,200, 1,300 crore over the next few years. Generally, your thoughts without giving any numbers, will the capital allocation be more towards the Engineering Business over the next, let's say, 3 to 5 years compared to Sugar Business? What we have seen in the last 5 years it has been, sugar has taken up a large part of Capex, but now going forward, will it be engineering business? Just your thoughts?

Tarun Sawhney: So, it's a very interesting question that you've asked, and while the Board has not considered, we can't specifically talk about the capital allocation towards our various businesses. But I think the demands, you've certainly touched on a very interesting point that that demands from the engineering businesses will rise as the market environment improves. I want to also mention that within the overall agriculture business, there are a variety of new opportunities for value addition, direct and indirect value addition that the company will evaluate.

At this point in time, we have no specific plans of investment, but there are a multitude of opportunities as the diversity within the sugarcane business extends out towards other industries. So, it's difficult to evaluate right now, but I certainly look at new businesses, I certainly look at expansion as viable investments for all our businesses, agriculture and engineering.

Moderator: Thank you. The next question is from the line of Pratik Tholiya from Systematix. Please go ahead.

Pratik Tholiya: Yes, hi sir. Thanks for the opportunity. I just wanted to know what is the transfer pricing for B-heavy molasses in quintal?

Tarun Sawhney: So, we've only transferred B-heavy molasses at ₹ 1,000 per quintal.

Pratik Tholiya: Okay. And sir, before, I think it was 700?

Tarun Sawhney: I'm sorry, I would like to mention that this was lower in the previous corresponding quarter.

Pratik Tholiya: Yes.

Tarun Sawhney: We're fairly happy at this level. Sorry, what was your next question?

Pratik Tholiya: No, my question was that in the previous quarter it was somewhere around 700 per quintal, right?

Suresh Taneja: It was 850 in the last quarter; we have increased to 1,000 based upon increase in costs as a result of increase in cane price.

Pratik Tholiya: Sure. So, does that basically explain the lower margin that we are seeing in the distillery?

Suresh Taneja: The very much impact is not felt in this quarter, simply because of the fact, you know, it started with a new season.

Pratik Tholiya: Sorry, I didn't get that.

Suresh Taneja: I said the full impact of that is not felt in this quarter. To some extent, it has definitely been felt. Because the season had started only in the month of November.

Pratik Tholiya: Okay. Understood. And sir, can you give the volume that you've done in the B-heavy in Q3?

Sameer Sinha: Yes. So, in terms of production, our B-heavy production is about 86% in Q3 of the total production of about 247 lakh liters. And in the nine months, it is about 79% of 789 lakh liters, which has been produced. So, that's the production. But on dispatches, it's about 88% is B-heavy out of the 266 lakh liters, which we dispatched, and about 80% in the nine-month period of the 910 lakh liters that's dispatched.

Pratik Tholiya: Okay, got it. And sir, lastly, on the sugar prices, you mentioned that it is somewhere at ₹ 34 currently and refined is ₹ 35. How do you see these prices moving because I think ISMA is also guiding for a slightly higher production to what you were initially estimating? So, do you see that the prices now should settle in this range or can we expect the price to go upto ₹ 37-38 once the crushing ends?

Tarun Sawhney: So, at this particular point in time, the prices have risen, as I mentioned, from January to February. For Triveni, the prices are just slightly higher than what you'd mentioned at say, ₹ 34.25 per kilo and 35.50 for refined. But going forward, I think with a positive bias, the prices will certainly be range bound. While the slightly higher production levels, as mentioned by ISMA, and also with our own internal estimates are probably a reality. We are seeing a healthy export, we are seeing healthy diversion numbers. We anticipate the total diversion of sugar into ethanol will be as what I've mentioned about 3.4 million tonnes of diversion towards ethanol. And that's pretty good. So, the closing balance, the reduction in about 2 million tonnes in closing balance is going to be the chief reason for the stability in pricing along with what we anticipate for next year, higher levels of sugar being diverted towards ethanol, which I think is a reality that we will have to accept. And plus, of course, I think a lot of sugar pricing, any buoyancy towards the levels that you talked about, any breakout will be dependent on monsoon as well.

Pratik Tholiya: Okay, understood. And sir, on the global also you also mentioned that the prices have now corrected to around 18 cents and below. So, how do you see those prices moving? And do you think that prices can go up to 0.19-0.20 cents, which is the price at which Indian exporters will be comfortable? And if suppose that does not happen, then we are staring at 2 million tonnes of inventory lying in the country and therefore the whole season goes out of lower inventory at around 6.5-7 million tonnes, which is initially we expected, considering that 2 million ton actually get exported.

Tarun Sawhney: Right. See, that's a very good point. There are a lot of moving parts in that question with respect to international prices. What I would like to mention is not just fund flows into sugar, which are expected to improve as we move into this calendar year. But also, the ethanol sugar balance in Brazil, which is certainly moving towards ethanol and higher levels of ethanol. The large 3.4 million tonnes deficit that we see globally, will offer huge opportunities for

Indian exporters, I believe, over the summer months. There will be spot opportunities that will be offered.

So, it's not going to be directional and purely based on number 5 and number 11. But it is going to be supply chain issues in certain parts of the world that India, as an exporting nation, will benefit from. And I think that's something for us to remember for the future, that we play a very important role geographically being in the northern and eastern hemisphere, and supplying sugar to our neighboring markets, which are sugar deprived and tougher to service from the southern hemisphere exporters. So, I think that is the million-dollar question, really about our closing stocks. But I think that our predictions of having closing stocks, just in excess of 6 million tonnes is something that we are willing to back at this point in time.

Pratik Tholiya: Sure, sir. Thanks for the detailed explanation. Thanks.

Tarun Sawhney: Thank you.

Moderator: Thank you. Before we take the next question, a reminder to the participants, please limit your questions to 3 per participant. For any follow up maybe request you to rejoin the queue. Next question is from the line of Rajesh Majumdar from B&K Securities. Please go ahead.

Rajesh Majumdar: Hi sir, good afternoon. And again, congratulations to the great set of numbers.

Tarun Sawhney: Thank you.

Rajesh Majumdar: So, sir, my first question was on your ambitious plans on the alcohol front, to go from somewhere around 10 crore liters last year to about 21 crore liters. So, as per my calculations, this would entail around 20% sacrifice of our current sugar production capacities. So, in order not to sacrifice our domestic quotas, how are we looking at this picture in terms of additional cane area or recovery? Because we see some challenging situations in central and eastern UP particularly on the Co 0238 varietal, which is leading to lower yield year after year for the last 2 consecutive years. So, that was my first question, sir.

Tarun Sawhney: Sure, I think you've asked -- there are about 6 questions in that 1 question, I'm going to try and take all of them.

Firstly, in our move from 10 crore liters to a steady state of 21 crore liters of total spirits, it is not just sugar being diverted towards ethanol. There is an element of grain within that. So yes, of course the total quantum of sugar that is diverted towards ethanol will improve. But the total quantum is not represented only by molasses or sugarcane juice. And that's important to remember.

The second thing is that the company has worked quite aggressively. We have moved very aggressively in our cane development initiatives to move away from 0238. Now, we have to recognize that it is a wonder variety for the farmers of Uttar Pradesh and the move can only happen if we offer a reliable and an equally good solution. However, let me report that with the company's development team, we have got a sufficient number of options that are available to our farmers. So, we ourselves are going to be moving consistently away every year in a reasonable capacity away from Co-0238 to other high maturing varieties as well, and high yielding varieties.

Now the 0238 variety in certain parts of Uttar Pradesh as you know, has been impacted by a terrible disease called red rot which impacts yield and certainly impacts recovery. This signals the broader end of the lifespan of the variety, maybe a few more years. And therefore, as far as Triveni is concerned, we are very much ahead of the game, we've got a lot of work happening across the 7 new sugar units in terms of offering our farmers other sugar varieties that will offer certainly matched yield if not higher. For us, it is about maximizing that yield and maximizing our crush. So, going forward, and the company will, of course, explore all initiatives to be able to maximize crush in subsequent years. Thank you.

Rajesh Majumdar: Are we also looking at acquisitions in the small sugar mill space to increase the cane command area or any other such initiatives to increase command area?

Tarun Sawhney: You know, at this moment in time, we're not looking at any acquisitions. But if there was anything that was compelling and attractive, I'm sure everybody would look at it. But at this point we are not evaluating anything.

Rajesh Majumdar: Okay. So, my second question was on the alcohol, on the IMIL Business. So, essentially, we are now compulsorily selling 18% from molasses, as far as I understand to currently recover manufacturers, as per the norm. So, through your IMIL Business, how much additional value would you be able to capture over a period of time? What is the size of the business you are looking at? And what is the investment?

Tarun Sawhney: Sameer?

Sameer Sinha: Right in terms of IMIL, you see it is a question of establishment of your brands over here and creating a demand for it, for it to generate value for you on a sustainable basis going forward. So, therefore, this year while we sold about let's say, we are planning to sell in this financial year, about 18 lakh cases, which we feel that we can double it by next year, which means we might go to about 40 lakh cases. And another jump in the subsequent year. And slowly we'll enhance the margins in display as the brands get established.

Rajesh Majumdar: So, what does this mean in terms of revenue and profitability 3 to 4 years down the line for that business?

Sameer Sinha: So, definitely I can't give you a number straight away off hand, but definitely there will be a significant profitability coming out of this business. As you can see, in the results of the top 2-3, players who are well established, whether it's India Glycol or Radico or Shadilals, etcetera. We believe that in '23-'24, in let's say Q3 around that period, we should be touching breakeven and then going forward, we should be earning very attractive margins considering the huge, if I have mentioned about let's say 40 lakh cases this year -- next year. And then, if we look at going to even 60 lakh cases thereafter, you will notice that we would be sitting on market share of about 8% to 10% and we could be in the top 5 players of the industry. And therefore, earning sustainable margins going forward.

Rajesh Majumdar: So, when you say market share, you refer to market share in UP?

Sameer Sinha: This is right now targeted only for UP.

Rajesh Majumdar: Okay, And on the current sale of 5.38 lakh cases, what will be the turnover, because that figure is not clear from the presentation?

Sameer Sinha: Could you repeat 5.38 lakh cases, what's the total..?

Rajesh Majumdar: Turnover from the business because that figure is not clear from the presentation.

Sameer Sinha: See, it is, net of excise duty in the quarter would be about ₹12.62 crore.

Rajesh Majumdar: Okay.

Moderator: Thank you. The next question is from the line of Pratiksha from Aequitas. Please go ahead. Pratiksha, your line is in talk mode. Please go ahead with your question.

Pratiksha: Yes. This is Pratiksha from Aequitas. Okay. So, my first question is, with the part of the opening commentary, what I understand is that we are expecting to close this year with better recoveries as compared to last year. And right now, what I understand that we’re marginally lower. So, I wanted to understand that was the assumption that makes us feel that we'll be able to catch up?

Tarun Sawhney: Right, okay. So, in my opening comments, I had mentioned that actually on a normalized basis, our recovery this year is slightly higher than last year. On a C-heavy basis, our recovery this year is 10.97%, which if you normalized it for last year would stand at 10.93%. So, we're about 4 units higher, 0.4% higher this year versus last year. We expect that the inclement weather that we have faced during this season, which has led to a lower recovery in our own estimation versus what we had forecast, that period is over. And the weather as we look forward for the remainder of the season looks pretty stable. And therefore, we expect to go back to our budgeted recoveries and we see that this difference could potentially expand. And that is the basis for making the statement that we believe that we will end at a higher matched recovery.

And the reason why I equated that to C-heavy is because the constitute elements in recovery this year versus last year are very different. And so, you can't just do an apples-to-apples comparison. Last year, we manufactured a lower quantity of B-heavy. We also manufactured raw sugar last year. This year, we are not manufacturing any raw sugar. Raw sugar leads to a slightly higher recovery. B-heavy molasses is much higher this year, which leads to a slightly lower recovery. And so, balancing all of that out in normalized C-heavy terms, we are ahead of last year, and that gap will continue to grow.

Pratiksha: Okay. All right. And my next question is for the distillery division. I think the margins on sequential basis, for that matter even on yearly basis seem to be, are reduced. And I guess, part of this could be attributed because of the transfer size of molasses. But is there anything other than that that could significantly impact the margins for that segment?

Tarun Sawhney: I'm sorry, could you repeat that question again?

Pratiksha: Yes, apart from transfer price, is there anything else that is significantly impacting the margin for distillery segment?

Tarun Sawhney: I mean, we've had better operations that contribute very slightly towards it, but otherwise, it is only the transfer price. You're correct.

Suresh Taneja: Let me just add over here, In the distillery segment, also, we have the IMIL operations included over here. So, to that extent, there could be a small impact.

Pratiksha: Okay. Understood. All right. Thank you.

Moderator: Thank you. The next question is from the line of Ritika Gupta, an Individual Investor. Please go ahead.

Ritika Gupta: Hi, sir, my question is regarding the engineering business. I wanted to know what is the outlook for the gears business next year?

Tarun Sawhney: Right. We don't offer specific outlook for our power transmission business, in terms of revenues, etc. But with the growth that we're seeing in the market, not just domestically and internationally, especially with respect to gearboxes, I think we can see a very healthy number of orders that are coming towards the business. Now the total quantum of export revenues has seen a fairly reasonable jump in terms of order bookings. And this is in parallel with the markets or the industries that we have seen growth in domestically as well. As I'd mentioned, steel, rubber, petrochemicals, all petrochemicals especially, have seen quite a robust demand, as about a year ago their order cycles were impacted due to COVID, both in terms of aftermarket and in terms of new order intake. So, we're seeing on both levels, a real bounce back.

Ritika Gupta: Okay.

Tarun Sawhney: While I can't offer you a specific number for next year, we see that these industries will really allow us to grow the business domestically and internationally.

Ritika Gupta: Okay. So, out of the ₹ 214 crore, how much would be export? And what would be the execution period for ₹ 214 crore? I believe a certain amount is long term, right?

Tarun Sawhney: That is correct. So, of the ₹ 214 crore orders we've got approximately ₹ 102 crore as long term orders. Out of that long term, ₹ 56 crore are our defence orders. And that's important to also consider because those are, those will be executed over a period of time. The balance orders are orders that are executable in the immediate 12 months. And out of that approximately 20% plus is export orders.

Ritika Gupta: So, 20% of ₹ 100 crore is export orders, approximately?

Tarun Sawhney: Yes, of ~ ₹ 110 crore.

Ritika Gupta: Okay. And ₹ 56 crore of defense orders, you mentioned is short term execution, right?

Tarun Sawhney: No, the defense orders of ₹ 56 crore are slightly longer-term execution.

Ritika Gupta: Long term, okay.

Tarun Sawhney: A small portion will come next year; the balance will come in subsequent years.

Ritika Gupta: Okay. And what is the capacity addition from here? You're doing some capacity expansion there as well, right?

Tarun Sawhney: No, we're not doing any capacity. We've added a few machines here and there, but nothing, no significant capacity expansion. At the moment we have sufficient capacity to be able to meet our growth objectives for the next year.

Moderator: Thank you. Reminder to the participants, please limit your questions to three per participant. The next question is from the line of Shanti Patel from Shanti Patel Investment Advisors. Please go ahead.

Shanti Patel: Good afternoon, sir.

Tarun Sawhney: Good afternoon.

Shanti Patel: My question is, when the new ethanol capacity will come into the picture, how much profits it will contribute to the company?

Tarun Sawhney: Sameer, do you want to take this?

Sameer Sinha: Yes. See, we know at the given capacities as we mentioned that we are doing let's say, of dispatches about 11.5 crore liters this year and a production of about 10.70 crore liters. We know the profitability of this distillery, and you can just prorate it on the 18.5 crore that's the kind of numbers that we are talking of in terms of the volumes, and 21 crore going forward. And let me say that, most of these assets and the capital expenditure that we are making, have a short payback period of about 3 years or thereafter 3.5 years.

Shanti Patel: Okay. Thank you, sir. Thank you.

Moderator: Thank you. The next question is from the line of Anupam Goswami from B&K Securities. Please go ahead.

Anupam Goswami: Hi, sir. My question is on the follow up of one of the previous participant. You mentioned about 60 lakh cases going forward in IMIL and then to that previous year 40 lakh. Do we have the bandwidth to, in terms of cane availability? And we are diverting about 80-85% to B-heavy and we're looking forward to juice as well. So, concerning all this, do we have bandwidth to do such expansion in IMIL?

Sameer Sinha: See, this is all coming out of the 18% levy molasses that we have to sell compulsorily as per the government regulations and we are trying to add value to that number.

Anupam Goswami: So, I might understand till the time we do not reach about 60 lakh cases we have to do some country liquor as well as the levy molasses as well? I mean, the balance?

Sameer Sinha: Yes, that's the situation till then. And after, as I mentioned, after the brands get established that business in itself should turn the corner and make money.

Anupam Goswami: Okay, sir my next question is on the water business, the margin has improved, YoY to this level. What could be a sustainable margin that we can look at in the water business? Because this segment was a little down in the margin going forward, where can we look at the margins?

Suresh Taneja: Roughly speaking in the case of Water Business, our breakeven is approximately about ₹ 225 crore. And the moment we are able to increase the scale of business, obviously, it gets much more profitable, as you would have seen in these results also.

Anupam Goswami: So, we'll be able to maintain such kind of margin at 10%, sort of, what we achieved this quarter?

Suresh Taneja: Yes, I mean, as a matter of fact, looking at our order position, and the kind of orders we have participated in, I think we are quite bullish about the orders we are going to get in the next 1 or 2 quarters, and which would really keep up the tempo of this total turnover of the business.

Anupam Goswami: Okay, sir, thank you.

Moderator: Thank you. The next question is from the line of Lokesh Maru from Nippon India AMC. Please go ahead.

Lokesh Maru: Hello, sir. Congratulations on an excellent set of numbers. I have a very basic question on the Sugar Business. That is, you had mentioned that last year the entire production was based on raw sugar. And so, the realizations achieved are basically for that segment raw sugar prices. So, going forward like you mentioned, you are only focusing on refined sugar, just a basic question, what in terms of percentage, how much would that refined sugar be? And in terms of profitability, how does that change profitability or realizations and spread in terms of that diversion? Just one question, that's it.

Tarun Sawhney: Sorry, let me just correct you over there. Last year we had produced about 150,000 tonnes approximately of raw sugar for export. This year we didn't. But the raw sugar was produced at factories that produce sulphitation sugar. The total percentage quantum of refined sugar that is being produced year-on-year remains the same. What I did mention is that, going forward looking at the delta that exists for refined sugar, these are excellent avenues to contemplate on for any further refinement, any further investments for the sugar business going forward.

Lokesh Maru: Okay. Thank you.

Tarun Sawhney: Thank you.

Moderator: Thank you. The next question is from the line of Vignesh Iyer, an Individual Investor. Please go ahead.

Vignesh Iyer: Hello, good afternoon. Congratulation on good set of numbers. My question is predominantly related to the Water Business. So, we are seeing good orders being received by the company for few quarters. And I see around 60% to 65% of your total order is long term contracts. Okay. So, I just wanted to know what is the timeframe of this long-term contract, as in, to understand in times, like number of years over which this revenue would be recognized?

Tarun Sawhney: Excellent question. The timeframe is 24 to 30 months.

Vignesh Iyer: Another question is, in the recent union budget, around 60,000 crore was allocated for the tap water connections. So, as we are into Water Business, water treatment or even for the wastewater network management, is the business, as in, is the company seeing that some business flows in because of this allocation, as in for the business?

Tarun Sawhney: So, we are one of the few companies that has experience in this in last 5 years. In Punjab, we have done a very large project to ensure the very same connectivity into homes. It is a much tougher business, I must add. And while there have been budgetary allocations, I think it is absolutely vital for drinking water connections into the homes of the Indians across the country. The point, of course, is that, while we do have profitability to be able to deliver on projects like this, it really depends on varied projects coming up and the ease of doing those businesses as well.

Typically, it requires a greater amount of effort. And the risks are higher. We're dealing with that many more end customers, and you're dealing with civic infrastructure, etc., which is a little more challenging. But overall, to have such large sums of money diverted by the Union Government, towards specific water initiatives, this is just one. There are several other initiatives that have also been spoken about in the Union Budget. It augurs very, very well, for the water space going forward, not just in terms of the last mile connectivity, but also in terms of newer project, and newer sewage treatment, newer water treatment initiatives across the country.

Vignesh Iyer: Right, right. Yes, but the company has done businesses with the municipal corporations directly, right? So, you can foresee this entire pipe connection for the residents of that municipal corporation. So, there is a small chance that the company could have a tie up with this municipal corporation or any other jurisdiction as in Panchayat or maybe any other Government organization, overlooking all those businesses?

Tarun Sawhney: Absolutely. I think that is a very distinct possibility.

Vignesh Iyer: Okay, fine. Thank you. That's all.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for the closing comments. Over to you, sir.

Tarun Sawhney: Ladies, gentlemen, let me firstly apologize for my phone line getting disconnected on several occasions during this call. It's been a pleasure speaking with you. And I look forward to talking to you in approximately 3 months' time, when we come back with our year end results. Let me just close the call by saying that I think all three business segments of the company have started firing. I know, I've spoken about this. The last time that we spoke that we would look at this quarter, very, very positively. Going forward, the after effects of COVID are still very real and very near. But in a post COVID world, I think the company will continue to do well, we're in strong business segments that are rebounding quite well and form important constitutes for the growth and roadmap for the nation. So, thank you very much. I look forward to speaking to you in 3 months.

Moderator: Thank you. Ladies and gentlemen on behalf of Triveni Engineering & Industries Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines.