



Triveni Engineering & Industries Limited

Investor/Analyst Conference Call Transcript

May 12, 2011

- Moderator** Ladies and gentlemen good afternoon and welcome to the Q2 and H1 FY 2011 earnings conference call of Triveni Engineering. As a reminder for the duration of this conference, all participant 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 any assistance during this conference call, you may signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Rishab Barar from Citigate Dewe Rogerson. Thank you and over to you, sir.
- Rishab Barar** Good day everyone and a warm welcome to all of you participating in the Q2 and H1 FY2011 results conference call of Triveni Engineering and Industries Ltd. We have with us on the call today Mr. Dhruv M. Sawhney, Chairman and Managing Director, Mr. Tarun Sawhney, Joint Managing Director, Mr. Nikhil Sawhney, Director and Mr. Suresh Taneja, CFO along with other members of the senior management team.
- I would like to mention before we begin that some statements made in today's discussion may be forward-looking in nature and a statement to this effect has been included in the conference call invite which was mailed to everybody earlier. I also would like to emphasize that while this call is open to all invitees it may not be broadcasted or reproduced in any form or manner.
- We would start this conference with opening remarks from the management followed by an interactive question and answers session where you can discuss your views and key issues. I would now like to hand over to Mr. Dhruv Sawhney to share some perspective with you with regards to the company's operation and results for the quarter under review. Over to you Mr. Sawhney.
- Dhruv Sawhney** Thanks you very much. I would like to start by mentioning that this is an opportunity almost the last opportunity I have, to talk about both our businesses so I will be speaking on TTL as well as Triveni Engineering.
- The scheme of arrangement involving the demerger of the steam turbine business to Triveni Turbine Ltd. has become effective on the 21st of April,

2011, from the appointed date which was the 1st October, 2010. The financials of the quarter and the half year ended 31st March, 2011, do not include the financials of the steam turbine business and are therefore not comparable with the previous period or periods.

In the half year we have sales of about ₹ 9.12 billion and our PBIT is ₹ 607 million. The Q2 figures are ₹ 4550 million and the PBIT is ₹ 419 million. The Q2 EBIDTA margins have come in at 13.6% versus 10.5% last year.

To go back to our demerger, pursuant to the scheme equity shares have been issued and allotted by TTL to the shareholders of this company and should come into the shareholder account by next Tuesday or so. We expect listing of these shares by end June or early July. Triveni Engineering and Industries Ltd. would continue to hold 21.8% equity stake in Triveni Turbine. And Triveni Turbine would have the shareholding in our Joint Venture with GE, GE Triveni Ltd. and therefore GE Triveni Ltd. would by virtue of 50 +1 shareholding become a subsidiary of Triveni Turbine Ltd.

I thought I will spend a few minutes with you going through our various business segments and then end with the steam turbine business segment.

On sugar, it seems pretty clear now that sugar production will be some 8 to 10% lower than the initial estimates of 25.5 million tonnes. The crushing of course has finished in UP and this is come in at 58.6 versus 51.7 lakh tonnes of last year. Maharashtra is also almost over and the figure for Karnataka and Tamil Nadu are pretty well estimated. In UP the production figures have gone up by 13% but in West UP there has been no increase, the increase has mainly come in central UP which was about 44% higher than last year. While in East UP where our Ramkola factory is, the overall production was 8% lower.

For Triveni, the cane crush and production was also below our earlier forecast. We have been marginally higher than the previous season but our sugar recovery is 0.1% higher as against the average for West UP which is about 0.2% lower. The sugar business turnover is 3% higher as you have seen. And there has been a significant contribution from cogeneration and distillery business. The sugar business including cogeneration distillery recorded a significantly better PBIT at ₹ 326 million against a loss of ₹ 147 million during the previous quarter. Our focused cane development program has got off to an extremely good start and planting is much better. And we expect to be sowing a much higher proportion of the so-called early variety higher recovery seed and this should improve both crush next year and the recovery but will depend on monsoons in the next few months.

In our engineering businesses, as a whole, we have very strong order books, in the remaining businesses of water and gears; these are the engineering businesses which are in Triveni Engineering. The steam turbine is the one which will be with Triveni Turbines. The gear and water book position compared to last year is some 96% higher at ₹ 5.6 billion. The gears are ₹ 722 million of that. Now this is the growth and profitability in the first half of the current financial year as well as our forecast for this year which is quite healthy and it may be quite opposite to what is projected in the IIP production figures or those for the capital goods industry. But for all three

Triveni businesses, two of which are in Triveni Engineering and the steam turbine, we have good orders, we have consistent margins, in fact, we have improved in the cases of gears and we expect these to continue well into the next half of the current year and in FY 11-12 as well, based on our current order book.

In the gear business we have also achieved an expansion of our agreement with Lufkin Industries. We have expanded the scope to now cater to the complete steam turbine gearboxes field all the way up to 60 MW and beyond that there are no gears. We have expanded our geographical territory to many more countries and we have already started very actively selling in Southeast Asia. We are looking for further expansion of the gears product line in the next few months as well.

In our co-generation, we have exported about 176 million kilowatt hours versus about 153 in the first half last year, about a 16% increase. And in our distillery we have produced about 19.67 million litres versus 15.67 million litres last year and have sold about 16 million litres, it is about 23% increase. Our realization is also the same at ₹ 28.16 per litre as last year, last year it was ₹ 28.24 per litre, and that is because we have a substantial sale to the ENA sector and we have been realizing over ₹ 30, slightly over ₹ 30 a litre there, we are one of the primary suppliers to UB group and others.

In our water business, we expect growth for the current year versus last year to be at least 35 to 40%. And with the substantial orders on hand this should carry through the FY 11-12 and further on as well. Our margins have been preserved and we have been fortunate in having some very prestigious projects. We are running the water treatment facility in Agra. We have been given a contract for 10 years besides the supply of the water treatment and waste water treatment plant there. Mr. Nikhil Sawhney might brief you on it a little later.

I would like to end by speaking a few words on our steam turbine business which will now be housed in Triveni Turbines. The order book for this business as on 31st March is over 1000 MW at ₹ 5.83 billion. There has been an increase in turnover by 19% and an increase in the profitability by 17%. With good orders and an encouraging start to the Joint Venture, this business will grow quite substantially in the next few years. In GE Triveni we are approaching a \$2.5 billion global market. And the joint venture has already started submitting quotes to international customers and domestic customers. The international customers range from customers in Canada to Southeast Asia, Indonesia. We expect to receive our first few orders both from the domestic Indian market and the international market in the next six months. This would be quite a first for an Indian company in this sophisticated line to have approached both the domestic and international markets simultaneously. As you know the manufacture of the turbine for GE Triveni Ltd. will be completely done by Triveni Turbine at the Bengaluru facility. There are virtually no imports in this. It is 100% indigenization and our technology transfer has already started and is progressing extremely well. A good management team is in place and we have had our first few board meetings as well, with participation of GE from both Florence and Delhi.

Triveni Engineering today has a strong fixed asset base of almost ₹ 1,100 crore and a net worth of more than a ₹ 1,000 crore. The long-term debt right now is 475 crore but the interesting thing is that by the end of September. 2011, when the financial year will end, we forecast the year end total debt to be not more than 700-725 crore and this augurs well for the future of this company with its strong engineering base remaining and the turnaround in the sugar situation. We expect sugar prices in the next quarter and half year to go up, an increase of some 10% is not beyond us and as we have already taken all costs in our cost of production, that would all come into the bottom line. Our ALS exports were carried out in Q1 and Q2 and the OGL exports which for Triveni are approx. 9,600 tonnes, we expect to occur in the Q3, this has a markup of some ₹ 3 per Kg and has already been sold. This we are exporting third-party sugar and those contracts are firm. With that ladies and gentlemen I thank you for your patience and I welcome your questions.

- Moderator** The first question is from the line of Nirav Shah from Antique Stock Broking. Please go ahead.
- Nirav Shah** First thing on the sugar front, what is the kind of inventory that we are carrying as on date and what is the cost of that?
- Suresh Taneja** We are carrying approximately 310,000 tonnes of inventory and it is valued at an average rate of ₹ 27.20.
- Nirav Shah** Is this adjusted for levy or are we valuing levy separately at the levy rate?
- Suresh Taneja** It is a composite average rate.
- Nirav Shah** So this is including that levy component.
- Suresh Taneja** Absolutely.
- Nirav Shah** Another thing, what is the landed cost of the cane for the current season that we incurred?
- Suresh Taneja** The SAP was approximately ₹ 205 and the landed cost was ₹ 217.
- Nirav Shah** On the turbine front you said that you expect the first orders to come in the next six months so have we already participated in these orders?
- Dhruv M. Sawhney** Let me clarify. Our JV, GE Triveni Ltd., has already made offers to international and domestic customers. This joint venture is only being going for the last 5-6 months. And we expect orders to be booked by the joint venture in six months. The turbine for this will be produced by Triveni. Also as you know these results are consolidated, because JV is a subsidiary, we have 50+1 share.
- Nirav Shah** So will the the actual revenue recognition will be happening 5 quarters down the line?
- Dhruv M. Sawhney** About a year, yes. The deliveries are between 12 to 15 months.

- Nirav Shah** 5 quarters fair enough. When will we be publishing the separate balance sheets for Triveni Engineering and Triveni Turbines?
- Suresh Taneja** Yes, eventually we will have to do that, as of now TTL is not a listed company and we're about to make an application to the stock exchange for the listing of TTL. So there after, all results will be published separately for both the companies.
- Nirav Shah** Can you just share the balance sheet sizes of the turbine business? What is the debt and what is the total capital employed?
- Suresh Taneja** I think this is something we can always do it off-line. Very broadly speaking, we have already given details over there. The assets and liabilities which we have transferred to the demerged undertaking, so all this information is already there in our notes to the publication.
- Nirav Shah** Just the last thing again on the turbine front, if we are expecting some robust orders then I think the growth after the next one and half to two years we need to find some organic way, so what is on the cards for that?
- Dhruv M. Sawhney** Our capacity in Bengaluru, this is not a very capital intensive business and we have ordered balancing equipment top of the line globally, both the double spindle blade making machines and rotors, so our production capacity in Bengaluru can expand by about 40% with almost no capital expenditure. And that can happen over the course of the next year.
- Nirav Shah** So we need not invest any significant amount for this capacity ramp up?
- Dhruv M. Sawhney** We do not have to invest a significant amount for this capacity ramp up.
- Nikhil Sawhney** It is up to approximately 1,900 megawatts.
- Nirav Shah** 1900 megawatts that is the size. Thanks a lot.
- Moderator** The next question is from the line of Harmendra Gandhi from Nomura Securities. Please go ahead.
- Harmendra Gandhi** I just want to ask you the outlook on sugar. You said these prices are expected to go up but even the global prices have been coming down, why do you think the Indian sugar prices will go up from the current levels?
- Dhruv M. Sawhney** Two things - one is that, production is over and everybody has their cost of production and what we paid for cane already. Two, it is probably one of the only crops where the sugar prices are so much lower than what they were 15 months ago and the supply-demand situation is such that there is no sugar in the pipeline and our stock levels, while comfortable, are certainly not seeing any surplus situation. And the international prices are not of a level that are so much lower than the domestic prices which they were two years ago.
- Harmendra Gandhi** International prices have a declining trend?

- Dhruv M. Sawhney** But Brazil is not expected to produce more sugar. Tarun will give you some idea but they are not expected to produce more sugar in the current season that is the season 2011-2012. I do not think that the global sugar balance for the next year is going to be that much different to what it has been in the last year.
- Harmendra Gandhi** When we make a profit in this business in the core sugar part is only if the prices are above ₹ 27.2/kg which you have said was the inventory.
- Dhruv M. Sawhney** Correct.
- Harmendra Gandhi** In the captive power do you see a slowdown happening because we see the year-on-year growth kind of coming down for the last two quarters?
- Dhruv M. Sawhney** We are now coming into the off-season, so in the off-season of course the power generation is not there but next season we expect a better production of sugar, more cane crushing and we expect a higher co-generation production as well.
- Harmendra Gandhi** No, I was talking about the steam turbine business outlook?
- Dhruv M. Sawhney** The steam turbines do not cater to only the sugar industry. One, our current model of steam turbines up to 30 MW, have started getting much better exports sales. Number two, they are catering to a variety of industries from cement, steel, IPP and sugar. And that is why we have these 1,000 megawatts of orders. And it is quite different to maybe other capital goods manufacturers. So because we are in a higher range and we have these higher efficiency and low cost models, we do not find a problem of sustaining the growth that we had forecasted.
- Harmendra Gandhi** We were talking about a growth of 20-25%, the last two quarters the growth has been not in that range, it has been a little lower than that.
- Dhruv M. Sawhney** 19% is the growth.
- Harmendra Gandhi** This quarter it has been 16 or 17%?
- Dhruv M. Sawhney** But for the half year it has been 19%.
- Harmendra Gandhi** We do not see a slowdown in demand for the turbine business or do we see some kind of slowdown?
- Dhruv M. Sawhney** When the steam turbine manufactured from the JV comes in to the manufacturing facility of Triveni Turbines, we expect a substantial increase in this growth rate.
- Harmendra Gandhi** That will happen after 12 to 15 months?
- Dhruv Sawhney** No the manufacturing starts almost 3 to 4 months afterwards. The dispatch is after 12 months.

- C.N. Narayanan** I just want to add one point on to this, if you look at the order booking for this business in the last quarter, the dispatches versus the order booking, order booking has exceeded by almost 25-30 crore than the dispatches which shows that there is still healthy pipeline inquiries and we are converting those inquiries into good orders. So you cannot just decide based on one quarter because shipping out one turbine this way or that way may change the top-line for a quarter but you have to look at this in a longer horizon to see how the growth is panning out.
- Harmendra Gandhi** Order book from last year has also gone up only by 16%?
- C.N. Narayanan** Yes, but the dispatches also is growing up like 18% to 19% increase in turnover because in spite of that the order book is building up that means the order intake is much more than the deliveries.
- Dhruv M. Sawhney** Also the inquiries this year, I mean all inquiries do not convert to orders, but the inquiry-base is some 40% higher than last year. So the inquiries today are extremely good. Now as I said all of them do not convert to orders but in fact people are going to the higher ranges now so maybe in some other areas there is a slowdown.
- Harmendra Gandhi** But when you say inquiries are up 40%, does this include the expanded product range or is it like-to-like comparison.
- Dhruv M. Sawhney** Like-to-like under 30 megawatt.
- Harmendra Gandhi** Thanks a lot.
- Moderator** Thank you. The next question is from the line of Ashwini Agarwal from Demeter Advisors, please go ahead.
- Ashwini Agarwal** The Triveni Turbines was an existing subsidiary of Triveni Engineering even prior to the demerger and from what I remember the Triveni Turbines balance sheet did not really have any debt. So has there been any additional debt in addition to the conversion of part of the equity capital into preference capital, has there been any other debt that has been transferred to Triveni Turbines?
- Suresh Taneja** Yes, roughly about ₹ 75 crore of debt have been transferred to Triveni Turbines, it is a tax neutral demerger. There is a methodology which is specified in the income tax act as to how these borrowings will be transferred to the demerged undertaking.
- Ashwini Agarwal** And the 21.8% shareholding is arising on account of the existing shares of Triveni Turbines that were held by Triveni Engineering less the preference capital.
- Suresh Taneja** Yes that is correct.
- Ashwini Agarwal** And does the preference capital redeem in seven years?

Suresh Taneja Three years is the period but there can be always available option to prepay earlier.

Moderator Our next question is from the line of Shailesh Kumar from KR Choksey, please go ahead.

Shailesh Kumar I just wanted to understand the net sales on your power business, how do you calculate it, is it based on power generated or power exported?

Sameer Sinha Net sales are calculated based on two things, one is the power exported plus power internally consumed plus the steam which is internally consumed, which is generated and sold as process steam to the sugar factory.

Shailesh Kumar In the final sales projection we do some kind of internal adjustments?

Sameer Sinha That is right. It is more of a transfer pricing of between co-generation and sugar

Shailesh Kumar During this quarter what was our average realization for power?

Sameer Sinha 3.95.

Shailesh Kumar 3.95 for merchants?

Sameer Sinha That is for the grid.

Shailesh Kumar And the merchants?

Sameer Sinha There was no merchant trading during this quarter.

Shailesh Kumar Sir, could you just tell me about the debt component on your balance sheet, the Triveni Industries Ltd. what is the maturity and cost of debt?

Suresh Taneja Number one, the total debt is as Mr. Sawhney has said is approximately by this year-end would be ₹ 700 to 725 crore. Our average cost is coming out to be in the region of about 9.15%. That is short and long term, this is short as working capital as well as term loan, average is about 9.15%.

Shailesh Kumar And all the debt is domestic debt?

Suresh Taneja A very small element is basically ECBs because by and large they have been already repaid and there would be some elements of buyer's credit also.

Shailesh Kumar May be in the range of 10% or 5%?

Suresh Taneja Much less than that, even less than 5%.

Shailesh Kumar How do you see the scenario emerging on domestic ethanol requirements for blending with petrol? The way petrol and diesel prices are going up, can you just throw some light on that and what is the government taking and what are the policies and what about the pricing front?

- Sameer Sinha** As you would be aware, after the teething issues in the October to December quarter, this quarter there has been a smooth off take all the teething issues have been resolved both with the OMCs at their facilities as well as with the excise department. So this has taken off very well. The expert committee which was appointed has also submitted its draft report to the Ministry which is under processing and review. So, we expect that this would not only continue but strengthen.
- Shailesh Kumar** And you are taking prices to ₹ 27 per litre only or is there some demand for increase in prices?
- Sameer Sinha** You see there is a formula in the draft before which we have not seen which is probably linked to the petrol prices. So therefore, with the increase in petrol prices around the mid of December and mid of January this quarter the prices may go up. But it is for the government to decide.
- Shailesh Kumar** One more thing, in India you plan to produce ethanol bypassing sugar. Ethanol has to be essentially a byproduct of sugar production only. Do you see this scenario changing or is there any kind of demand from industry association?
- Dhruv M. Sawhney** I think the viability today of sugar is quite different to what it is in other places. So the best combination for any person is to produce sugar and from the molasses to generate the ethanol.
- Shailesh Kumar** So as such, you don't see any demand.
- Dhruv M. Sawhney** Even if the demand is there, the best return on capital employed comes not from processing cane juice into ethanol.
- Shailesh Kumar** As far as Indian scenario is concerned?
- Dhruv M. Sawhney** Correct.
- Moderator** Thank you. Our next question is from the line of Sachin Kasera from Lucky Securities, please go ahead.
- Sachin Kasera** My question is regarding the debt reduction. You did mention that there is going to be a debt reduction in Triveni when we ended the month of September. Could you throw some more light as to how do you plan to achieve that and what exactly is the progress on that?
- Suresh Taneja** Our working capital debt as of 31st March is at the maximum because you have the peak inventories to hold. Now, as these inventories would get liquidated by the year end your working capital debt would very substantially come down. Along with that there will be repayments on account of term loans also. That is how we have given you a figure of ₹ 700 to ₹ 725 crore.
- Sachin Kasera** Could you give us a breakup in terms of what is currently the working capital debt and the term loan and when you are talking about ₹. 700 to ₹ 725 crore, what approximately is the breakup that you are looking for term as well as working?

Suresh Taneja Very roughly speaking if you go as of today, you have term loans of ₹ 475 crore and the balance about ₹ 707 crore is your working capital and that ₹ 475 crore would come down by about 50 to 60 crore by the end of the year. The balance would be the reduction in working capital debt.

Sachin Kasera Secondly, regarding the working capital cycle of the water business could you throw some light on that? How does it work for us?

Nikhil Sawhney The business is a fast growing business. Of course, as you look at it different contracts have different specifications in terms of advances. It is a contracting business. So you cannot specify in terms of working capital management for the business in entirety but we have internal procedures which judge what sort of returns we should get on our capital employed and as long as we exceed 35% odd we believe those are legitimate growth rates for us to have.

Sachin Kasera But from a data perspective, if you could just give us what was the working capital for the last financial September ending and what would it be as of these first six months?

Nikhil Sawhney I think we can take that off-line. What is important to say about the water business is the fact that it is lumpy because of large contracts we have taken. We can predict this sort of execution of those jobs over the course of the year and as you would see for this particular quarter the turnover was slightly lower and profit was also slightly lower than our expectations based on high overhead allocation on that lower turnover. But we are optimistic on our growth forecast as Mr. Sawhney had alluded to earlier. So I think on the quantum of working capital we would take that off-line and give that to you.

Sachin Kasera Secondly, in terms of the CAPEX for the sugar business is there anything in the horizon for the next 12 to 24 months?

Dhruv M. Sawhney Apart from maintenance CAPEX there will not be any

Sachin Kasera So do we see a reduction at least on the term loan side as we progress.

Nikhil Sawhney Correct.

Sachin Kasera On the turbine side has the new JV booked any orders or have they started participating on the order? What is the exact status on that?

Dhruv M. Sawhney Offers have been submitted and we expect our first few orders in the next six months.

.Moderator Thank you. Our next question is from the line of Atul Rastogi from Daiwa, please go ahead.

Atul Rastogi On water treatment, I just wanted to get some more clarity. You mentioned that you have a contract of 15 years from Agra. Now, are these type of contracts BOT contracts?

Nikhil Sawhney No, these are EPC contracts, though we have participated in certain BOT's and we will keep you informed as to how our success rate on those is.

Atul Rastogi Is this an EPC contract for 15 years? How does it work?

Nikhil Sawhney No, that is O&M for 10 years. It is EPC first then O&M and in fact that it is a sizable contract of a very high specification on technical parameters for cleaning or providing drinking water from the Yamuna to the city of Agra.

Atul Rastogi You said you will be participating in BOT contracts for water?

Nikhil Sawhney Yes.

Atul Rastogi So what scale are you looking at?

Nikhil Sawhney As you know, in the water business the fact is that 80% of the cost of a project over its lifecycle is on the O&M side, where majority of it is power. So very frankly from a capital perspective it is not expensive to participate in a BOT line. Secondly, we believe that our technology and our focus in project execution would be quite well spent. We are exploring that avenue and once we have some success we would let you know.

Atul Rastogi And you also are in desalination or something?

Nikhil Sawhney See we already have desalination, but BOT and desalination won't come up. There are very specific instances of it coming up.

Atul Rastogi Next thing on this JV with GE. I just wanted to know are these products similar to what you have currently in, Triveni Turbines or will they be very different?

Dhruv M. Sawhney In Triveni Turbines our products go up to 30 MW. And in the JV it is above 30 MW all the way up to 100 MW. Also, in the JV for domestically they are the same type of products but they have an expanded range. We are looking at products for solar thermal, we are looking at products in addition to the ones that we are doing under 30 MW. We are looking at steam injection. The advantage with our partnering GE is that they are the world leaders in gas turbines and in a combined cycle you have gas turbines and a steam turbine. So that gives the opportunity for the joint venture to participate in this combined cycle power projects which are not only coming up in a large measure in India but overseas as well.

Atul Rastogi Will the JV will take the order and pass it on?

Dhruv Sawhney The JV will take the order. The turbine portion will be manufactured by Triveni. The balance of turbine island would be ordered by the JV and the execution of the project will be by the JV. So the turbine will be subcontracted to Triveni at 100%, and rest of the order, turbine is about 50% of the order.

Atul Rastogi Thanks.

Moderator Thank you. Our next question is from the line of Kaushik Poddar from K.B. Capital Markets, please go ahead.

Kaushik Poddar On the water business with the kind of growth that you are projecting do you see any requirement of capital? Like in Agra if you are doing in some other cities?

Nikhil Sawhney Let me put it this way, the fact that we enjoy a good return on capital in this business which historically has been in the region of about 70%, is come down to about 35% odd over the last couple of quarters. As long as our growth is measured at the same rate as our return on capital we believe that we would be able to fund that internally quite adequately. More so the parentage of Triveni has adequate size of balance sheet for us to be able to take assistance. But we do not look at any capital infusion in this business in the near future.

Moderator Thank you. Our next question is from the line of Devang Patel from Avendus, please go ahead.

Devang Patel I wanted to discuss a bit more about the water business. This is one segment you will be focusing on and looking at a lot of growth opportunities going forward. Last year you had, your order book more than doubling. Is this because of new geographies or products that you have got into?

Nikhil Sawhney Well, it is a very nascent market as you understand and it is a very key utility space in the infrastructure side. As you would understand the larger the size of the order, the lower the overheads that you would actually utilize on those jobs. So our attempt is to go for technology focused jobs with a reasonable size of contract value. As we look going forward I think the market is extremely large and we would continue to focus on the same segments that we have already focused on in the past. We are optimistic on the growth.

Devang Patel What is the average sizes we have currently?

Nikhil Sawhney Depends on the segment in which we participate. We participate in the equipment side of the business as well as in industrial and municipal sides, which are distinct from each other and so it is not so much of a question of value rather than the technology content of the job. That is how we decide.

Devang Patel Can you give a broad breakup of what is the product versus project mix?

Nikhil Sawhney I think you can go to our website and have a look at all these sort of issues.

Devang Patel The order book growth that has come, is there any single large order?

Nikhil Sawhney I think we had announced this, a couple of quarters ago about our Agra job, but the fact is that there was a ₹ 165 crore odd EPC job plus an O&M component of 10 years. Following from that we are anticipating further jobs of similar sizes.

Devang Patel Any other segments within the water space that you are looking to enter or any technology space?

Nikhil Sawhney I think our product portfolio and technology portfolio is quite comprehensive as of now.

Moderator Thank you. Our next question is from the line of Anup Ranadive from Tower Capital, please go ahead.

Anup Ranadive The first one is regarding the outstanding for cane payment for your company in terms of the value and number of days. And secondly for UP in general if you can share that data?

Suresh Taneja As far as our company is concerned we have fully paid the cane price. We do not have any outstanding as of now.

Anup Ranadive If you can give us some sense of what is happening in UP?

Dhruv M. Sawhney We really would not be able to comment on that. Those figures are not public.

Anup Ranadive Does ISMA give that figure?

Dhruv M. Sawhney I do not think so.

Anup Ranadive Secondly, you mentioned about the 10% fall in the sugar production from the expected level, from 25.5 to about 23. But if we look at the data which is available currently till end of April that number has already reached 23 million.

Nikhil Sawhney As of April 15th it is 21.5 million tonnes.

Dhruv M. Sawhney Middle of April, I said 8% to 10%.

Anup Ranadive So can you assign any value number to that?

Dhruv M. Sawhney You see the production carries on in the South all the way up to end of September. Right now whether it is 23 or 23.5 or 24 those fine-tuning you would only know in the month of August, September. But the material fact is that 95% crushing is over. So it is less, even if it is 8%, it is less than what was thought about. And certainly it is with the export of 1.7 million tonnes. That is what you are looking at when you judge about the sugar prices being better in the next half year.

Anup Ranadive But with the same assumption, if we go a quarter back, the quarter which is already over, if we look at what guidance the management had given in Q1, the same scenario that the production may not be more than 24 or 24.5 million tonnes So why did we see the sugar prices subdued in the last quarter? Should we go with the same assumption that the production was lower?

Dhruv M. Sawhney You see at that time, production was on. Now production is finished. Till production is over it is very difficult to judge what is really going on, we can expect it but when now 95% of production is over then to judge from May,

June onwards of the pricing levels is a much surer thing and this is really the trade and the pipeline.

Anup Ranadive Final question, now currently international prices are rolling below the domestic price and the government has not imposed any import duty on sugar. Do you foresee a scenario if the international prices remain below domestic prices people will always have the option of importing sugar and that might actually suppress the domestic prices further.

Dhruv M. Sawhney I do not foresee any import duty. After all you know that one key component of the sugar economy is of cane farmers. And cane prices have to be paid, there is inflation in the country as a whole and without adequate cane the government has to protect cane farmers as well. So, I do not expect any imposition of duty.

Tarun Sawhney To address your point directly the prices in the coastal states are very much on parity with international prices. You are comparing average prices or prices in north India, or prices for Triveni, as a benchmark. For that comparison you would have to also factor in a significant transport and handling cost, that make imports unviable. So imports in our opinion are still on parity or unviable in coastal areas. Now, if international prices were to decline I'm sure the government will be quick to react in terms of reinstating the duty imposition.

Anup Ranadive Thanks very much for the valuable feedback.

Moderator Thank you. The next question is from the line of Ajay Nandanwar from UBS, please go ahead.

Ajay Nandanwar I have a couple of questions on the sugar export side. Given that you mentioned that the international sugar prices are at parity with coastal sugar prices, would sugar exports really be viable?

Dhruv M. Sawhney You mean further sugar exports?

Ajay Nandanwar Yes, so how much sugar exports you think have happened this year?

Dhruv M. Sawhney The figures I think are already at 1.2 or 1.3 million tonnes so we are really talking about that these contracts are done, the 1.7 million tonnes is almost all contracted for. If some sugar of that has been left it will be very small but by and large we are talking only about the future sugar exports, this may not happen. That is for the sugar season 2011-2012.

Ajay Nandanwar So, you are saying that because of this the inventory will come down and that will drive prices higher.

Dhruv M. Sawhney yes, I am saying inventory will not go up. The inventory levels which were expected to go up on 30th September, 2011, at the beginning of the season, will not go up, they will broadly be what they were last year.

Ajay Nandanwar So is consumption 23 to 24 million tonnes?

Dhruv M. Sawhney No, you have to look at off take. Off take means consumption plus export. And that is balancing with production.

Ajay Nandanwar So that is roughly 24.5 to 25 million tonnes?

Dhruv M. Sawhney Under 24 million tonnes.

Ajay Nandanwar What is your view on the next year's sugar production?

Dhruv M. Sawhney Very difficult to say right now and I do not think anyone can tell you till we are well into the monsoon.

Ajay Nandanwar Now that the elections are getting done do you see any meaningful change?

Dhruv M. Sawhney Which elections are getting done? UP elections are in 2012.

Ajay Nandanwar Some others like Bihar is getting done, does it impact at all?

Dhruv M. Sawhney No, the main production of sugar is in UP, Maharashtra and Karnataka.

Ajay Nandanwar So other elections do not really impact.

Dhruv M. Sawhney Not at all.

Ajay Nandanwar On your engineering specially turbine business, as far as GE JV gets momentum would you be announcing order flows from that as well?

Dhruv M. Sawhney As I said, we will be having separate investor calls for Triveni Turbines and in that we will cover all aspects in the future.

Ajay Nandanwar What is your projects, the three segment-wise your current pipeline and order inflow activities compared to quarter-to-quarter cycle?

Dhruv M. Sawhney Orders on hand on gears and water is some 96% higher than what it was at the same time last year.

Ajay Nandanwar Turbines has been a bit slower, sort of been flattish?

Dhruv M. Sawhney For Turbines, 1,000 MW of current orders are on hand right now. And the inquiry levels are some 30% to 40% higher. That is the inquiry levels in Triveni which is under 30 MW. So that should be an encouraging sign. And this has primarily happened because we moved more into the higher ranges into the 20 to 30 MW range and we have been quite successful in the orders in the high pressure, high temperature and higher MW ranges in the Triveni line compared to last year. This will carry through for the next two quarters as well, both in order intake. Now, as you know the dispatches of turbines, and so is in the water business, a little lumpy. In the project, sometimes the customer takes it months later sometimes takes it a little earlier. So that is why we look at to date basis. And for the year we are still looking at 20% to 25% growth in turbines and about 35% to 40% in water and over 30% in the gear business for the financial year FY-11.

Moderator Thank you. The next question is from the line of Sunny Agarwal from Aditya Birla, please go ahead.

Sunny Agarwal I want to understand, when will our current production up cycle terminate? In the light, of in the next year UP is going into elections I think we need to pay a higher cane price. I mean government may announce a higher SAP maybe to please the farmer community. And apart from that there is also an increase in SAP of competing crops and since we are sitting in the four, I think 3rd year of production up cycle, historically the cycle terminates after 4-5 years. In which year would you see the production at its peak and then again start seeing a down cycle?

Dhruv M. Sawhney I do not expect it next year. It is difficult to have a crystal ball and go too much into the future because we are dependent on the monsoon, we are also dependent on a global sugar cycle, we are very much a part of a global economy in that and also to government policy at the central and state government level. But next year we feel will be a better year for sugar and sugar companies primarily because of the intrinsic factor which I have put out now.

Sunny Agarwal So mainly it will be volume driven rather than price driven?

Dhruv M. Sawhney Both.

Sunny Agarwal Thanks a lot.

Moderator Thank you. The next question is from the line of P Sri Hari from PCS Securities, please go ahead.

P Sri Hari My question is pertaining to the joint venture in particular. Number one, when you say you have placed quotes, are they tender based or on a one-to-one basis? Number two, coming to the pricing, how are you pricing it vis-à-vis competition and could you please give some indication regarding margins that you expect from the joint venture?

Dhruv M. Sawhney I think it is very early to talk about these things and certainly it is not in the Triveni perspective to share this information, it is quite competitive as you will realize. And secondly, let me tell you that capital goods, steam turbines like Triveni does are bought by private companies, and these are 95% private companies, they ask for offers. Some of them have a tender, some of them ask for offers. The international marketing of the joint venture is being carried out by GE. So the global sales team of GE, are the people who are marketing the JVs turbines. We are doing the domestic marketing. So the GE sales force of Oil and Gas and others globally is selling this and 30 of them came to Bengaluru in January-February to get familiarized with what the joint venture was doing from all over the world. So that is why we feel the response has been good from these people.

P Sri Hari You mean to say the sales teams are different for the two markets, so to say?

Dhruv M. Sawhney Yes.

Moderator Thank you. The next question is from the line of Ashutush Garud from Dalal & Broacha, please go ahead.

Ashutush Garud I missed out on the order inflows for this particular quarter in MW and on the value terms?

Dhruv M. Sawhney As I said, our orders on hand right now are 1,000 MW in turbines. You were talking about the steam turbines business?

Ashutush Garud Yes.

Dhruv M. Sawhney In Triveni Engineering which is in the gear and water business, our orders on hand is some 96% higher than last year and it is ₹ 5.7 billion.

Ashutush Garud And for the turbine business, is it ₹ 5.9 billion?

Dhruv M. Sawhney Yes correct.

Ashutush Garud I was interested in knowing the order inflows. How much of orders came in during this particular quarter vis-à-vis the last year?

Nikhil Sawhney About ₹ 163 crore worth of orders came in versus the execution you see.

Ashutush Garud How much megawatt would that be?

Nikhil Sawhney We do not have that right now. It suffices to say that it is more than replacing what the outflow was.

Ashutush Garud Thanks a lot.

Moderator Thank you. The next question is from the line of Kaushik Poddar from K.B. Capital Markets, please go ahead.

Kaushik Poddar There is expansion in various activities except for sugar. Is there any reason why you are not expanding in sugar?

Dhruv M. Sawhney No, we go where we find the best return and once the sugar cycle starts picking up we will be looking at opportunities there also. So we look at everything on a comparative basis for the allocation of time and capital.

Kaushik Poddar Is the capital cost too expensive to set up a sugar plant or is it the scarcity of raw material?

Dhruv M. Sawhney We actually look at all factors.

Kaushik Poddar As a thumb rule what is the kind of capital requirement to set up a 5,000 TPD per plant these days?

Dhruv M. Sawhney We can share that with you offline.

Moderator Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor over to Mr. Sawhney for closing comments.

Dhruv M. Sawhney Thank you ladies and gentlemen for the conference call and it has been an extremely comprehensive and enlightening call. As I mentioned we have covered both the businesses of Triveni Engineering and Triveni Turbines and in the next time, of course, we will be having separate calls. Thank you very much for having come.

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.