Triveni Engineering and Industries Limited

Conference Call Transcript
February 9, 2012

Moderator Ladies and gentlemen good day and welcome to the Q1 FY12 Earnings Conference Call of Triveni Engineering and Industries Limited. As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should you need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would like to 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 Q1 FY12 results conference call of Triveni Engineering and Industries Ltd. We have with us today on the call Mr. Tarun Sawhney Joint Managing Director, Triveni Engineering, 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 statement to this effect has been included in the conference call invite which has been mailed to everybody earlier. 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 like to start this conference with opening remarks from the management followed by an interactive question and answer session where you can discuss your views and key issues. I would now like to hand over to Mr. Tarun Sawhney to share some perspective with you with regards to the company's operation and the results for the quarter under review. Over to you, Mr. Sawhney.

Tarun Sawhney Thank you Rishab. Good afternoon, everybody and welcome to the Q1 fiscal 2012 earnings call. The financial results review that we are going to discuss is on a consolidated basis. In Q1 our net sales were about ₹ 4.25 billion which was a 7% decline over the corresponding quarter in the previous fiscal year. The decline in sales is primarily on account of lower quantity of sugar sold even though the co-generation and distillery have achieved higher sales in the quarter. The engineering business of course, showed similar levels of sales when compared to last year.

On an EBITDA basis, our EBITDA was approximately ₹ 300 million which is a 33% decline and decline is due to the inventory valuation write-down of sugar produced in 2011-2012. However, the overall sugar business achieved a positive EBITDA of ₹ 213 million. Our finance cost increased by 23% on account of higher cost of borrowings, which was in line with the general increase in interest rates. The overall debt of ₹ 8.65 billion was 5% above the levels on the 30th of September 2011 due to a slightly higher working capital utilization. Our term loans declined by 7% over 30th September to ₹ 4.86 billion. Our profit before tax was a loss of a ₹ 113 million, provisions for cane dues for 2007 and 2008 amounting to ₹ 790 million as an exceptional item pursuant to the order of the Supreme Court, coupled with the write down of sugar inventories of ₹ 250 million has resulted in a net loss of ₹ 680 million.

With respect to sugar inventoryvaluation, , we have valued levy at levy price and free sale at ₹ 3,000 per quintal.

Also with respect to our repayment schedule as on the 1st of October we had ₹ 5.46 billion of term loans with a repayment schedule as we have mentioned at our last earnings conference call of ₹ 1.40 billion which would resulted in the end figure of ₹ 4.06 billion. As of today we have ₹ 4.86 billion and ~ ₹ 400 million have been paid back.

I would like to take some time to discuss the individual segments of our business. With respect to our sugar business, our performance has been better with respect to cane crush. We have crushed 1.8 million tonnes of sugar cane in the 1st Quarter as compared to 1.44 million tonnes of cane in the previous corresponding quarter. Our recovery is slightly down, it is 8.6% for Q1 compared to 8.97% in the previous corresponding quarter. However, sugar production is at 154,000 tonnes which is 20% higher than the previous year. Our realization price for the quarter stood at ₹ 29,851 per million tonne of free sugar which is a 7% increase over the previous corresponding quarter. On account of the higher cane cost and lower recoveries of sugar, the cost of production is higher than the estimated realizable value which has resulted in the write-down that I mentioned in the opening remarks.

A few comments of course, about the industry scenario. The 2011-2012 season started in mid-November and most of the mills have started crushing across the country. The estimated sugar production for the current season is going to be higher than the previous season and we estimate it between 25-26 million tonnes. On account of the higher estimated sugar production in the current season, the government in November has permitted an export of one million tonne of sugar and further one million tonne has been announced on the 7th February 2012, subject to the Election Commission's approval. For the first tranche of sugar exports we have sold our obligation for ₹ 35 million which will be realized in Q2 of this fiscal year. I anticipate that we will receive a similar volume in the second tranche of our exports and a similar profit is estimated for that tranche as well. The industry association has challenged the SAP for 2011-2012 in the High Court of Uttar Pradesh and the judgment has been reserved and we are anxiously awaiting its outcome. The higher cane price of ₹ 240/quintal for normal variety SAP and ₹ 250/quintal for early varieties has resulted in a lower diversion of cane to alternate sweeteners in Q1. The diversion may increase during the high recovery periods which were anticipated going forward and it is estimated that the State of Uttar Pradesh may end up producing 15% to 20% more sugar - approximately 6.7 million tonnes compared to the previous season. Maharashtra is also estimated to be at approximately at same levels as last year. Contrary to the initial estimates that we have given in the last earnings call, the recovery of sugar from cane is lower, especially in Western Uttar Pradesh, which will have an impact on the cost of production. The later part of this season is expected to show a significant increase in recoveries which will have a positive impact of course. The estimates as I mentioned, would be 15% to 20% higher. The company estimates it's sugar cane crush to be in line with the UP state average.

From a global perspective, sugar cane production globally is estimated to be about 175 million tonnes primarily on account of the increase of beet sugar production from Europe. Brazil is expected to produce less sugar compared to the previous season which, as we have all seen has had a positive impact in the global demand supply pattern and of course the price impact has also been felt. As of yesterday, the London no. 5 March contract was at $650 per metric tonne and the Ice no. 11 March raw sugar contract was at 24.48.

With respect to the company, I would like to point out a few important developments. In West UP where we have two factories at Khatauli and Deoband, especially in the Saharanpur area we have seen a significant infestation in the ratoon crop of pest and disease and this has led to a fall in our estimated recoveries. The plant cane is looking better and we expect to receive much higher recoveries for these factories in Khatauli and Deoband. As far as the east UP is concerned, our factory is performing better than forecast. Recoveries are higher than we had estimated and will continue to do so. The Ramkola factory in East UP also has the highest on date and to date recovery in the State of Uttar Pradesh. Our four factories in central UP are by and large performing better than we have previously forecasted. However, it is important to point out that there are two large factories in West UP where there has been a problem with the Ratoon crop. The end of season cost of production is forecasted at ₹ 30.50 per quintal. Our current sugar prices are approximately ₹ 29.75 to ₹ 30 per quintal and I estimate that in the future, our average pricing would be just about ₹ 30 per quintal and I'm barring all the government interventions in mind and what will transpire over the next eight months or so till the end of this fiscal year, we anticipate that we can certainly achieve an average realization just in excessive of ₹ 30. Our day's recovery for the group is at 9.4% and our to-date recovery is 8.77% as on the 8th February. We have crushed 3.3 million tonnes of cane as on the 8th of February.

Turning to our co-generation business, the power generated in Q1 fiscal 12 was 71.76 million units, a 24% increase over the previous corresponding quarter. Our net sales of course were 44% higher at ₹ 501 million and our profit before tax margin also increased to 41%. The operational period during the quarter has been higher in comparison and the estimated increased crushed will augment the feedstock availability and thus increase the operational period during the current fiscal year. The revenues from the sales of CERs for Deoband unit from April, 08 to March 2010 at ₹ 43 million has been recognized during the quarter. The CER's of Khatauli plant for the same period is expected to be received in Q2 or Q3 of this fiscal year. The verification for the CERs for the subsequent period has been initiated. Both Khatauli and Deoband plants are registered with the National Agency, NLDC as REC projects. The process of joint meter readings and online filings of energy injections reports has been completed and the issuance of REC's is expected to commence in the coming quarters.

With respect to our distillery business, as you know we have 160 kilolitres per day distillery in district Muzaffarnagar. We produced 8.4 million liters which was a 29% increase over the previous corresponding quarter, our sales was 104% higher for the quarter which resulted in a 142% increase in the net sales to ₹ 310 million and a significant increase in our PBIT margins to 18% for the quarter. The number of operational days for the distillery was obviously higher in comparison to previous year and we will achieve a better product mix to achieve this higher cost of realization.

Turning to our engineering businesses, well firstly speak about our gears business. Our gears business from quarter to quarter comparisons are difficult to make because this is a business where deliveries can be pushed out from quarter to quarter, nevertheless we achieved a healthy sale of ₹171 million and PBIT margins of 25%. The decline in revenues was the result of a lower offtake by OEMs. Some of the orders were pushed out to Q2 and I anticipate that all the reduction in turnover will be made up in Q2 and the growth that we have forecasted will also come from Q2 onwards. We have a healthy order book, the projections that we are receiving from our customers is also positive and we do anticipate a 10% increase, at least in turnover for this fiscal year, which is very much in line what we had spoken about in our last earnings conference call. Our order book for this business is ₹ 690 million.The growth in this business and the protection of margins for this business is coming with expanded markets. We have spent some time in previous calls talking about our new license agreements with Lufkin industries and those are progressing well. The training is on and in certain areas complete, and we anticipate and we have already started receiving enquiries for these new products from global markets and I anticipate, that the growth for the subsequent years will be led by the growth in these international markets.

Turning to our water business, the enquiries in our water business of course have been there but there has been a cautious environment. In the last calendar year, finalizations of municipal and industrial projects has been slow. However, we are positive and we do and expect that the calendar year 2012 will have positive results consequently; we forecast an increase in revenues of 20% for this business. With that said, I would like to turn the conference call over for some questions.

Moderator Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question you may press * and 1 on your touch tone telephone. Participants are requested to use only handsets while asking a question. Anyone who has a question at this time may press * and 1. The first question from the line of Ambar Taneja from Abacus Advisory, please go ahead.

Ambar Taneja I wanted to know the inventory write-down that you took, obviously, represents the difference between the cost of production and the realization price, what could be a per kg number, if you could that share with us?

Suresh Taneja Very roughly speaking, as Mr. Sawhney said right in the beginning, the levy is at levy and in the case of free roughly speaking, it comes to about ₹ 185 per quintal.

Ambar Taneja Okay and this assumes the market price for the transfer of steam and all that because that is obviously a byproduct of cane crushing right?

Suresh Taneja That is right. I mean, we have certain transfer pricing between the sugar and the co-gen which is market related. So sugar is a completely separate segment where the profitability is separately identified and then the inventory write-down is considered based on the cost of production.

Ambar Taneja Okay and this assumes market price for all the transfers of bagasse.

Suresh Taneja Absolutely.

Ambar Taneja Does that mean that if you not had to take the ₹ 79 crore provisioning this year for the 2007-2008, you would have a much higher profitability for the sugar segment, sugar, co-gen and distillery in the region of about ₹ 80-85 crore. Is that right?

Suresh Taneja Not entirely because if you look at the sugar segment as of now it is burdened on account of two factors one is because of the 07-08 Supreme Court judgment which is about ₹ 78-79 crore and second is on account of inventory write-down of ₹ 25 crore. So ₹ 25 crore in any case would have remained.

Ambar Taneja How much of a increase in production of your co-gen and distillery do you forecast for this quarter and the remainder of the year based on the higher crush and also I'm sure your recoveries have improved as Mr. Sawhney mentioned. Do you have any estimates, what would be the kind of total increase in quantum of RS, ENA and the bagasse based co-gen for the rest of the year?

Tarun Sawhney For our related businesses, co-generation and distillery, it is difficult to even estimate at this point in time, but I will share with you is that we have given you our projections with respect to crush and total sugar production but let's take crush because that is what is important for molasses and for bagasse generation. So we anticipate our crush for the group to be significantly higher. We are transferring molasses from six of our units to meet these annual requirements of our distilleries. So there is ample molasses available for us. The distillery has been performing well and has been matching its rated capacity which is very encouraging. The cost at the distillery has been also maintained with a very judicious eye and therefore we expect the distillery to perform well. Similarly with respect to, co-generation, the performance of our factories, the bagasse saving is also a function of the efficiencies in your plants. With the two plants at Khatauli and Deoband, if we take them separately Deoband has faced some challenges and it has been slightly erratic simply because of the problems of cane in that area. Nevertheless, the performance will be better than the last year as far as the co-generation plant is concerned. With respect to Khatuali our steam efficiencies are significantly better than last year. The saving is much higher and therefore that coupled with the extra crush for the units year-on-year we anticipate a longer season for our co-gen plant.

Moderator Thank you. The next question is from Arun Vaid from IDBI Capital, please go ahead.

Arun Vaid Just wanted to understand, how are the arrears build up for sugar cane in U.P.? How is the scenario there right now?

Tarun Sawhney I think there has been some arrears that have been in build up, the report which I received from our Lucknow office tell me that there are other millers in the state that have built up some arrears. I think, with the current imbalance between high cane prices and lower than expected realization for sugar, as season carries on, we will see some additional buildup in arrears. At the moment it is not terribly significant, but it is there, you still have an arrear in of about 15%.

Arun Vaid With regards to our own company, normally you pay after 14 days to the farmers. So what was the last payment date for the cane which is crushed, can you give some idea there?

Tarun Sawhney At this point we are very much in line with our payment schedules.

Arun Vaid Okay, so you have to wait for 25th or 26th of January and you should have paid by that time for that cane crush?

Tarun Sawhney Your first question was for the entire U.P.?

Arun Vaid Right and second is specifically to yours because what I hear is lots of millers have not paid post 10th of January?

Tarun Sawhney I don't have the exact estimate but we are well beyond those dates, we are very much in line.

Moderator Thank you. The next question is from Kartik Subramani from Unifi Capital, please go ahead.

Kartik Subramani There is an increase in the production of over 20%. Why was there a dip in sales volumes, sir, in sugar?

Tarun Sawhney Your sugar sales are dependent on the releases by the Sugar Directorate, Ministry and the releases that we had for Q1 of this fiscal year was significantly lower than the releases that we had for the previous year's quarter.

Kartik Subramani Okay, how its been in January?

Tarun Sawhney The January releases have been inline with previous years. February has been a little bit higher than compared to the previous year.

Kartik Subramani Okay and with the government allowing of 1 million tonne of further exports so what you anticipate for full year exports to be?

Tarun Sawhney My anticipation is that we can get a further 1 million tonne of exports. I think total 3 million tonnes, I think that will happen, but it will be in a few months time. Unfortunately, a large amount of exports even from the first tranche of exports announced this year, the November 1 million tonne, have not been physically exported now that is disturbing because you see, once the sugar actually leaves our territorial boundaries that is when the stock position improves and that is when you have better stability within domestic prices. I believe, although I'm not privy to any notifications from November 7th 1 million tonne exports, but I believe that there have been more conditions that may be placed around that 1 million tonne transfer, this is of course, is encouraging millers to either export or to part with their obligations for whatever profit, they may choose to and actually go ahead and get that sugar out of the country. So I think there have been some systemic issues which will be ironed out for this tranche and certainly by the next tranche.

Kartik Subramani Okay and there will be talk that there are very small mills in U.P. which have actually shut shop because they don't have the complete cogen and ethanol. What is your view on this sir?

Tarun Sawhney As far as I'm concerned, I am only aware of one private mill which is in districts of Saharanpur which has not operated this year. With that exception, all the private mills have been are operating and the mills that were sold by the government are also in operation. So it is just one exceptional case.

Kartik Subramani Because the report stated something like about 12 to 13 small mills have shut their shop, so I was asking you that?

Ravi Chandran Can you just quantify the cane arrears approximately for the industry?

Tarun Sawhney It is not possible for me to do that, I don't have that data with me.

Kartik Subramani And then coming to exports, you know, when the currency was at ₹ 53 sugar manufacturers asked for an extension from the government, I remember in December end, if I remember right and the global prices are not increasing, it is just maintaining a $600-$650 and from ₹ 53 the currency is also down to ₹ 49. So do you think despite having the permissions to export, the industry is going slow on export?

Tarun Sawhney Absolutely. If you look at current prices in Maharashtra, they are approximately ₹ 2750 per quintal. If you look at today's prices because I can give you that example rather than go back one month I will give you today's pricing scenario, the price is $649 odd per metric tonne which gives you approximately ₹ 3,200 per quintal. Now if you assume that the fobbing cost is ₹1 to ₹ 1.5 per kg,from ₹ 27.50, it is still ₹ 2,900 per quintal. So you have a ₹ 300 margin per quintal for exports that is available for sugar going out of Maharashtra. There is no rational reason why the sugar will not go out.

Kartik Subramani But what was the reason in December the industry have been asking for export permission, when the government permitted it was not exported, and also extension from the government? What was the reason?

Tarun Sawhney It is difficult to hypothesize why that has happened. It was probably because certain individual mills have not sold or completed their obligations and wanted to complete their obligations because of their own problems or concerns, and that is why the extension was asked for and granted by the government. Now the fact that the government has granted that export indicates that the government does want that sugar to flow out of the country. So to answer your question, I mean, really to look beyond your question even, the industry wants that sugar to go out of the country, the government also wants the sugar to go out of that country.

Kartik Subramani Okay and coming back to the arrears you said 15%. 15% for what?

Tarun Sawhney 15% is the figure that I have received as approximately arrears in the state at this particular time.

Kartik Subramani 15% of the outstanding amount has not been paid?

Tarun Sawhney Of the outstanding amount, correct.

Kartik Subramani Why I was asking this question is 4 years, 5 years back we had seen cane arrears going up to ₹ 4,000 – 5,000 crore only at that point of time we have seen some activity from the government. As of today, I think, we are nowhere close to that number, I think it is probably a few quarters away. Is that correct?

Tarun Sawhney Well, the season is only going to last for another three months in UP, that is one point and second is it is difficult for me to hypothesize what cane arrears will be. I do anticipate that with the 2007-08 obligations on sugar mills in the state, coupled with the disparity between cane price and sugar realization, the arrears will probably build up. In our next earnings conference call we will be in a much better position to give you an estimate of what those arrears are. I do think that they will be higher than what they are today.

Kartik Subramani My final question on the recent Rangarajan Committee. Do you think it is going to be the different from Tuneja Committee or Thorat Committee or we had so many committees in the last 12-13 years?

Tarun Sawhney I will share my personal opinion and our groups view on this. That we are very hopeful that they will examine all the issues that have plagued the sugar industry, and that the problems that the sugar industry currently faces. There are problems which the industry's faces as a whole, there are regional problems that Northern industries faces, that southern industry faces and I anticipate that with such a high level committee being formed, especially under the auspices of the Prime Minister that it will be given the most serious review and that they will examine all the issues which include levy, which include sugar cane area amongst other problems in the industry.

Kartik Subramani I am not discouraging, but sometimes I wonder, even if the government removes all these quotas and levies and stuff like that, your profitability depend largely on cane pricing rather than release mechanism, that is the feeling I get. Whenever I read the newspaper it is more about the release mechanism and less about the cane price?

Tarun Sawhney This is a conversation that we can certainly have perhaps at another time, but I just want to summarize it. All of these are individual problems and all need to be tackled. The release mechanism, the levy quota, cane areas. Incumbents would be the wrong word but they are all hurdles to the proper functioning of a free capital market. Now going forward, what is examined we will see.

Moderator Thank you. The next question is from Achal Lohade from JM Financial, please go ahead.

Achal Lohade I had couple of questions, one on the ethanol front, what number have we got in terms of our contracts with the OMCs what is the total number OMCs have signed for the year?

Sameer Sinha The total number which the OMCs have signed for the year are in line with the numbers which were signed last year and in terms of the numbers that we have for export or we have taken about 78 lakh liters for a year which was exactly the amount which we sold last year to the OMCs.

Achal Lohade And what is the status on the re-pricing of ethanol, according to us? Where is it in terms of the approvals, where has it is stopped actually?

Sameer Sinha The report had gone long time back of the expert panel but still not been approved by the government so it is pending at that level.

Achal Lohade Secondly, I believe that UPs new fresh planting actually happens in January to March period. Now we are already 1.5 months into it. Just wanted to get a sense as to how the farmers are looking at the cane pricing? Are they fine with ₹ 240; are they extremely happy with that? Do you see farmers actually moving away from the cane crop currently?

Tarun Sawhney Planting in Uttar Pradesh depends on where you are. As far as East UP is concerned, the planting starts in February, no planting happens in the month of January, it is too cold. In February you are planting in East UP that starts in March, in Central UP and by end March in West UP and of course in by end March it ends in East UP by mid April it ends in central UP and by the first week of May it ends in Westt UP. So that is the schedule of planting. The farmers, of course, are very happy with the price. It is enormously remunerative especially when compared to other agricultural crops. I think, there is a feedback that I received from my plant in East U.P. planting is progressing very-very well.

Achal Lohade Can you elaborate a bit on the issues in Western U.P. you faced in particularly Saharanpur area which you highlighted, just wanted to get a sense as to how bad the situation is there like have the yields declined 40% to 50% or they are just 10% to 15 % down and what is the impact on the recovery because of that?

Tarun Sawhney You have to segregate the Ratoon crop from the plant crop. The Ratoon crop has been affected in Saharanpur with pests and we have seen a decline in the yield of the Ratoon crop of approximately 12% to 14%. The plant crop does have a slightly lower yield but only about 3% to 5%, so nothing terribly significant. From a recovery perspective the disease and pests in the Ratoon crop, of course, have negatively impacted the recovery and it is in the results for you to see and the plant crop which has not started coming to the factory,. however has been analyzed by laboratories this is for all the units but from West UP I am happy to report that the recoveries from the plant crops are significantly better and in-line to what we had estimated.

Achal Lohade So we are already down I think 20 bps YoY till December just wanted to get a sense as to which season you look at in the recovery drop would be? Would you be able to maintain the previous year's recoveries or it will still be down or will it be higher according to you?

Tarun Sawhney It is very difficult for me to narrate now frankly speaking the plant crop had just started coming to the factories and we are still not getting 100% at any of our factories it varies from 15% all the way to 50% depending on which of our seven plants you look at and our early variety of our plant cane once it starts coming is where the real boost comes in. I will be in a much better position to answer this question in 10 days time.

Achal Lohade Sure just one last question as to last quarter actually if I look at the overall release it was I think probably equal or slightly higher than the previous year's same month. Why the quantity is lower for us, is it something to do with we postponing the sales or pre-poning the sales in September quarter, any color on that?

Tarun Sawhney No the release quantity for us was the same.

Achal Lohade Is it something to do with the stock levels?

Tarun Sawhney No not at all.

Moderator Thank you. The next question is from Kaushik Poddar from KB Market Private Limited, please go ahead.

Kaushik Poddar Where have you accounted for your investments in Triveni turbines, I mean how do you account for it? you have given consolidated results so does it get reflected out here?

Suresh Taneja It is part of the balance sheet obviously the results which we have published is of profitability.

Kaushik Poddar But you have not included in this, is it in the result you have published?

Suresh Taneja No it is not a part of the results because the balance sheet has to be given every half year.

Moderator Thank you. The next question is from Abhilasha Satale from Techno Shares and Stock Ltd., please go ahead.

Abhilasha Satale I just want to know whether the results of the U.P. elections will have any positive or negative impact on the Supreme Court hearing or decontrolled scenario which we can expect if SP or Congress come in power will it get expedite or something, what is your sense on that?

Tarun Sawhney I firmly believe that our judiciary is highly independent so I do not think the outcome of any elections have an impact on any judicial review or judicial verdict so I would like to separate those two issues. With respect to the U.P. elections which are now underway, it is a crystal ball, one cannot really tell what is going to happen. However, we of course hope that whichever government comes into power in the state of Uttar Pradesh looks upon the problems of the sugar industry favorably and does support our growth because we do cater to a large number of farmers a lot of the companies invest substantial monies in plantation, in research and in development etc and we want to see that continue for years to come.

Abhilasha Satale My major focus is on decontrol actually. We hear more noise about decontrol in ethanol or sugar industry but I think per se quarter-over-quarter nothing comes actually in factors. I do not understand why these things are getting so much delayed and in spite of this precarious condition of the industry so why this so and when these things actually start working, what are the hindrances as per your opinion curtailing these things?

Tarun Sawhney I think you have raised a very good question but the answer to that lies within the purview of the central government. So the U.P. state elections have little-to-no impact on the decontrol, deregulation for sugarcane. The committee of course the Rangarajan committee has been formed to examine these issues by the central government by the Hon. Prime Minister and we hope that this committee's report will be favorable and of course will be implemented. With respect to the U.P. elections as I mentioned that there is little or no impact on the deregulation or decontrol.

Moderator Thank you. The next question is from Arun Vaid from IDBI Capital, please go ahead.

Arun Vaid Just wanted to understand out of the total U.P. production how much would be coming from Western U.P. and Central and Eastern U.P.?

Tarun Sawhney If one had to forecast you would probably get about 30 from West U.P. and 40 from Central U.P. and 30 from East U.P.

Moderator Thank you. The next question is from Falguni Dutta from Jet Age Securities, please go ahead.

Falguni Dutta Broadly on the industry like this quarter we have seen that the distillery realizations have been quite good so despite higher production what could be the reason for such a sharp spike in distillery realization?

Sameer Sinha Well we can comment about ourselves.

Falguni Dutta Broadly, they are the same for the industry whichever way.

Sameer Sinha You'll see there are very few suppliers who are focusing on extra neutral alcohol which we keep on doing for United Spirits Ltd. and we are one of the preferred suppliers over there and that is one of the reasons that our realizations would be higher than the industry average numbers over there and coming back to the reason why the realization is higher is because once again people had signed up for ethanol and because of an imbalance seen by the ENA buyers, the realization to that extent got higher.

Falguni Dutta Was ethanol not present last year also?

Sameer Sinha Last year it started very late and suddenly went towards the end of November, all these large contracts were signed, the ENA manufacturers wanted to secure huge quantities for themselves and therefore they went in and paid a higher price and reserved their supplies in January and February.

Falguni Dutta RS prices have also been quite good.

Sameer Sinha Well RS is related to ENA, once the ENA is paying you an X amount; the RS prices are generally about ₹ 2.50 to ₹ 3.50 lower than the ENA numbers.

Falguni Dutta Okay and so broadly it is because of some diversion to ethanol and increased demand from people buying ENA?

Sameer Sinha I would put it that way.

Moderator Thank you. The next question is from Amar Sonthalia from Suvridhi, please go ahead.

Amar Sonthalia What is the total cost of production of sugar in whether it has included the depreciation, interest and total overhead and off-season expenses?

Suresh Taneja You know at the PBIT level we are expecting the cost of production at ₹ 30.5 per kg.

Amar Sonthalia And whether it includes the depreciation, interest and total overheads in off-season expenses also?

Suresh Taneja That is why I said PBIT.

Amar Sonthalia What is the price realization we have taken for bagasse and molasses while calculating the cost of production?

Suresh Taneja Bagasse is roughly speaking about 125 and by and large we take it at the market price itself.

Amar Sonthalia And for molasses what was the price this quarter?

Suresh Taneja I do not have the exact figure as of now what it would be last quarter but basically we link it to the market place all the time.

Amar Sonthalia It was around 300 to 400 or something like that?

Suresh Taneja Much less than that.

Amar Sonthalia What was the cost of inventory which we have sold in the December quarter and what is the current carry forward in sugar costs?

Suresh Taneja No as we told you the inventory which we hold which is produced in the season 11-12, levy would be at levy and free sugar would be at about ₹ 3,000. And in the last quarter of the inventory which was sold was pertaining to the previous season.

Amar Sonthalia The last quarter which we have sold is the production of the previous year so the cost you are saying is around ₹ 3,000. Right now the current cost of production is ₹ 30.50 per kg?

Tarun Sawhney No this is current sugar. The cost and prices that we have given you of 30.50 and ₹ 30 is of current season sugar.

Amar Sonthalia What was the cost of the last season which we have sold in the December quarter?

Suresh Tanjea I think roughly speaking that was also about ₹ 27.50 or so.

Amar Sonthalia This question I am asking you because the cost of the raw material has increased by around ₹ 3 to ₹ 3.50 per Kg but the difference which I am finding is just around ₹ 1?

Suresh Tanjea I am still not clear on your question what you are saying is that the raw material increase is ₹ 3.

Amar Sonthalia Yes. And the inventory cost will definitely be much higher because the raw material cost was much higher in the previous season? In the previous season the raw material cost was around ₹ 210 per quintal for sugarcane, right now it is ₹ 240 per quintal?

Tarun Sawhney It is actually the same. At pre-interest levels it was 27.54 for last season sugar and in this year's sugar is commensurately higher so the balance is the same. As per the apples-to-apples comparison.

Amar Sonthalia And how are the gear division and the water division will do going forward?

Tarun Sawhney I gave an estimate in my opening remarks with expecting a 10% increase in revenue with margins holding the same for our gears business, 20% increase in revenue for our water business. Again with the similar margins.

Moderator Thank you. Ladies and gentlemen that was the last question I would now like to hand over the conference back to the management for their final remarks.

Tarun Sawhney Ladies and gentlemen thank you very much for joining us for the Q1 fiscal 12 earnings conference call, I look forward to speak with you in a few months' time.

Moderator Thank you. On behalf of Triveni Engineering & Industries Ltd. that concludes this conference call.