



## Triveni Engineering & Industries Limited

### Investor/Analyst Conference Call Transcript

#### January 22, 2010

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**Moderator** Ladies and gentlemen good afternoon and welcome to the Triveni Engineering Q1 FY10 Earnings Conference Call. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal an operator by pressing \* and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Rishab Barar from Citigate Dewe Rogerson. Thank you and over to you Mr. Rishab Barar.

**Rishab Barar** Thank you Melissa. Good day everyone and a warm welcome to all of you participating in the Q1 FY10 conference call of Triveni Engineering and Industries Ltd. We have with us on this call Mr. Dhruv Sawhney, Chairman and Managing Director of the company. Mr. Tarun Sawhney and Mr. Nikhil Sawhney, the Executive Directors of the company along with Mr. Suresh Taneja the CFO and other members of the senior management team. I would like to mention before we begin that some statements made in today's discussion maybe forward looking in nature and a statement to that effect has been included in the conference call invite, which has been mailed to everybody earlier. Also I would like to emphasize that while this call is open to all invitees, it may not be broadcasted or reproduced in any form or manner. We would start the conference with opening remarks from the management followed by an interactive Q&A session where you can discuss your views and key issues. I would now like to hand over to Mr. Dhruv Sawhney to share some perspectives with you with regards to the company's operations and the results for the quarter under review. Over to you Mr. Sawhney.

**Dhruv Sawhney** Thank you Rishab. Good afternoon everybody and welcome to the investor call for our first quarter. We have had extremely good results in the first quarter on all fronts. Net sales have gone up by 33% and EBITDA has gone up by over 50%, about 56%. We have a healthy EBITDA margin of about 27%. Our profit before tax and our profit after tax have both increased by over 200%.. To start with our sugar operations, they have continued their improved performance with an increase of turnover of 31% and a substantial increase in PBIT of over 80%. Our engineering businesses also have registered a growth of 39% in turnover and 28% in PBIT. The EPS for the quarter (not annualized) is Rs. 2.83 versus Rs. 0.93 in the corresponding quarter of the financial year 09.

To take our sugar business first, on account of higher sugar realizations, which increased by some 75%, our overall sales were higher by 29%. Our total cane crushed up to the 31<sup>st</sup> of December is 1.47 million tons. In the country, we believe there will be a gap of some 7 to 8 million tons between production and consumption. Production is going to be a little below 16 million tonnes. It was 15.5 earlier and as an estimate it is probably around 15 million now. Globally sugar

production last year was 157 million tonnes versus 163 million tones of consumption, a gap of about 6 million. The next year too in 2011, the production estimates versus consumption are not showing a surplus. The country's estimated sugar production up to the 31<sup>st</sup> of December was 5.9 million versus 6.04 million last year which is almost the same. We have a situation where international sugar prices are at a record high. Raw sugar for March 2010 delivery is around 29.27 cents per pound and whites have reached almost \$760 per ton. They reached a lifetime high of \$767 a few days ago. So we are in an environment of extremely high global prices. Naturally, this has repercussions on domestic prices as well. But as I had said to a number of colleagues, domestic prices in India today are still one of the lowest in the world and slightly lower than the other countries in the subcontinent. The average free sugar prices (NCDEX, Muzaffarnagar) for October was around Rs. 31/kg including transport and duty and this has gone up to Rs. 42/kg in the first 21 days of January. The current realizations have dipped a rupee or two, but we are still getting 40 rupees today. We expect that for the balance part of the year given the supply-demand situation, sugar prices will definitely not come down, but will probably go up by a few rupees on an average for the rest of the year. As you know, cane prices have also gone up substantially versus the last year and currently, cane prices are around 240 to 255 - 260 rupees a quintal. These are gate prices to which transport and other expenses are added. This will have a tremendous impact on sowing in the current year. It will also have an impact in changing the psychology of the farmer towards the sugar industry and the growing of sugarcane versus other competing crops. We expect a substantial change in sugar production and cane production in the year 2010-11 and then a record in the year 2011- 12. But I would say that India's supply-demand situation in the world is not going to go through the cycles that we have had before. You are not going to have massive surpluses the way we may have had in the past. So we see a fairly stable sugar price and cane price regime where substantial drops of sugarcane pricing should not happen and any substantial drops in sugar pricing will also not happen. This we believe is a very good thing for the future of the industry.

As far as our engineering group is concerned, our steam turbines, which is our major engineering item has had an increase in order on hand. In fact the engineering group as a whole has had its order on hand since the first of October go up by around Rs. 100 crore, so we are now at 8.4 billion rupees and that is a welcome change. All the orders that we have, are orders which are not on hold. I think some of you might have seen some people in the industry talk about orders on hand and not being carried out. We follow a very strict policy of showing orders on hand only of customers where we are confident that there is going to be no hold-up in the dispatches and that is a conservative policy that has held us through the recession. These orders in hand are enough for a year's production and they go through all three sectors – steam turbines, gears, and water. The increase in orders in water of course is more substantial than it is in the others. It is higher by about 24% as compared to 30<sup>th</sup> of September and our execution of orders in 2009 and 2010 in water will also be substantially higher than what it was in the last year. Overall in the engineering businesses, we expect around 30% increase in turnover and in profits. We have considered a scheme of a de-merger and put it up to the board. The Board has approved this scheme. The option before the Board was to de-subsidiarise or to de-merge. They have approved a scheme of de-merger. They have authorized the management to appoint lawyers and accountants and within four weeks, the scheme will be finalized and we will put it forward to the stock exchange for approval. The scheme of de-merger will be as per section 391- 394 of the Companies Act and it will be a court driven process. The resulting company, which will be a steam turbine company, will be listed. A number of you maybe asking as to why the company has de-merged just the steam turbine business and not the complete engineering business. The first point is that we had considered de-merger earlier and in keeping with what we had said, we decided not to go for the de-subsidiarisation route, as it would not have been unlocking full value for the shareholders. That was a very conscious decision that our Board of Directors took.

We consider we are already in the 15 megawatt line, one of the three largest globally. We have made substantial progress in the power range of 15 to 30 megawatts wherein two years, we have now got a market share of about 30%. We are looking at the complete industrial range, which goes up to a 100 to 150 megawatts and we are looking at the global arena as our market place. We are fairly small at the moment as having only 10% to 15% exports. We feel our potential is as much as we have of a market share in India, which is 75% in the 15 megawatts range and 50% in the 0 to 30 megawatts range. Now to achieve the ambition, the drive that management and the Board have to Triveni being a global player in the industrial steam turbine field, we need to one, focus on this very explicitly as a business and two, enter into strategic and close partnerships with global players who will help us to achieve our ambition in the closest and the shortest possible time. We have made very substantial progress in this and all I can say at this moment is that we expect to be able to come to our investors and our Board very shortly with some positive news in the expansion of our current steam turbine business and its growth prospects internationally. One of the key considerations in driving any strategic plan is to ensure that we do not have any conflicts of interests that may come about through these global ambitions of ours with various partners and our current partners today. So it is better to have a focussed business, which can have a rapid growth. We are confident that when we have these partnerships, the sort of growth rates that we expect in steam turbine in the next three to four years will be extremely substantial and of the sort that the steam turbine business had two or three years ago in the company itself. We are confident that our other lines will also grow substantially and also enter into partnerships. However, that value, some of you may feel, has not been fully unlocked as yet. The opportunities of unlocking that value are far more substantial when we have a clear global and domestic game plan with partners and as and when those opportunities arise, your Board and your management will not be waiting to seize upon them very quickly. The process of de-merger, the scheme should not take more than three to four weeks and we will come back to you once the scheme is ready and give full details, of course these will be given after our Board approves and files it with the stock exchange and then with the high court. I would rather not go into further financial details. They are with you in the investor brief, except to say that we have an encouraging piece of news that came today. The CER's in our Khatauli co-generation has just been approved. These were applicable for the CER's upto March 08. You can really understand how long these processes have taken, but after two huge scrutinies by SGS India and my colleague Mr. Sameer Sinha may give you further details, but I think we are one of the few companies in India who struggled hard and have got this verification done. After this, we expect the CERs for the subsequent periods both in Khatauli and Deoband not to take this time. So this was something that was pending for some time in our cogeneration business and it is a welcome news this morning. If I could now turn it over for questions.

- Moderator** Thank you sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Ami Shah from LKP Shares. Please go ahead.
- Ami Shah** Just wanted a bit of statistical details in terms of sugar produced. How much is from cane and how much is from raw?
- Dhruv Sawhney** Good question. We believe that sugar production in the current year from cane will match what we did last year and in addition to this, is a 90, 000 tonnes of raw sugar, which is already in the factories out of which as of 21<sup>st</sup> of January about 40-50% has been processed. I am just getting the figure of the amount of raw sugar.
- C.N. Narayanan** We produced around 128, 000 tons of sugar from cane and around 21,000 tons from raw upto 31<sup>st</sup> December 2009.

**Ami Shan** 21,000 tons, right?

**Dhruv Sawhney** This is up to 31<sup>st</sup> of December not today.

**Ami Shah** From the total sugar sold how much would be free and how much would be levy?

**C.N. Narayanan** Most of it is free sugar.

**Ami Shah** About the ban of import of raw in UP. Are any our stocks lying at the port or some anything like that?

**Dhruv Sawhney** No, none of our stocks are lying at the port. All our sugar is in the factory. It came in many months ago.

**Ami Shah** Just an industry perspective, are you seeing the mills in UP to sell these sugars to mills in other parts of the state as allowed by our agriculture minister?

**Dhruv Sawhney** I really cannot comment on my colleagues. You should wait for their conference call.

**Ami Shah** And what is the total inventory as of 31<sup>st</sup> December?

**Dhruv Sawhney** 115,000 tonnes.

**Ami Shah** And that is all from cane?

**Dhruv Sawhney** This is inclusive of both.

**Moderator** Thank you Ms. Shah. The next question is from the line of Nirav Shah from Antique Stock Broking. Please go ahead.

**Nirav Shah** The first question is on the processed raw sugar sales during the quarter. How much have we sold of the total volumes of 92,000 tonnes?

**Tarun Sawhney** That is zero.

**Nirav Shah** So, all of it is lying in inventory.

**Tarun Sawhney** Yes; It will be sold in the current quarter and of course the next quarter as per the government policy of releases.

**Nirav Shah** Fair enough and just to get a perspective, how much has been the cane crushing, may be the latest figures that you have for the company and the recovery to date?

**Dhruv Sawhney** Well, you know it is varying very substantially. There is a lot of cold weather in North India and our recoveries are varying greatly. One factory, Ramkola has the highest recovery in U.P. Its daily recovery is 10.45 and to date, recovery is 9.92. It is the highest of any factory in U.P. At the same time, the others are much lower. So the average is only 8.8 and we have crushed about 2.06 million tons.

**Nirav Shah** And sir, you just commented that you will be matching your sugar production for the last year. So, does that mean the cane crushing on a Y-o-Y basis will be a bit lower?

**Dhruv Sawhney** Slightly. No, it's very difficult to take these calls. We are in the hairline range, you know and let's see what's the diversion situation in February and also, I think with the pricing of cane now, what we are saying should come through. It's a very competitive cane price that we are bringing up.

**Nirav Shah** Fair enough. And just wanted to get the debt and gross block figure for the turbine's division because now it may be a possibility that it will be a separate company. So, can you shed some light on that?

**Dhruv Sawhney** You know I would like to just say that these are the details that are coming out from our advisors and all this information will be there in three to four weeks when we present the scheme. You know, I had asked you to just wait for that because that information really is being compiled, I mean it is there but it is really going to be public once we have the schemes and it is not very long from now.

**Nirav Shah** So, can we get the September ending figures for these two things?

**Dhruv Sawhney** We do not give the individual figures of loans on the different sectors of the company right now.

**Nirav Shah** And how many CERs have been approved for the Khatauli unit?

**Sameer Sinha** It is approx. 58,000.

**Nirav Shah** And your views on the order book of the Water Division. Sir, can you share some client breakup and who the major clients are who gave us order during the December quarter because order increased around Rs. 70 crore.

**Nikhil Sawhney** The orders were split equally between the municipal and industrial segment. The industrial segment had power producers predominantly dominating the industrial order book and municipal clients on the other side.

**Nirav Shah** Which were the orders received in the December quarter?

**Nikhil Sawhney** Like I said, it is equally split between both industrial and municipal and within municipal, it was largely for technology-based sewage treatment plants and on the industrial side, it is for boiler feed water and other power plant requirements.

**Nirav Shah** And the last question is on the demerger plant. We are just demerging the turbines. Just want to know the logic on why we are not demerging gears, because 25% of your gears production is going to the turbines. So, any particular reason for not going with gears at least?

**Dhruv Sawhney** No. Please understand that our gears supply, we supply gears to both Triveni and Triveni's competitors. We are a major supplier to the turbine competitors.

**Dhruv Sawhney** Siemens, BHEL, Siemens buys almost 50% of its gear requirement even though it has its own gear unit. So, there are strategic considerations, which focus, as I mentioned earlier, when you are looking at going global, you have to make sure that these conflicts of interests are not so looked at in the longer term and, you know, shareholders, whether there are smaller shareholders minority or majority shareholders, have exactly the same objective. It is for maximizing shareholder value both in the short and in the medium term. We see we are on a high gear growth path in steam turbines for substantial increase in shareholder value and for this; we really do not want to compromise global interests. Beyond that is a difficult to explain in the call, except to give it you more on in-principle. The other thing is that as you will see once in another three to four weeks when we have these

partnerships to be able to disclose, and gears and water also have global and partnership ambitions. You know, they are in dialogue with a lot of players for rapid growth in these sectors. India is a substantial player in the local market. I think our investor community should look at this one fact that as a company in all our three businesses, we are doing extremely well in the market here, which is quite a competitive market with imports at almost zero duty and if we are doing well and we are technology based, a lot of global players are looking at strong partnerships through India and to approach a global market and we want to exploit these in all the sectors.

- Nirav Shah** And just a final question for the turbines division. What is the kind of target range we want to be presenting, say in the next two years?
- Dhruv Sawhney** We will be able to give details of our ambitions more clearly. It is to finally look at the complete range of industrial steam turbines globally.
- Nirav Shah** So that would be up to, say maybe 50 megawatts or can you just say that range?
- Dhruv Sawhney** You know the industrial range. It will be higher in that.
- Moderator** Thank you Mr. Shah. The next question is from the line of Sandeep Somani from HSBC. Please go ahead.
- Sandeep Somani** Thanks a lot for taking the questions. First two questions on sugar business side. First is that, where do you expect the cane cost going ahead from the current Rs.240-260 range per quintal? And secondly what is the status from the government side as far as levy prices are concerned? Has that been raised?
- Dhruv Sawhney** Well, Sandeep I think your two questions are very good questions. There may be some marginal increase in cane costs in some areas but I do not see anything like what has happened in the first two months. Looking at gur prices and looking at khandsari prices in the market, which are our main competitors. So, with the neutralization of cane prices in U.P. to those announced in Uttaranchal and Haryana., the first part of the increase was to come to a matching basis in the neighboring states, not many people realized that. Possibly we could have started, may be, with a higher one but now on the competitive front, I do not think there is much scope for any increase. On the levy, we are hopeful that government will actually come out with this on the basis of their declared FRP very soon because we have had this increase in levy ratio and this cross subsidization should really be looked at very carefully. We are hopeful that it will be taken up but of course, it is a cabinet decision, it is beyond the food minister.
- Sandeep Somani** When you are looking at your revenues, are you looking at the higher prices or in the case you are selling now in subsequent quarters, would you be looking at the rates which are prevalent?
- Suresh Taneja** We are accounting based upon the prices which are prevalent as of now and as and when the revised prices would be notified, we will take into consideration the enhanced prices.
- Sandeep Somani** Two questions on the engineering side. First is that, if once you look at the demerger and if I look at the capital employed in the business which is around Rs. 35 crore, my question would be, would this demerger and this individual company face the issue in regard to being a smaller balance sheet concern? How important is it to have a big balance sheet in this business and secondly in regard to where the overall opportunity is concerned in the turbine side, what kind of international

opportunities are you looking at and what could be the growth path in the international side?

**Dhruv Sawhney** Your second question is a driver. The driver is the opportunities in the international market. Approximately, the market in the industrial range globally is, may be four to five times more than what it is in India, even though India is a fairly substantial player in this market and this is besides China. So the global opportunities in our industrial steam turbine range are huge in South East Asia. They are substantial in Europe. Of course, they are there in China and Latin America and United States but that is probably last. Not too many people have gone in sophisticated lines such as steam turbines but we feel we have the technology, we have the cost competitiveness, which we have proven in India in the midst of very strong international competition and I think this is going to be the real driver. I do not think the growth is going to be affected by the sizes of balance sheet at all.

**Moderator** Thank you Mr. Somani. The next question is from the line of Sanjay Satpathy from Merrill Lynch. Please go ahead.

**Sanjay Satpathy** Can you just give us some guidance about the total amount of cane that you will be crushing this year?

**Dhruv Sawhney** Well, may be marginally about the same as last year.

**Sanjay Satpathy** Okay and so far the stock that you had at the end of December that 115 million kg, what is the cost of the inventory?

**Suresh Taneja** You know, so far our cost of production has been approximately Rs. 26.75/kg.

**Sanjay Satpathy** Okay. This is including the refined sugar.

**Dhruv Sawhney** That is right.

**Sanjay Satpathy** Considering that you are not looking for additional cane price hike. Is it fair to assume that you will have similar cost of production for the rest of the year?

**Dhruv Sawhney** Well, there has been some marginal increase since 1<sup>st</sup> of January till now and so if we account for that, it will be slightly more but not too much.

**Sanjay Satpathy** So the total amount of sugar that you will be selling between January to September, should one assume its cost to be something like Rs. 27.50/kg?

**Dhruv Sawhney** As I clarified, it will be, I cannot give you the pricing of what it will be but it is for you to deduce. I am just saying that there has been some cost increases in cane from 1<sup>st</sup> of January and you will have to look at the recoveries in the balance part of the season. It is difficult to be accurate on February recovery today with this sort of weather pattern. We expect the weather to break sometime. This is probably the least number of sunshine days that the first 21 days of January we have had in the last 40 years, I believe. So it is a little unnatural right now, the recoveries. We expect them to be substantially better in the first few weeks of February.

**Sanjay Satpathy** And as far as your total debt. How has that changed because we see that your interest cost has come down quite substantially when compared to the September quarter.

**Suresh Taneja** Our total debt levels are in the region of about Rs. 780 crore and it is a reduction of about Rs. 50 crore as compared to 30<sup>th</sup> September and one should also take into account that as of 30<sup>th</sup> September our stocks were much lower than what we

posses as of 31<sup>st</sup> December. So, the debt levels have significantly come down. It is because of the lower utilization as well as because of the lower interest rate.

- Sanjay Satpathy** How much is the interest rate that we would be paying effectively from now on?
- Suresh Taneja** I think roughly speaking, for the quarter it was about 8% average.
- Sanjay Satpathy** And the turbine division, of course, it has grown quite considerably on a year on year basis, but we see it to be significantly lower as compared to that of September quarter. Is it something seasonal.
- Dhruv Sawhney** Yeah. Good point. It is extremely seasonal. In the capital goods area, especially in steam turbines the depreciation is booked on a six-month and a 12-month basis, so they all take it before September. It is very key for them to take it in that month so that they can claim that to get the tax benefit. So we always have a bump in our first quarter. So, really comparing turbine sales on a sequential basis is not really as good as comparing it on a year-to-year basis. The key driver is active orders on hand.
- Sanjay Satpathy** That means normally the March quarter will be better than December quarter and one can expect substantially better numbers in March quarter compared to that of December?
- Dhruv Sawhney** It will be better but sometimes these orders on hand; it depends on their delivery period. I think this revival that we are seeing in orders coming in is a very healthy trend for the future.
- Moderator** Thank you Mr. Satpathy. The next question is from the line of Nirav Vasa from Gupta Equities. Please go ahead.
- Nirav Vasa** You just informed that you see less volatility in the sugar cane prices as well as sugar output in India going forward. So, are there any plans to ramp up the crushing capacity across the existing plants and may be if possible acquisitions of some factories?
- Dhruv Sawhney** There are no plans at the moment.
- Nirav Vasa** And by what time can we expect the final output on the ethanol prices?
- Sameer Sinha** Ethanol prices. We expect that to happen somewhere in the February or March. More towards February.
- Nirav Vasa** And I believe the levy quota is still taken at Rs.13.50 per kg.
- Dhruv Sawhney** We take it as per what is published right now. We do not provide for forecasted price increases. They will be adjusted as and when government announces.
- Nirav Vasa** So, it is still a sub judice matter.
- Dhruv Sawhney** No not a question of sub judice. It is what are the declared prices today. Of course, it is sub judice, but that is a broader question.
- C.N. Narayanan** It is an administrative decision from the government to finalize it and we will start getting on whatever dispatches we made from 1<sup>st</sup> of October.

**Moderator** Thank you Mr. Vasa. The next question is from the line of Amit Khurana from Mangal Keshav Securities. Please go ahead.

**Amit Khurana** Can you give us some clarity as to where you are finding traction from the steam turbine business, any particular business segment where you are finding more traction?

**Dhruv Sawhney** Good question. You know, there is a lot of traction in our new lines, in the higher megawatt lines and in the higher pressure lines. With the continuing power situation, captive power is increasingly becoming a very key component of almost all industries. So, that is something we forecast for the next few years. Not just in India, in many other developing or semi-developed nations as well. So, you know India has taken a lead in technology in captive power generation in terms of the efficiency of their power plants, turbines, and boilers and this is something that we have geared up to so, when you go globally you are actually ahead technologically.

**Amit Khurana** Sure.

**Dhruv Sawhney** And that is a fairly substantial difference.

**Amit Khurana** Okay. And just one housekeeping question. In the cogen business I read your realization at Rs. 3.8/unit. Could you make me understand as to how did you get to that number because if I look at the power generated or the power exported; the numbers are very different.

**Sameer Sinha** No you see, there will be a tariff which has been announced by UPRC which lays down the pricing for each of the cogen factory depending on the year in which it was established. Now we have different transfer pricing for the power, which is sold to our sugar factory. So therefore the Rs. 3.8/unit you are talking about is more from the power exported tariff.

**Amit Khurana** Okay, and in that case what would be your average realization?

**Dhruv Sawhney** It is around the same number also.

**Moderator** Thank you Mr. Khurana. The next question is from the line of Kumar Rahul Chauhan from DBS Cholamandalam. Please go ahead.

**Kumar Rahul Chauhan** Good afternoon, Sir. My first question is regarding the demerging of turbine business. If you see on sequential basis, there is a growth in order books but on year-on-year basis, if you see the growth is flat at Rs. 528 crore. So the company has still gone for the demerging of turbine business? Sir what could be the possible reason for this?

**Dhruv Sawhney** As I said, the first is to focus on this business for growth possibilities and these growth possibilities are going to come not just through our internal growth but through the opportunities provided with partnerships, domestic and international, to get into further fields and to further industries and to further territories, so that is where the growth driver is.

**Kumar Rahul Chauhan** But we already have big players like BHEL and L&T. They are planning to set up power plant units in India in a big way. Yesterday, Government of India has approved Alstom to set up a power manufacturing unit, so don't you think you are undermining the competition in this sector?

**Dhruv Sawhney** It is important for you to clarify the industrial sector from the utility sector. Alstom, L&T, are not in the industrial sector, which is, let's say up to 150 megawatts. They

are only in the utilities, critical and supercritical sector which is above 400 going up to 1000 megawatts. So they are in completely different lines. So there is no competition in this sector from them and BHEL, of course, traditionally has been in all lines but is less and less in the small industrial line. Actually, it is not very competitive either in terms of pricing because it is difficult to cater to 1000 megawatts and 50 megawatts. So that is why I am saying that the growth possibilities both in India and overseas they are two separate markets. There is the utility market and an industrial market. We are talking about being a dominant global player in the industrial market.

**Moderator** Thank you Mr. Chauhan. The next question is from the line of Sachin Kasera from Lucky Securities. Please go ahead.

**Sachin Kasera** You mentioned that there is a big demand on the industrial side where we are not present today. Any number that you could give us where India is concerned? How big could the market be on the industrial side, not accessed by us, as on date?

**Dhruv Sawhney** In India itself, it is above 30, about two and a half, no, more, may be 4000 megawatts if you go up, about 4000 megawatts.

**Sachin Kasera** On a yearly basis?

**Dhruv Sawhney** Yes.

**Sachin Kasera** And who would be the large players there?

**Dhruv Sawhney** Well, the large players are Siemens and some imports and BHEL.

**Sachin Kasera** And the partnership that you are talking for after the demerger of the turbine business would be primarily limited by industrial segment or are you also looking into opportunities on the utilities side?

**Dhruv Sawhney** We are looking at it in the industrial segment.

**Sachin Kasera** Okay. And these partnerships that you are talking are going to be technical partnerships or could that also involve an element of equity?

**Dhruv Sawhney** I think we'll have to wait till we present it to our board.

**Moderator** Thank you Mr. Kasera. The next question is from the line of Anup Ranadive from Tower Capital. Please go ahead.

**Anup Ranadive** Good afternoon and congratulations on a great set of numbers. A couple of questions. Can you explain, you mentioned about India's import requirement to be about 6-7 million tonnes. Out of which how much has come into the country and what are the pending imports that India would need for the rest of the season?

**Dhruv Sawhney** About four million tonnes has come in, or contracted, and so I guess you could say another about 2-3 million.

**Anup Ranadive** Okay. The 2-3 million this would be primarily raw or white considering India's limitation in post season processing.

**Dhruv Sawhney** I think it will be a combination of both.

**Anup Ranadive** At the current prices, which is more feasible to buy, is it white sugar or raw sugar?

**Dhruv Sawhney** It really depends on each individual company to see its facilities and then take a call and to which timing they want to take a call. I gave you more of an overall situation.

**Anup Ranadive** You mentioned about further imports of 2-3 million. I know it's like early in the day actually to talk about pricing and production numbers but even the Brazilian industry is talking about a 10% growth from 31million - 34/35 million. Assuming that the production starts well and they don't face any kind of monsoon issues during April/May. So would it be fair to assume that there will be additional supply of sugar in the international markets, which could cool down the prices. I mean, just a theoretical possibility of this happening.

**Tarun Sawhney** The theoretical possibility certainly exists. One has to remember that Brazil produces raw sugar. Now, tolling capacity globally is constrained. There is a shortage of tolling capacity on a regional basis, especially if you look at the Indian subcontinent because you are asking from an Indian perspective.

**Anup Ranadive** Perfectly..

**Tarun Sawhney** So you have a scenario where yes you may have assuming that weather patterns are favorable, you have a higher crush in Brazil and more raw sugar production that's fine. You still have to find a home for it to be tolled and converted into white sugar, so from an Indian perspective you do see for the quarter from April to June, a shortage of tolling capacity globally and that is a concern.

**Anup Ranadive** Regarding UP cane acreage, you said that India's production can significantly go up in the next season, so what do you estimate of cane acreage going up in UP, considering that the crop sowing will start in Feb-May. Because this 300 is like probably, we keep on talking about 30 year high of sugar prices but this is also probably 30 year high of sugar cane prices, so considering that, how much acreage increase do you expect this season?

**Dhruv Sawhney** I think it is a very difficult call but I certainly would feel we could be able to get 2 million more production.

**Anup Ranadive** Two million hectares?

**Dhruv Sawhney** No, two million sugar production of the UP.

**Anup Ranadive** So overall that could be for India's production.

**Dhruv Sawhney** No, no, I'm only talking about UP. You have situations of Maharashtra, which is a huge driver of sugar production in the country. You have Karnataka, Andhra Pradesh, Tamil Nadu, so you have to look that the sugar pricing and sugarcane pricing is directing cane acreage in all those areas as well and you are not going to automatically have a situation of no diversion in UP, so while cane acreage may go up, there will be less diversion but there will be production of all three sweetening agents.

**Anup Ranadive** Okay. So this two million is basically incremented production in UP.

**Dhruv Sawhney** Actually you know it is all a conjecture.

**Anup Ranadive** Yes,absolutely.

**Dhruv Sawhney** I would feel that call will be much better in March.

**Anup Ranadive** Okay.

**Dhruv Sawhney** Before that it is pure speculation.

**Anup Ranadive** Right. So in your speculation, it is two million.

**Dhruv Sawhney** It's better to wait till March and even March is an early call because a lot of the planting is going to happen in April.

**Anup Ranadive** Okay and sir the rest of things in Maharashtra and Tamil Nadu the sowing for the next season will already be done?

**Dhruv Sawhney** No, it's partly done, partly it's in February.

**Moderator** Thank you, Mr. Ranadive. The next question is from the line of Anshul Sehgal from Kotak PMS. Please go ahead.

**Anshul Sehgal** Your capital employed in the steam turbine business has gone down sequentially as well as year on year and substantially so. Why is that? And secondly, at what price did you contract the raw sugar?

**Suresh Taneja** You know, as far as the capital employed is concerned in turbine business, it basically depends on how much of an inventory we are carrying, how much of the work in progress, what are the debtors level and what are the advances from customers. So it is a function of all this working capital constituents.

**Suresh Taneja** Right, but it's gone down from Rs. 80 crore to Rs. 35 crore in a quarter.

**Dhruv Sawhney** Yeah, so the level of debts would have come down, the level of inventories would have come down, or may be the advances from customers would have gone up. It's not a very significant play because the numbers are so small; one small order here and there can affect the quarter numbers. You know one very important trend which comes from here is that basically it varies between Rs. 30 crore to about Rs. 100 crore.

**Anshul Sehgal** Okay. And at what price have you contracted the raw sugar?

**Tarun Sawhney** Our landed cost at the factory is approximately Rs. 21/kg.

**Anshul Sehgal** Okay and you said you've contracted 90,000 tonnes.

**Tarun Sawhney** That's right.

**Anshul Sehgal** And will you start sales in this quarter onwards?

**Tarun Sawhney** Yes.

**Moderator** Thank you, Mr. Sehgal. The next question is from the line of Bimal Sampat from Sunidhi Enterprises. Please go ahead.

**Bimal Sampat** Good afternoon, this is on the CER. What is the approximate value of the 58,000 CER's approved for Khatauli?

**Sameer Sinha** This would be in the region of about Rs. 4.5 to 5 crore.

**Bimal Sampat** Yes, 4.5 to 5 crore.

**Sameer Sinha** That's right. At today's prices

**Bimal Sampat** At today's prices. And how many CER's do we expect for September '08 and September '09 for both the units put together?

**Sameer Sinha** They would be in the range of about 100,000 to 110,000. In addition to this, we have the '07-'08 for Deoband which is pending which is about another 80,000.

**Bimal Sampat** So total about 2 lakh is pending.

**Sameer Sinha** Yes, more than that.

**Bimal Sampat** Two lakhs for one year or for the two years put together?

**Sameer Sinha** No, the two lakhs is for two years plus 80,000.

**Bimal Sampat** Yeah, so about 3 lakhs, so that will come to another Rs. 20-25 crore.

**Sameer Sinha** Right.

**Bimal Sampat** Roughly and all this we will get by September '10.

**Dhruv Sawhney** That's depending on the delays it is taking in UNFCCC, over 08-09, 09-10 it will be a difficult call, it will be a very stretched target.

**Bimal Sampat** No but 08-09?

**Dhruv Sawhney** But we expect the Deoband 80,000 which is pending for 07-08 will definitely come in this period.

**Dhruv Sawhney** It's very difficult for them to give a call on.

**Bimal Sampat** Okay, now we have a lot of cash flow over the next six months and if you take a financial partner for the steam turbines that will also result in cash inflow. So how are we going to use the cash?

**Dhruv Sawhney** We are looking at some possibilities at the moment.

**Bimal Sampat** Retirement of debts?

**Dhruv Sawhney** Yes, primarily we are looking at that. Some of the debts were a little of higher cost than our average and that is where we will concentrate on first.

**Bimal Sampat** Okay sir, and at the end of September '10, I think our inventory will be practically nil, is it not? Very little I mean.

**Dhruv Sawhney** That depends on the sugar release pattern of the Government of India.

**Moderator** Thank you Mr. Sampat. The next question is from the line of Arya Sen from Credit Suisse. Please go ahead.

**Arya Sen** I am not sure if you've answered this before, but, of the 90,000 tonnes of raw sugar, how much are you planning to crush during the season and how much post crushing season?

**Dhruv Sawhney** We will process all of it in the season.

**Arya Sen** And all of it is with you in the factories?

**Dhruv Sawhney** Yes.

**Arya Sen** And I believe there is a regulation, which requires you to sell off the sugar once it is processed within three months. Is it still in place, and is that how you plan to sell it?

**Dhruv Sawhney** Yes, within two months, I think.

**Arya Sen** This leads to the question that a lot of the mills would be converting bulk of the raw sugar during the crushing season. So if they are all required to sell it within 2-3 months, wouldn't that create an artificial excess supply?

**Dhruv Sawhney** No, a lot of the mills are doing it in the off season.

**Tarun Sawhney** You have to sell your sugar in the proceeding two months after you have tolled it. Some factories are processing raw sugar while they are crushing cane.

**Arya Sen** Right

**Tarun Sawhney** And other factories will process the raw sugar during the off season. So you won't have an effect of all the sugar coming up for sale in a period of two months.

**Arya Sen** But the ones who will process during crushing season will have to sell their sugar within the next two months.

**Dhruv Sawhney** Please understand the crushing season is different in the case of Tamil Nadu, they have two seasons, and in Karnataka the season also is in July in the summer months here.

**Arya Sen** Fair enough.

**Dhruv Sawhney** There is substantial capacities there also.

**Moderator** Thank you Mr. Sen. Ladies and gentlemen, due to time constraints, we will be taking one last question from the line of Kaushik Poddar from KB Capital Markets Pvt. Ltd. Please go ahead.

**Kaushik Poddar** Yes, see, you have already outlined your global ambition in case of turbines and even in the case of the other two engineering divisions in case the occasion arises. Now, do you have similar ambitions for sugar also? And in case you are going for that, what is the replacement cost of the 61,000 tonnes crushed per day you are having?

**Dhruv Sawhney** We haven't formulated any plans at the moment.

**Kaushik Poddar** Okay. And if you have to set up your sugar sector right now, what is the replacement cost?

- Dhruv Sawhney** I said, we don't have those figures on hand. There are some analysts who have done some things on our company. As a management, we haven't looked at these issues.
- Kaushik Poddar** But as of now you don't have any global ambitions for the sugar sector.
- Dhruv Sawhney** At the moment, there is nothing under consideration.
- Moderator** Thank you Mr. Poddar. I would now like to hand the floor back to the management of Triveni Engineering for closing comments. Please go ahead.
- Dhruv Sawhney** Thank you very much for very active and searching questions. As we've had this call at a very key time in our development as a group and this is only part of our continuing interactions with all of you, and as I said, we will be coming back to you with more details of various developments in the company in due course. But I would just like to end with just some comments. We had a record year in '09. We expect an even, substantially better year in '10 in both sectors. It is a very bullish time for the group in all its sectors and I think that is an exciting time to be having all the engines going. All the three engineering sectors and sugar. So we find FY10 as being a further record for the company. Thank you.
- Moderator** Thank you. 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.