



Triveni Engineering & Industries Limited
Q6 & 18M FY12-14
Earnings Conference Call Transcript
May 29, 2014

Moderator Ladies and Gentlemen, Good Day and welcome to the Triveni Engineering & Industries Limited Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa of CDR India. Thank you. And over to you, sir.

Gavin Desa Good Day everybody. A warm welcome to all of you participating in Triveni Engineering & Industries Limited Results Conference Call for the Quarter and 18 Months Ended March 31, 2014. We have with us today on the call Mr. Tarun Sawhney – Vice Chairman and Managing Director; Mr. Suresh Taneja – Group CFO, Mr. Sameer Sinha – President, along with other members of the senior management team.

Before we begin, I would like to mention that some statements made in today's discussion may be forward-looking in nature and a statement to this effect has been included in the Conference Call Invite which was mailed earlier. I would also like to emphasize that as this call is open to invitees, it may not be broadcast or reproduced in any form or manner. We would like to start this conference call with opening remarks from the management followed by an interactive Q&A session wherein 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 regard to the Company's Operations and Results and Outlook for the Coming Year. Over to you, Tarun.

Tarun Sawhney Thank you. Good Afternoon, everyone and welcome to the 18 Months FY2014 Earnings Call for Triveni Engineering & Industries Limited.

Our net sales for the period stood at ₹ 3,153 crore with an EBITDA of ₹107.8 crore. Having said that we had a PAT loss for the period of ₹176.3 crore. During this period, the finance cost was about ₹ 185.2 crore and for Q6 it stood at ₹ 27 crore, the finance cost was about 8% lower due to lower term loans and working capital utilization. The overall debt of the Company as on March 31, 2014 stood at ₹1,175 crore, comprising of term loans of ₹ 584 crore, which is 10% lower year-on-year.

The performance of the Company during the current quarter and for the 18 months has been significantly below our expectations. Sugar business has suffered due to unviable cane pricing, low cane yields in Uttar Pradesh by and large and low recoveries

especially in Western Uttar Pradesh where we have 2 of our factories out of 7. Having said that the sugar co-product have recorded healthy profit.

The Gears business on the other hand which caters to the capital goods industry, while it also faced challenging time, the business was able to maintain its margins at the PBT level despite marginally lower annualized turnover and profitability. And this has been made possible due to the appropriate sales in terms of the product mix.

The economic slowdown has also taken its toll on the Water business, and as a result there have been several delays in projects. I have spoken about this for the last couple of quarters and the hope of course is that over the coming few quarters that entire scenario changes quite dramatically.

Looking first at our Sugar business, during the Sugar Season 13-14, we have crushed 4.65 million tonnes of sugarcane with a recovery of 9.32%, in comparison to a recovery of 9.28% in the previous sugar season. We have actually managed to increase our recoveries 0.04 despite the anomalies in weather and the prevalent conditions on the ground in Western Uttar Pradesh. The sugar produced is 433,000 tonnes in SY'13-14 against 522,000 tonnes year '13. This year-on-year sugarcane crush and sugar production has been lowered by 17%, and of course the significant amount of rainfall that impacted yields and recoveries across Western Uttar Pradesh, we had about approximately 2,000 mm of rainfall that was recorded in a 12-month period which was perhaps a little bit more than double than compared to the long-term averages, and the dampness in terms of sub-soil moisture, the impact on the cane seed and crop during the grand growth period was significant. Our hope of course is that we will have less rainfall and all forecast for the monsoon, etc., point to some amount of the El Nino effect occurring over Northern India, and this of course will have a great benefit in Uttar Pradesh, because our farmers are primarily canal-fed farmers or river-fed farmers and do not rely tremendously on rainfall. The sugar inventories have been written down in the period by about ₹ 55.4 crore, to net realizable value. The result also includes an impact of ₹10.4 crore on account of change in the accounting policy for off-season expenses. We have received during the period an interest-free loan of ₹127 crore under the scheme for extending financial assistance to sugar undertakings 2014 towards the year end, and it is included in our total debt. On a positive note, the incidental co-generation unit at Chandanpur and Milak Narayanpur put together have exported 261 lakh plus units of power with resulted in revenues of over ₹11 crore for the sugar season '13-14, a very well operated incidental co-generation facilities that as you will remember we established few years ago.

Our dispatches for the quarter were low; we had purposely kept them lower given the tepidness in pricing in the market and consequently our realization was 2,982 per quintal which is reasonable when one looks at the peers across the industry. Having said that, it is still not at a very comfortable level, because the cost of production is of course significantly higher. As on March 31, 2014 the stocks have been valued at ₹ 3,178 per quintal and we have almost 38 lakh bags of sugar in inventory. We are actually banking on sugar prices rising over the next 6 months or so before the start of the next sugar season and there is a certain degree of optimism on multiple accounts.

From an industry perspective, the production is now estimated at just over 24 million tonnes, a decline of 4% to 4.5% from last year's production, but still quite significant in absolute terms. The consumption on the other hand, there are a wide variety of estimates, but we are looking at north of 23 million tonnes in terms of consumption, which is the data that has been taken and extrapolated from the Ministry of Food and Agriculture.

We believe that the exports of about 1.3 million tonnes that have taken place will actually have an impact going forward on sugar pricing. The second point for sugar

pricing of course is intervention by the new union government. We anticipate that they will review import duties as well as the policy of importation of sugar and review the export subsidy that was being offered and has been previously reduced on the 15th of May in this calendar year. Those two points of course will certainly allow us to see some amount of buoyancy when we get into the July quarter.

There is a lot of sugar that has been sold in the market, we can see that the stock pile, the pipeline of sugar is very healthy and buoyant at this time, which is resulting in lower sales at this point. That pipeline and that confidence is an extremely important facet to allow sugar prices to rise, something that had not been prevalent for the last 24 months. These are certain factors that are certainly in support of slightly higher sugar pricing going forward.

In terms of Co-Generation, our co-generation units operated efficiently during the quarter and the performance was in line with our expectations. Currently, CERs are being held by the Company in respect of Khatauli and Deoband for the period up to February 2012. The prices of carbon credits continue to remain low, and the same will be sold in appropriate time accordingly, and the revenue will be recognized at that point. The issuance of RECs in UP has commenced and in respect of Khatauli and Deoband, RECs were issued for the period November '11 to March '13 and the Company realized ₹1.7 crore as income from RECs.

Looking at the Distillery, the performance of the distillery has certainly been in line with our expectations. The quarter-on-quarter production was 4% higher and the realization has increased by almost 12% on account of the change in the product mix. Supplies of around 101 lakh liters of ethanol as on date have been made against approximately 140 lakh liters under the earlier ethanol tender.

In the Gears business, the performance was impacted by the overall slowdown. The OEM business and exports has witnessed improvement during the quarter. The weakness of the rupee that we saw has certainly assisted us in this quarter and in the order book that we are carrying forward as of 1st of April 2014.

The Refurbishment business, Spares and Loose Gears share for the total 18-month period has increased to 41% of sales, but that is a very big improvement and it is a robust proposition that we bring to our Gears business in terms of the high margin & profitability.. We expect that the share of this business, while it may change as the business grows over the next quarter and a few years, but we do see in absolute terms that we will be able to at least maintain these levels, and thereby have a significant impact on our profitability going forward. A few OEMs from Japan and Europe have already approved our Gears business which means orders will be flowing in over the next few quarters and dispatches will also follow a quarter or so after that. The outstanding order book was 5% higher and stood at ₹ 48 crore as of March 31, 2014.

One more significant feature was the commissioning of our Planetary Mill Gear Box for Mill Drives, this is technology that has been developed wholly by Triveni's Gears business, the intellectual property is owned by us. We have also launched the product line for the full range of Planetary Mill Gear Boxes from 500 to 1,500 kW for the domestic and export markets.

Within the Water business, the turnover of the quarter was higher, while the profitability was lower than the corresponding quarter of the previous year. In view of the delay in several projects, there have been a few overruns and provisioning was necessitated for certain outstanding receivables. Furthermore, on account of lower than optimal turnover, the resultant contribution, full absorption of the fixed costs could not take place which resulted in a net loss for the quarter and for the 18-months period. On a positive note, the outstanding order book for this business as on March 31, 2014 stood

at ₹ 525 crore versus ₹ 416 crore last year. The Engineering business as a whole has witnessed a 25% increase in its order book as on March 31, 2014 year-on-year.

Before we move to the question-and-answers, I would like to address the large loss that we have had in this quarter; we have made a significant write-down in the quarter as well as for the overall period of about ₹ 55 crore, we have also had a change in the accounting policy which has resulted in over ₹10 crore, and there have been other provisions that have been made to the tune of just over ₹1 crore. The Company as a whole has reversed policy on the MAT credit entitlement of just shy of ₹ 30 crore and that has been written off, which has resulted in a higher loss after tax.

. With a new government in place at the centre, one can hope for more robust policies and aggressive policies that foster growth impacting our Engineering businesses directly. We also expect that the union government will play a crucial role in reversing the fate of the Sugar industry across the country and in Uttar Pradesh. I now would like to open up the floor for questions.

- Moderator** The first question is from Nirav Shah of GeeCee Investments.
- Nirav Shah** The recovery rates in Western UP were lower, can you give a breakup of the recovery for other units excluding Western UP?
- Tarun Sawhney** Let me start off by giving you a broad idea of how our units performed because we have units in West UP, Central UP and East UP. In East UP we had a recovery of 9.99; in Central UP the broad recovery was approximately 9.65. However, in West UP, the average recovery was 8.79.
- Nirav Shah** For the state as a whole, how much would be Western UP accounting for in terms of production?
- Tarun Sawhney** Traditionally, West UP accounts for about a one third.
- Nirav Shah** Can we safely assume that the costing over will be upwards of ₹ 35.5 to 36?
- Tarun Sawhney** Yes, including interest.
- Nirav Shah** What is our actual cost of inventory? We have valued it at ₹31.78.
- Suresh Taneja** It is ₹ 33.70.
- Nirav Shah** How much of the gears were sold to Triveni Turbines?
- Tarun Sawhney** Approximately 24%.
- Nirav Shah** We have seen that Turbine division has got a very robust order inflow in the fourth quarter upwards of ₹ 200 crore. Is it fair to assume that the transfer from the captive turbine company will happen in Q1 orders?
- Tarun Sawhney** That is a separate company. We will be beneficiaries of orders in the Turbine business because we supply 100% of the Gear Box requirement to Triveni Turbine Limited. We also supply near 100% to other major steam turbine manufacturers in India. If the demand for Turbine manufacturing grows in India, our business will be directly impacted on all accounts.

Nirav Shah Triveni Turbine received a very robust order inflow during the quarter. Has that translated into our order book in the March quarter or the order inflow will come in the first half of this financial year?

Tarun Sawhney Yes, it will come progressively as and when orders are released, that is how they flow to us. I cannot match the two, because that is a separate company, but those orders directly come, but they take some time in coming.

Nirav Shah On our Engineering business -- Gears and Water, can you just give broad revenue and profit guidance, because that number has been very volatile especially for the Water business?

Tarun Sawhney We do not give earnings guidance. The factors that have impacted the industry for the last 12-24 months are still prevalent at this point in time. It will take some time for these businesses to grow at the pace that we would like them to grow. Government policy plays an important role in delivering that growth. We have our export opportunities, the weakening of the rupee over the last 18 months has certainly assisted us, and we would see some amount of growth in the Gears business. As far as the Water business is concerned, that is all about municipalities, State Government and how quickly they finalize orders. There was a great anticipation for these general elections. Despite the time taken for policy changes, I would estimate that State Government will start finalizing orders. In the Water business, you have to actually wait for orders to be executed; it takes a certain amount of time for orders to be executed.

Moderator The next question is from Satish Mishra of HFDC Securities.

Satish Mishra That total exports were 1.3 million tonnes and the opening inventory was in the range of 8.5 to 9 million tonnes, I could not get your optimism over higher sugar prices?

Tarun Sawhney You had a reduction of about 4% which equates to about 1 million tonne from last year. You had exports of over 1.3 million tonnes. That means that your total stock pile in the country has gone down. In the same period last year, you did not have an inventory pipeline with the stockists and traders and the machinery that operates within the sugar supply chain, because the confidence was not there. Traditionally, if you go back for 5, 10, 15, 20 years that pipeline has accommodated 10% of the country's production. That again creates a certain amount of demand. In addition, you also have the El Nino which adds to optimism for the coming season. We also expect more exports, my personal view is that government policy will assist in further exports and the hope is rising import duties, all of these factors are positive factors that not only have an impact on sentiment, but actually in terms of physical balances it points us towards a better position.

Satish Mishra How much is export incentive currently?

Tarun Sawhney It is 2,277.

Satish Mishra Are our import duties around 20%?

Tarun Sawhney Our import duty is 15%.

Satish Mishra You highlighted El Nino, but if you just check international raw sugar prices, still it is sub-\$17.5. Can you help in understanding the mismatch?

Tarun Sawhney For the last 15 days it was at \$18, there is some amount of volatility in the international market, it has not been sub \$17 in quite a long time; \$17.5 is a fairly robust level. The Brazilian season is starting just now and Brazilian exports are expected to be lower by

3% to 5%. The impact on that in terms of global balances of global trade actually happens over the next few quarters. When you see the shift between southern hemisphere, northern hemisphere, eastern hemisphere, western hemisphere, and the stock balances between these segments, you will see that increase happening in the Sugar No. 5 and Sugar No. 11. To paint you an accurate picture of how much it is going to happen, the international market is much broader. We have seen a certain amount of strengthening, we have seen funds take significant positions yet again into the sugar market, and these are all very positive signs; the volumes being created are higher compared to year-on-year. All of these points to optimism as far as sugar prices are concerned.

- Satish Mishra** Ethanol pricing was in the range of ₹ 35 to ₹ 36. What is the scenario currently and how are you seeing traction in that business?
- Sameer Sinha** For Ethanol, we are expecting a new tender coming in for supply starting the coming sugar season, and we expect that the landed prices of ethanol which the OMCs are going to give to us will be higher about by a rupee to two rupees than what they have been giving to us so far. So new tender will come after about ₹ 69 to 70 crore of supplies get exhausted and the pricing will be higher by about a ₹1 to ₹ 2.
- Satish Mishra** When is the tender expected?
- Sameer Sinha** This will be for supplies commencing in the coming sugar season.
- Satish Mishra** You mentioned the REC benefits, is it a one-off phenomenon or will it continue?
- Sameer Sinha** This REC in UP took a long time to happen, but it happened in March this year. The RECs are continuously being issued. The question is of trading, because the RPO obligation is not being enforced on the obligated entity. Therefore, the trading has been generally between 4 % to- 12% in May this year. Yesterday, the trading was only 1% of it or even less than that. The question is basically of the RECs getting traded on the exchange and the demand for the same arising, but they continue to be issued in UP for the co-generation.
- Satish Mishra** Can we build it in our model for the future?
- Sameer Sinha** Absolutely, it will take some time and there will be pressure on the obligated entities to keep on buying the RECs.
- Satish Mishra** My understanding was that around ₹ 9 was supposed to come to farmers from UP Government. Has it come or what is the status and just a sense on arrear as well?
- Tarun Sawhney** I am very glad that you actually asked that question; our accounting practices as you have known historically have been very conservative. We have not accounted for any subsidy to be received or will be received from the Government. There is talk of ₹ 9, this was something that was to be considered by a committee which has of course been set up by the Government of Uttar Pradesh. Now, when the committee reports back, what they report back and what they give is still very much up for debate. My personal view is that, it is impossible to make a determination whether they will give ₹ 9 or a part of that ₹ 9 or nothing. For us, if they give ₹ 9, it will be almost ₹ 50 crore of benefit. As far as the cane arrears are concerned, the arrears stood at approximately ₹ 7,500 crore, which is a substantial increase from about ₹ 4,500 crore to ₹5,000 crore last year.
- Satish Mishra** Are we seeing this impact on high arrears on sowing?

- Tarun Sawhney** This is an interesting point because the price of sugarcane is very good, the farmer is clearly making a substantial profit on these sugarcane prices. We do not see the impact being very substantial. Of course, there is an impact; the impact will always be there with the small and marginal farmer, who feels pressed. As a group, we are very concerned about the small and marginal farmers and have always extended maximum support towards them as a starting point of course. But, you will see across the state, the small and marginal farmers moving away potentially from sugarcane, but it is not going to impact the medium and large farmers. So the total decrease in cane in the state will be limited.
- Satish Mishra** If monsoon is actually not so bad, will production next year also be 24 million tonnes or slightly higher?
- Tarun Sawhney** 24 million tonnes would be a safe estimate for the following year at this point. I must caution you that there are a lot of imponderables right now. The monsoon being a good monsoon will have more than 24 million tonnes. If the monsoon is 10% below, we will have maybe 23.5-24 million tonnes and of course if the monsoon is lower than 15%, then we will receive some amount of substantial yield falling across the country. The states for production will be Maharashtra and Karnataka, UP will broadly remain the same.
- Moderator:** The next question is from Achal Lohade of JM Financials.
- Achal Lohade:** UP's current year Sugar production has been lower than the initial expectation largely because of the yield surprise, especially in the western region, is that correct?
- Tarun Sawhney:** It is absolutely correct, the significant impact on production was in the West, the largest portion cause was rainfall, then followed by diversion, of course the alternate sugar manufacturers, where demand really stays constant year-on-year, if cane goes up or down, their demand is constant, as yields fell because of excessive rainfall and a little bit of disease also played a role in West UP, it had a very significant impact there. Across the rest of the states there was the same impact, but it was muted.
- Achal Lohade:** If the expectation of the cane planting is not significantly lower, then can we look at slightly higher production in UP, is that possible given yields will normalize?
- Tarun Sawhney:** We have to maintain the same production numbers for Uttar Pradesh, it will be a confidence of two factors, area under cane will certainly go down as small and marginal farmers move away from sugarcane to other crops. There is a certainty of happening across the state; however, the yields across the state were very poor last year that is a big question mark. Now, provided we do not have excessive rainfall or a severe impact of pest or disease, we can see a rise in yields towards the longer term averages and that will compensate for the fall in area.
- Achal Lohade:** What is the acreage decline on the ground indicating?
- Tarun Sawhney:** We are in the middle of the survey, there is a statutory survey that we have to complete for the Cane Commissioner, Uttar Pradesh, we started the survey about two weeks ago, the survey will take another six weeks.
- Achal Lohade:** Is the committee going to look at cane linkage specifically or it is just for the ₹ 9 deliberation?
- Tarun Sawhney:** Two committees have been formed; one is looking at ₹ 9 which is for this year's cane price, and the second committee that has been formed under the stewardship of the Chief Secretary is looking at the linkage of sugar price with sugarcane price, and as the

terms of reference state, they will look at all possibilities including the Rangarajan Committee formula, that committee has been formed and we are waiting; we heard that due to the elections they were not going to be meeting, but straight after the elections, they are expected to meet. One hopes that they will conclude that meeting and present the industry and the government with a suitable report in the short-term.

- Achal Lohade:** Is the composition different in both committees?
- Tarun Sawhney:** Correct.
- Achal Lohade:** Would we hear anything about ₹ 9 or linkage in next couple of months or before start of the season?
- Tarun Sawhney:** You will definitely hear from both the committees; regardless of what they say, probably in August.
- Achal Lohade:** Any update in terms of the UP Sugar Promotion Policy?
- Tarun Sawhney:** The matter is still Sub judice, there has been some movement in terms of legal proceedings moving forward, the hearings are on, we will get to know soon what decision is finally taken, but at this time there is no decision to be shared, the only positive step is that the hearings are in motion.
- Achal Lohade:** With the change in the government, do we see any impact on our sector?
- Tarun Sawhney:** Absolutely, the hope is for substantial impact on all of our businesses within the water business, we expect that even in the manifesto of the union government they are taking water as a subject very-very seriously, we expect that the clean-up of cities and towns will be quick, and we will certainly be one of the companies that will participate in that segments' growth. As far as the capital goods and infrastructure is concerned, that is again a sector that will be given great importance by the new union government, and our businesses will certainly benefit from that. Thirdly, with respect to agriculture and sugarcane, we have very capable ministers now in the government, they have a different perspective, my understanding is that they will look at protecting the industry and the farmer in a combined manner and the hope is that when they do that the profits of both the farmer and industry are maintained going forward.
- Moderator:** The next question is from Sirish Hisaria of Kotak Mahindra Bank.
- Sirish Hisaria:** What were the imports in FY14 for the industry?
- Tarun Sawhney:** Not very substantial, there was some sugar that was imported somewhere to the tune of 200,000-300,000 tonnes.
- Sirish Hisaria:** Anre exports are around 1.3 million tonnes?
- Tarun Sawhney:** That is direct exports, not including the import that happened on a grain to grain basis to exports. Whatever imports are happening are happening in two ways; they are happening on a grain to grain basis, which means they come in, they get processed into white sugar, and they get shipped out immediately, they do not hit the domestic market. Imports at this time have to come in at 15% import duty plus all the other costs. Small amount of sugar has come into the Indian market but it is not of great significance.

- Sirish Hisaria:** The closing inventory was 8.5 million tonnes for FY14, production of 24 million tonnes and negligible imports and consumption of around 23.5 million tonnes, with export of 1.5 million tonnes, closing inventory would be around 7.5 million tonnes for FY15?
- Tarun Sawhney:** Broadly yes, but you also have to factor in a pipeline of about 2 million tonnes which was only about 0.5 million tonnes a year ago.
- Sirish Hisaria:** Pipeline with the traders?
- Tarun Sawhney:** For the traders. So stocks held in the sugar factories will be lower and all of that plays a very important role.
- Sirish Hisaria:** What rate is feasible for Indian companies to export?
- Tarun Sawhney:** The cost of production for the coastal millers are very different from the cost of production of Uttar Pradesh, because the cane prices are different, yields are different, recoveries are different, economics are different, the economics in Maharashtra is different from Karnataka, North Karnataka, South Karnataka, Tamil Nadu. The economics between raw sugar and white sugar are also very different. It is a very simple mathematical calculation that you can do but looking at which state will export first and at what price is a mathematical question, we can certainly sit down and explain that.
- Sirish Hisaria:** At what level do you see stock-to-consumption ratio when we see price rise in sugar?
- Tarun Sawhney:** Historically the stock-to-consumption ratio at about 20% has seen very good pricing. My view is lower than about 30%. When you get to levels of about 28%, you will start seeing breakeven situation across the country.
- Sirish Hisaria:** As per my calculation, if 7.5 million tonnes of closing stock for FY14, 24 million tonnes of production, and around 24 million tonnes of consumption, we still be around 7.5 million tonnes?
- Tarun Sawhney:** 32% approximately.
- Sirish Hisaria:** We do not expect sugar price to go up even in SY15?
- Tarun Sawhney:** Provided if there are exports which I believe will happen in SY15, we will see 30% to come down to 20%, because the gap is not much.
- Moderator:** The next question is from the line of Baidik Sarkar of Unifi Wealth Management.
- Baidik Sarkar:** In 2012 when India had poor monsoons, while the western belt was really hit, output in UP was higher than what was expected. If El Nino will be severe and affect the Central or Western parts of India, will it do anything to increase realizations for western UP?
- Tarun Sawhney:** It is very unfortunate, but a very severe El Nino helps west UP the most, because all the districts in western UP have a beautiful system of canal and river irrigation, their reliance on rainfall is negligible, different from Central and East UP and certainly different from the surrounding states and of course South India. If you do have rainfall which is significantly lower, the yields across the country fall which means that the production in those states also falls; sucrose content will also be affected without adequate rainfall and you will see recoveries also falling. As far as West UP is concerned with limited rainfall, as converse to the year that we are in right now, you will see a return to the yields that we have had historically and a return to recoveries that

we have had historically. We actually had double the amount of rainfall last year in western UP which was the most significant factor in low yield in recoveries.

- Baidik Sarkar:** What is the current breakeven cost of production?
- Suresh Taneja:** Cost of production is ₹ 33.7 and our stocks are valued at ₹ 31.78.
- Baidik Sarkar:** Accounting for the inventory in the hands of the traders which might come into the market this year, what are the other macroeconomic developments at a firm level and at the industry level that should happen for prices to inch closer to our breakeven cost for the industry?
- Tarun Sawhney:** El Nino also has a very important factor in terms of demand, especially when you look at the soft drink industry which is one of the largest consumers. Last year we had early and extended rainfalls, and the total production of the soft drink industry fell significantly. These are companies which actually have growth plans of 15-20% year-on-year. A largest portion of our sales actually goes towards the beverage manufacturing industry. With a prolonged and hot summer, we will see beverage consumption as well as consumption of manufacturers that use sugar as an intermediate product go up significantly during the course of the summer. That is a weather-related factor. The other of course is the union government which one hopes that they will look at imports, they will look at revised export subsidy at least at the levels that were decided on a few months ago of ~ ₹ 3,500, and the correct market signals on a long term basis ensuring that there is communication with the market so that there are no knee-jerk reactions and reactions that come out all of a sudden. The reason for this vacillation in sugar prices is because of sudden news that comes into the market, and the only way the market can react is to fall by 4-5%. If you have graduated news and news that is clearly communicated to the market there is no real reason for massive spikes and fluctuations in pricing, like we have seen in the last three months. Those are some of the factors that will impact pricing.
- Baidik Sarkar:** In the context of Brazil, you mentioned 5-7%, if the drought conditions continue, to what extent will exports from Brazil be curbed?
- Tarun Sawhney:** Yes.
- Baidik Sarkar:** How much of the inventory needs to be curbed from Brazil for global prices to gradually move up 17-20%, is there any kind of range scenario analysis?
- Tarun Sawhney:** The Brazilian stock pile is quite significant, you are seeing lower estimates coming out of China, certainly help massively out of China, China is even considering imports, Indonesia extending its import program, you are seeing Thailand is at about the same levels or a little bit down, Pakistan is higher, South Africa is down, Australia is down. You are seeing on a broad scale the major sugar producing countries actually looking downwards in terms of total sugar production.
- Baidik Sarkar:** Was it El Nino or just a crop issue in China?
- Tarun Sawhney:** No, this is just the crop issue. The export out of Brazil is predominantly raw sugar, so the impact on Indian consumer in terms of pricing will really depend on what the Union Government Policy is, because that is raw sugar, that raw sugar has to come and be reprocessed into whites to be fit for human consumption.
- Baidik Sarkar:** What is the landed cost of raw sugar in our ports today?
- Tarun Sawhney:** It is about ₹ 24.5/kg.

Baidik Sarkar: That is into western or eastern ports?

Tarun Sawhney: By the end of this quarter for the first time in four years, the world sugar market will be in deficit.

Baidik Sarkar: What is the extent of deficit?

Tarun Sawhney: A marginal deficit.

Baidik Sarkar: At current cost structure, what is the cost of conversion of raw sugar?

Tarun Sawhney: Cost of transportation depends on where your processing plant is, minor duties, clearing charges and about ₹ 2,500/MT for conversion.

Moderator: Thank you. The next question is from the line of Neeraj Marathe of HU Consultancy. Please go ahead.

Neeraj Marathe: Just wanted to get a view on our stake that we hold in Triveni Turbines. So what is the long-term thought process on that -- would we continue to hold that as a promoter stake or at some point of time the thought process is to monetize it?

Tarun Sawhney: The Board has not considered this at all, so I have no news to give you on this front.

Moderator: The next question is from Amit Khurana of Dolat Capital.

Amit Khurana: How will sugar production be affected if the monsoons are below normal and which states will see a turnaround?

Tarun Sawhney: If the monsoon is below normal, you will have increase in sugar pricing and the most significant swing will be in Karnataka and Maharashtra.

Amit Khurana: Do you see any margin pressure going forward?

Tarun Sawhney: We are in a challenging environment and certainly there is pressure on margins.

Moderator: Thank you. As there are no further questions from the participants, I now hand the floor back to the management for closing comments.

Tarun Sawhney: I would like to thank all of you for joining us for the 18-Month FY 12-14 Consolidated Earnings Review for Triveni Engineering & Industries Limited. I look forward to speaking to you in about three months at which point one would hope that we would see positive developments coming from the Union Government that we would see some amount of turnaround in the capital goods, infrastructure industry within the country and that there would be other positive news to deliver to you. Thank you for joining us. Good bye.

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