



Triveni Engineering & Industries Limited Earnings Conference Call Transcript August 19, 2014

Moderator Ladies and gentlemen, good day and welcome to the Triveni Engineering & Industries Limited Q1FY15 earnings conference call. As a remainder, all participant 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 Thank you Inba. Good day everyone and warm welcome to all of you participating on the Triveni Engineering & Industries earnings call. We have with us on the call today Mr. Tarun Sawhney – Vice Chairman and Managing Director; Mr. Suresh Taneja – Group CFO and other members of the 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 all invitees, it may not be broadcasted 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 perspectives with you with regards to the company's operations and results and outlook for the coming year. Over to you, Tarun.

Tarun Sawhney Good morning everybody and welcome to the Q1FY15 financial results review for Triveni Engineering & Industries Limited. Let me start off by talking about the company as a whole and then I will break it down into the various businesses.

Net sales in the quarter rose by 36% to ₹ 575.9 crore and this was primarily due to substantially higher sales of sugar during the quarter compared to the corresponding quarter in the previous year. The turnover for the engineering businesses was also higher primarily due to higher sales in the water business. Correspondingly, the EBITDA rose by 7% to ₹ 38.9 crore. We also had a lower finance cost by about 18% and this was due to lower term loans and working capital utilization. The overall debt of the company as on June 30, 2014 stood at term loans of ₹ 545 crore and working capital of ₹ 647 crore, totaling to ₹ 1,202 crore. The cost of funds which has stayed above 11% during this period. Lastly, the profit after tax on a consolidated basis stood at (-) ₹. 5.9 crore for the quarter lower than the nearly ₹ 20 crore loss that we had in the corresponding quarter of the previous year.

Turning quickly to the sugar business of the company, over the season 2013-2014 we have crushed substantially lower quantity of cane compared to the previous year. However, efforts in cane development, our effort in terms of bringing about higher

yielding and higher sucrose cane varieties has paid off. The average recovery rose from 9.28% in 2012-2013 to 9.32% this year. We expect that this rate will be even more robust for the coming season as there has been quite a lot of work that has been done in terms of varietal replacement, assisting farmers in improving their yields and irrigation practices. As on the June 30, 2014, we had 28 lacs of sugar in stock with us, approximately 50% of this total amount is refined sugar. As you all know, 2 out of our 7 factories, Sabitgarh and Khatauli, produced about 45% of total sugar, as high grade of refined sugar.

Sugarcane crushed during the season had been lower by about 17%. There were many factors and one can dwell on it because the season got over at the last quarter as to why the 17% reduction in crush took place. There were two major contributing factors. 1) There was unprecedented rainfall and flooding that occurred in Central UP and West UP. We had standing water well into the month of October covering the cane crop. Consequently, while the ratoon crop was not damaged per se, but when we started crushing the plant crop, there was severe damage. Yields have been reduced quite dramatically. In West UP to give you an example, the yields which typically for the plant crop range anywhere between 550 quintals per hectare had fallen by nearly 30% in certain cases. Similarly in central UP, the Koshi river flooded the Moradabad region and the JP Nagar region and consequently the crop was damaged and it impacted the yield. Nevertheless, we were able to work with farmers last year to ensure that at least the crop that was standing, was healthy, it was disease free, and consequently we achieved a higher recovery from the cane crop that was standing. I will address the weather pattern for this year, but let me start by saying that we have had exceptional weather, limited and well distributed rainfall and that has had a significant positive impact on not just the cane crop but the quality of the cane crop as well which is luxuriant at this point.

Going back again to the season review, for incidental co-generation we have Chandanpur and Milak Narayanpur and the revenue, there was revenue in Q1 FY15 along with the plants in Khatauli and Deoband.

Let me now turn to the co-generation business and distillery business and then the industry scenario. The co-generation at Khatauli and Deoband ran for under a month. Basically, the plant was shut and we had a few days of extra operations in April of this year. Nevertheless, it remains a highly profitable business for the Company and we anticipate that next year provided we managed to have smooth operations and I know that it is a very big question mark, we would be able to save substantial bagasse and operate this for longer periods of time.

The distillery on the other hand has done very well during the quarter. We produced slightly more in terms of production quarter-on-quarter. Realization has been substantially higher, shade under ₹ 37 and our stocks are still very healthy. 32% of the sales during the last quarter was ethanol. So the realization has been good. It has gone up by about 15%. The blend between the products that we supply is in line with our longer term strategies and there are many initiatives underway to ensure that we achieve this higher realization going forward.

Let me spend a little bit of time now talking about the industry scenario and way forward for the Company. The Company first, we are looking at some small projects, going forward, some more incidental co-generation and some improvements within the sugar manufacturing process so that the quality of sugar produced across the board is significantly better. Additionally, we are also looking at value-added projects. As far as the distillery is concerned in terms of potential establishment of capacity, we were very seriously looking at these projects. Having said that as you all are well aware, we have given a notice to the Government that we have suspended our operations and consequently all work has come to a standstill. All planning work as well has come to a standstill. Till we find a solution to this, it is unfortunate but I have to share with you that

any amount of seasonal work or any new Capex work that was envisaged will now be kept on hold for the foreseeable future. Looking at cane price for this year, currently the State of Uttar Pradesh contributes about 5,200 crore which is almost about 60-70% of the nation's cane price outstanding. This is a substantial amount and because sugar prices of course have come down, the actual money that have been released towards the payment of cane price is also very limited. As you have seen over the last 6 weeks, we have seen a decline in sugar prices. The decline is dependent on two factors. 1) The international exchanges have come up very substantially; we are looking at 17.75 cents per pound that is the current price for raw sugar approximately. Consequently it had an impact on domestic markets and more importantly in North India, we have also seen a lot of pressure that has been put on the mills and this has had a negative impact on the trade and on the pipeline. Both of which have been affected negatively and consequently we have seen a fall in sugar pricing over the last six weeks as well.

Looking at cane price outstanding and how that situation is going to be allied, the matter is sub judice as you all know. So the Chief Justice has directed us to sell a certain quantum of sugar. Now this matter, the hearings are not over as yet and the matter goes on and a lot of it will be dependent on the views that will be taken on the 3rd September which is the next date of hearing. Having said that, I think it is very difficult for the industry in Uttar Pradesh to clear its dues before a few months, very much like the situation we had last year where last year's cane dues were actually cleared with sugar produced in this year. That scenario realistically is going to replicate itself and will be further worse for the industry as a whole given the fact that there are couple of more companies that are going to CDR/BIFR in the State of Uttar Pradesh making the situation worse. Looking forward to next year's cane price, the industry has represented to the State Government that we will be unwilling to start without clarity on next year's cane price and we have asked and requested that the Rangarajan Committee formula be adopted. As you all well aware, Maharashtra and Karnataka have brought about Acts for the implementation of this formula. I am pleased to inform you that in the state of Karnataka after the first year when there was a tussle and there was some amount of legal hurdles that crept up, the industry and the Government and the farmer associations are all on the same page and they are happy with the committee that has been set up to look at the implementation of the Rangarajan Committee formula for this year. It is important to note that the central government at this point has announced ₹ 220 at 9.5% recovery as the FRP for the coming year. So it is a ₹ 10 increase year-on-year and it is an important consideration when one looks at what is the minimum price that would be paid across the country. Now the Rangarajan Committee formula for Uttar Pradesh, I would have to share with you that this is a challenging situation. It is a situation where the Government has to look at what pain the industry is going through currently and there are accumulated losses for the last few years. Without some kind of solution around the Rangarajan Committee formula, it will be very challenging for the industry to work through one more year. Now the representation that has been made is that like the prices or like other commodities, wheat, rice etc., the Government is free to set any price that it chooses; however, the difference between the Rangarajan Committee price and the SAP that is finally set should be borne by the State Government. That is the representation that we made. Over the next few months, it is difficult to give you an idea of how those discussions are going because those discussions have not started as yet. But I would assume that over the next few months we would have greater clarity and by the next time that we speak, we will know exactly where we are in terms of any potential linkages and rationalization of sugarcane price in the State of Uttar Pradesh.

I would like to turn towards the Central Government. The industry the national body, ISMA has made a representation before the Minister last week and we had a four point agenda. The first is to raise import duty from 15 to 40% and the second is to extend the existing SEFASU loan from a period of 3-5 years. Third is to give another SEFASU loan of ₹ 4,400 crore, SEFASU is interest free loan and the fourth point is to ensure the implementation of sugar price linkages across the country, be it through legislation or

direction. The Central Government does have that power and we have made representations to support this claim and to point out that a large portion of the sugar that is produced comes from SAP States in the country and that we do need some rationalization, otherwise the states will be fighting for survival. The Central Government had said they are concerned about sugarcane prices in Uttar Pradesh and they will be willing to look at these measures provided the arrears are cleared. So it is a bit of a Catch-22 situation at this point in time. Looking at next year, the production estimated by Triveni is in excess of 25 million tonnes. We believe that the largest increase will come from Maharashtra and Northern Karnataka. The crop there has been very good and all fears for a poor monsoon have been set aside and we have had a good monsoon in Maharashtra and Karnataka which I guess both represent about 50% of the country's production and therefore it is fair to say that next year, we will have to have an export policy. ISMA has also written to the Government regarding the need to export up to 3 million tonnes of sugar next year to lower the closing balance as on September 30, 2015. We have also represented that there is no need whatsoever to have a balance of over 2 months at the end of the sugar year. With that kind of a scenario, it is important to control sugar prices, to balance sugar prices and to leave the industry in a very healthy scenario. I would like to content at this point that our view as Triveni is very clear that India at no point should be an importing country. Our position going forward given the healthy cane prices that have been paid should always be one of a net exporter and therefore we need a change in policies to be able to support that position and we will of course be taking this up with the various authorities to present papers etc. to support this position.

As you know the UP industry was also expecting a ₹ 9 per quintal subsidy for this year's cane price. There is no news on that. The committees have been formed by the Uttar Pradesh Government; however, they are yet to submit a report and there is no sign of any report coming soon. So no news to report on that front.

Turning to our engineering businesses, the gears business had a muted quarter and this is primarily because there was some amount of economic uncertainty in Q1FY15. However, the order booking has been very good during this quarter. We feel that Q2 will certainly not just meet the expectations of the quarter but certainly rise to compensate for any shortfall in dispatches etc. in Q1 of this year. We had a substantial amount of finished goods lying; however, customers were hesitant to take delivery and that is another reason for the muted turnover numbers. But you would be happy to notice that we have had decent profitability in the gears business and this is really due to our ongoing and continuous efforts of value engineering of product management and new product introduction, a combination which allows us to maintain our margins and for the year going forward, we will certainly look into scenario where if anything there will be an increase in our margin structure for this business. The latest product that we have developed was the epicyclic mill gearbox. It has functioned extremely well in its test yard, in its test condition at a sugar factory and we will be launching 500 KW to 1500 KW model variants for this particular business for sales globally. We have activated our entire agent structure stretching from Latin America to South East Asia in all the large sugar growing countries to be able to sell this product into those markets and the enquiry book on hand is very encouraging and I forecast that some portion of the growth of our gears business will come through all this new product introduction that we are doing.

As far as the water business is concerned, there are two important points here. In Q1, we had the national elections. As you know we are only looking at larger municipal projects and consequently, there were not many projects that were finalized but I am happy to tell you that as far as project execution and completion is concerned and you can see that from the revenues of this business, we had certainly established almost all the pre qualifications that we required for this business, that our strategy required for this business, those are all in place and they allow us now and in the future to bid on very large contracts where previously we had some challenges and qualifying those

challenges do not exist any longer and therefore Triveni's ability to actually participate in the tenders for almost all large water projects is very much there. We can look up on this over the coming few quarters, few months in a very positive manner. We are excited about the growth, its offers and we believe that with all the development that is envisaged at the State Government level, at the municipal level, especially with respect to water security and water safety, we will be beneficiaries of this development.

With that having being said, let me summarize the position for the Company. As far as sugar is concerned, it is a challenging business because at this point in time we have suspended our operations. I do hope we are able to reach a satisfactory conclusion with the State Authorities and State Government because it is a business that supports the livelihood of a large farming population, a farming population that has been joined to us symbiotically for 8 years. We feel very strongly about this relationship and we are trying our level best in order to be able to find the satisfactory solution for all the stakeholders, our farmers, our suppliers, our shareholders etc. As far as the engineering businesses are concerned, the market is looking eminently robust. The order booking is certainly supporting this view and we would hopefully be able to report excellent numbers going forward over the next few quarters. Thank you very much. With this, I would like to open the floor for questions.

Moderator

The first question is from Aman Sonthalia of Suvridhi Capital.

Aman Sonthalia

How can the cane prices issue be solved because if you go by the Rangarajan Committee recommendation, the cane price will be around ₹ 240 per quintal. Right now, the Government's financial position is not in a very good condition. If they reduce the cane price, the farmers will get angry. It is a very difficult task at the moment.

Tarun Sawhney

You raised a very important question and I would like to spend some time answering this. Let us assume the figure is between ₹ 230 and ₹. 240 based on the Rangarajan Committee formula looking at the sugar pricing for the last 12 months. Now, even if you assume that the farmer must be paid the same amount as he was paid last year ₹ 280 that leaves a delta of anywhere between ₹ 40-₹ 50. For ease of calculation, let us just take ₹ 40. Now in this year the Government said that they would consider ₹ 9. Let us assume that ₹ 9 comes. Now clearly the Government can extend itself. I do not want to comment on the fiscal budget of the State Government because even if the State Government has to bear ₹ 40, it is a drop in the ocean as far as the State Budget is concerned. So we are talking about a very small amount of money given the overall budget of the State Government. It purports to about 1% of the State Budget whereas there are provisions in the Budget for project such as these, initiatives such as these. Now the Government, you have to remember also supports, be it Central or State supports certain crops in the State and offers farmers some amount of security in terms of price realization. That support in subsidy all comes from the Government. Now sugarcane is any other crop and our contention is because it is any other crop, any price that you want to pay beyond the reasonable price, any price that you want the industry to pay that subsidy should not be borne by the industry and the Rangarajan Committee formula is quite simple. The industry should be liable for what it is financially accountable for which is as you know what the formula is. However, any price above that and this is the contention that we have made should be borne by the Government, be it State or Central and as a matter of fact, it should be the State Government. Now this realization of how we are going to come to this formula, a committee has been set up, it has been many months since the State Government committee under the stewardship of the chief secretary has met. In fact, I believe it was the different chief secretary at this point in time. But this is a scenario which really has to see the light of day. We have seen many articles in the press which supports the case that the industry has put forward and I am happy to note that there is a growing concern as to what will happen and what the future for the UP farmer will be. Bearing that in mind, the only solution that is possible to answer your question is if the State Government bears the

difference between the Rangarajan Committee formula price and any additional price that they want to pay.

Aman Sonthalia

Right now the international sugar price is quite weak and the domestic price is also very weak and the Government has given some subsidy on export. But right now the international price is so weak that even with this incentive; the export is not possible. The surplus scenario will remain and how the sugar price will improve in the coming season because domestic production will also decrease in the coming season? What is the price outlook for the coming season as far as sugar is concerned?

Tarun Sawhney

That is another excellent question. You have to look at two things when we look at international pricing. You have to look at the October contract and then the March contract which is the next price. The delta between the October-March contract is almost 2 cents. So it is very different, when you got 15.75 you have got 2 cents higher. Exports over the next 2-3 months look challenging because something has to happen, either domestic prices fall further which actually leads to a more challenging situation across the country or international prices rise. However, when we move towards the start of the next season when we move into the end of October and early November, at that point in time the March contract is the one that all sales are based on. So basis the March contract provided the Central Government extends this scheme on to September 30, 2015 which was actually part of the note that was written by the previous Central Government. We will have exports taking place, provided that we are offering the same amount of export subsidy. There is a very good chance of up to 3 million tonnes of sugar being exported next year, given what the forward contract pricing is like. To conclude, you are right that exports in September and perhaps in October will be a challenge but going beyond that it should not be a problem.

Aman Sonthalia

The Government wants the farmers to be paid well. The farmers also want good price for their cane but at the same time, the Government also want the sugar inflation should remain under control and for that they want the sugar price to come down. How can both things happen? At one point of time, the farmers should be getting very good price, at the same time they want sugar price to come down. How is this going to be sorted out?

Tarun Sawhney

Let me approach this question from two different angles. We will look at sugar price and look at cane price. Of course, the government wants the highest possible sugarcane price because we were talking about many lakhs of farmers and this is across the country. Now the view that has been taken is that if you have a sustainable price that gives the right signaling to the farmer, he will then decide when to plant cane or to plant another crop at ₹ 280 in Uttar Pradesh for example. It is a very healthy price. It is possibly with the exception of Punjab and Haryana and Uttarakhand which are of course much smaller states, but they offer more subsidies and incentives to their sugar millers. On a net basis, we are actually paying the highest price for sugarcane, not just in India but probably anywhere in the world. That is a very high price to pay. When we look at sugar price, very honestly speaking 75% of the country's production goes to institutions. Another 10% or so goes to what is the PDS. So you are talking about 15% that goes to the 1.4 billion people in terms of direct consumption. Now an analysis that we have done indicates that the consumption for a family of four is to the tune of ₹ 5 kg a month. Direct consumptions is 5 kg a month. If the price rises even by ₹ 5, so today's retail price, the retail price is about ₹ 35, I am saying to the consumer. If the price rises from ₹ 35 to ₹ 40 per kg, the impact per family is of ₹ 25 per month. Now the contribution of sugar is part of the weightage and CPI, I do not want to comment on that. There is CACP, there are a lot of Government agencies that look at that factor. But the truth of the matter is that a ₹. 25 increase in the monthly household burden a basket for sugar per month is not contributing to inflation. Certainly not when we have seen the prices of tomatoes or the prices of onions go up by ₹ 25 per kg.

Aman Sonthalia I talked to a lot of ground level people of sugar industry, they are of the view that right now in Uttar Pradesh, most of the farmers are not using very scientific method of farming and they are not also using very good variety of cane for plantation. Because of that, the yields are quite less as compared to Maharashtra and Karnataka. Do you think that industry should work on to increase the yield as far as the sugarcane is concerned? If the farmers get higher yield, that means they will get more price for this and overall if we calculate in volume terms, they will get more price for the cane and the problems will be sort out in the long run?

Tarun Sawhney I want to divide it up into 2-3 parts. To consider this, the point that you are making, number one, one has to recognize that the crop in Uttar Pradesh is a nine-month crop. The crop in Maharashtra is a 15-month crop. So the duration of the crop is larger. It is unfair to say that the yield in Maharashtra is X and the yield in Uttar Pradesh is Y. The crop in Maharashtra has 6 months more in the ground, right?

Aman Sonthalia That is true.

Tarun Sawhney So one has to look at what is the return to the farmer. If you look at the return to the farmer given the fact that the yield in Uttar Pradesh are lower than the yields in Maharashtra, your utilization of land in Uttar Pradesh is far greater. The net return to the farmer in Uttar Pradesh is greater than Maharashtra. There is no doubt about this. Given the fact that Maharashtra pays FRP and Uttar Pradesh pays SAP. There is absolutely no doubt about this. Now if you look at it from the farmers' perspective raising yields, the average land holding in Uttar Pradesh is under one hectare per farmer. So you are looking around about 2 acres per farming household, per farmer let us put it that way. Now that is an uneconomical size of plantation to bring about any type of technology, etc. and the influx of technology, be it mechanical planters, be it mechanical harvesting, be it a whole host of technologies that are available, can happen due to two reasons. Number one, it does require legislative change, some amounts, or legislative assistance to allow the farmers to plant better, to use different types of irrigation, etc. Now in this department, there are many initiatives and incentives that various State Governments have, including Uttar Pradesh. Uttar Pradesh has a 500 crore fund to spend on better farming practices, of which no money has been spent for a few years. Other people who can spend the money is the industry, for the industry to be able to spend money, you need to have profits. Your incentive is to invest into the business so that you become as efficient as possible. As conversion is concerned, as far as the factory is concerned, I have to tell you that the Indian sugar industry in terms of converting sugarcane into sugar is the most efficient the world over in terms of cost. So the problem really lies is where 75% of the cost is which is in Uttar Pradesh's case, 90-95% of the cost which is cane. So how do we get better varieties, how do we ensure higher sucrose content, how do we ensure that the cut to crush is minimized, how do we ensure that their impact of disease and pests is also minimized, etc. There are many initiatives. We at Triveni are doing a large amount of cane development. We are devoting resources towards this. In terms of improving varieties, one way is to get healthy varieties that have been declared by the State from the healthiest regions and propagating those varieties. We have done quite a lot of that in our areas. Number two is a dissemination of technology. We are certainly doing that. Number three is actually looking at maturity based harvesting. We are looking at that at multiple units. In this department, we do need the support of the State Government because there are legislative hurdles that need to be crossed. Now with maturity based harvesting regardless of what you planted, the objective of this is quite simple. The cane will be harvested or rather the intimation to the farmer as to when to harvest the cane will be done on the basis of when his cane is most mature. That means that the weight of the cane is also the highest. The beneficiary is all around. The farmer benefits because he is getting paid on the basis of weight which means his crop is being harvested when the weight is the maximum. The factory benefits because it is done on the basis of maturity which means the sucrose content and the weight of the cane is the best and therefore you have an all-round winning situation. Now for

initiatives like this we are approaching the State Government, of course right now we have more important dialogues to have with the State Government. One of these dialogues even this year will be this maturity based harvesting and I hope that we have some amount of success in this initiative.

Aman Sonthalia Has Karnataka implemented this Rangarajan Committee formula because as far as I know that they have set up a committee with farmers, distilleries, politicians and all these people. But they have not given a clarity on transportation cost because right now they are giving around ₹ 500 per tonne for transportation.

Tarun Sawhney You are raising a point that is actually a very small point in all of this. Last year what transpired is that the cane price under Rangarajan was set but the assumptions made were little wrong and therefore the matter became sub-judice. This year the committee that has been formed has been formed with the understanding that everything would be done in a realistic manner including transportation, including harvesting, including all cost parameters and the industry is very happy. In my conversations with the industrialist from the sugar industry from Karnataka, they are very happy with this committee that has been formed, very happy with Act etc. and I might remind you that this Act was actually passed through two different Governments. We had one party that was in power which passed the Act. We have another party that is ruling the State now. So it has gone across parties. This is no longer a political decision necessarily in the State of Karnataka. In fact it is found, it is most agreed formula and one that should be followed by the State and I am delighted that Karnataka is the flag bearer for this initiative.

Aman Sonthalia In the water division, how many orders do we have in hand and right now, the New Government is of the view to put more impetus on this water treatment. How do you see our future prospect of this division?

Tarun Sawhney Orders on hand as of June 30, 2014 stood at under ₹ 500 crore at ₹ 480 crore. As far as your views on the New Government are concerned, we are very bullish about this business. The number of water initiatives that are being proposed by the Government is not just in terms of clean water but also from a sanitization perspective, from the rivers, intake drinking water, etc., and therefore the number of projects that need to come up in the country and the upgradation of existing projects, etc. those would be two exciting areas for us going forward. I believe that over the coming few quarters we will see a robust growth in our water business.

Moderator The next question is from Neeraj Marathe of HU Consultancy.

Neeraj Marathe On the sugar segment, if we look at the suspension notice which was given last year, our overall wording and approach this year has been very strong, last year we were talking about pricing for the year as a contentious issue. Now we are talking about change in the policy which is very logical and rational. Unfortunately, given the fact that the State Government has not had a history of being rational and logical, is there a plan B, what if they do not go for this and this standoff continues, what happens then?

Tarun Sawhney The seriousness with which we are taking it this year and the time of course is now, fact my personal view I think we are a little late. We should have actually started this initiative because at the end of the day the farmer plants his cane. You might as well tell him at the time that he is planting his cane that unless you know the price, there has to be some kind of rationalization. So is there a plan B, not one that I can share with you right now. I think the standoff and situation is fairly clear. We need rationalization of sugarcane pricing. The most plausible, the most logical route for that is the implementation of the Rangarajan Committee formula without any type of tinkering for Uttar Pradesh. The arguments that will be made and you will probably read about it over the subsequent few months is that our recoveries are lower, our yields are

XYZ, etc. We must remember that the sugar sold in Uttar Pradesh is also sold at a higher price than Maharashtra. The comparison between Maharashtra is offset by that fact that the sugar that is sold in Uttar Pradesh is higher and the formula for pricing of sugarcane is based on sugar price. That is a very important factor as far as the implementation is concerned. Without any tinkering, the logical and plausible we are going forward is at 75%, what has been recommended by Dr. Rangarajan.

- Neeraj Marathe** From a legal or constitutional perspective, can the Central Government override the State Government in terms of compulsory implementation of the formula?
- Tarun Sawhney** The Central Government has proposed, has basically recommended the State Government that they look upon the Rangarajan Committee formula and find a solution, and try and implement it. Now that has been a statement made, it is not really a direction or compulsory direction. However, what is within the Central Government's purview is the Central Commodities Act. There are two ways of looking at this. Modification to clause 3(a) of the Central Commodities Act can be very important in terms of passing on the extra burden and that burden is the difference between FRP and SAP to the state government. The introduction of clause 3(b) which has happened once and then was repeated by the government also allows the central government to pass on that burden.
- Moderator** The next question is from Sirish Hisaria of Kotak Mahindra Bank.
- Sirish Hisaria** The estimates for the FY15 is around 25 million tonnes plus. I have made a small rough calculation. Just want to check whether this is correct. Acreage is around 52 lakhs hectares?
- Tarun Sawhney** Correct.
- Sirish Hisaria** I am assuming 70 tonnes per hectare sugarcane production pan India, is this right?
- Tarun Sawhney** No, that is wrong.
- Sirish Hisaria** How much should that be around?
- Tarun Sawhney** We have got detailed calculations on this. We have had our analyst who travelled the country and if you would like to call us offline, we will be happy to share all our numbers with you rather than go through a very minute discussion, The average for the country is somewhere in the 50s. I do not have the table with me which is why I am saying if you call us offline, we will share all our numbers with you.
- Sirish Hisaria** Even if I take 60?
- Tarun Sawhney** It is in the 50s. Yes.
- Sirish Hisaria** If I take 60s and if I take that out of this 75% goes for sugar production and rest 25% goes for other production and a recovery of say 10%..
- Tarun Sawhney** The way to do this analysis if I can recommend is to look at it on a State by State perspective. To take all India averages will almost inevitably arrive at the wrong numbers. My suggestion is you pick the top five sugar producing States and the rest of the States you can just average. Take Uttar Pradesh, Karnataka, Tamil Nadu, Maharashtra and pick one or two other States and do this analysis all area under cane yield.
- Sirish Hisaria:** Is it not correct to do it on a Pan India basis.

- Tarun Sawhney** To do it on a pan India basis will almost always give you numbers where you will question your assumptions.
- Sirish Hisaria** As per the IMD, the deficit in Western UP is around say 51% and East UP is 32%, will this impact the sugarcane production or how will this impact the sugar production?
- Tarun Sawhney** No, this is very beneficial for sugarcane. Last year we had too much rainfall. This year we have had interspaced and the perfect quantum of rainfall. As far as West UP is concerned, our farmers have the luxury of actually having access to beautiful canals. They are not dependent on rainfall and therefore the total quantum of rainfall in West UP is something that has to be monitored very carefully. We certainly do not want excess and this year we have been very lucky that it has been moderated. Now we are towards the end of August, provided we do not have any type of massive rainfall with retreating monsoon in the month of September we should be clear as far as the rain is concerned.
- Moderator** The next question is from Yash Choksi of JM Financial.
- Yash Choksi** There were some articles that there were floods in the Uttar Pradesh region. Do you think there will be any impact on the yield or the recovery rate because of this or some of the articles have mentioned that some of the cane fields have been submerged.
- Tarun Sawhney** Typically we have been through this before. We had flooding that happened in two of our units in Central UP last year which resulted in significant reduction in the yield. If the water is left standing, theory and experience suggest that it will have a reduction in yield as well as recovery. Now that is if the water is left standing. By left standing means for 2-2.5 months. If there is a massive flooding that has taken place and the water remains in the field, yes we will have an impact on the sugarcane crop. Not all of the districts that have been impacted by the floods are sugar producing districts in Uttar Pradesh. Some are and I would imagine that if there is water in the field, sugarcane field yes, those fields might get impacted if the water does not dissipate and stays stagnant in the field. As far as Triveni is concerned, we have no factories in these districts.
- Yash Choksi** There were some news articles before as well and the government has seized a lot of stock to clear the cane arrears. Has any of your stock been seized?
- Tarun Sawhney** Yes we have at one of our units, we have had Khatauli, we have had some of the stocks seized; however, as you know the Chief Justice of the Allahabad High Court, Chief Justice of Uttar Pradesh has given directions that we can sell any of the sugar, be it seized or not seized, we are waiting for that order and of course the proceeds from those sales will be diverted towards cane price payment and the matter is sub-judice. But it is only a small percentage of our stock that has been seized. Massive quantum is fine. They are with us and we are of course in the process of selling it. The question is the quantum that you can sell each month.
- Yash Choksi** Will the State Government be selling the order which you have given?
- Tarun Sawhney** No, State Government does not sell anything; it is the factory that will sell. We will continue our regular course of business.
- Yash Choksi** I was talking about the stock which has been seized.
- Tarun Sawhney** That does not matter. We can sell that as well.
- Moderator** The next question is from Sunny Agrawal of Aditya Birla Money.

- Sunny Agrawal** What is the likely price of ethanol in the upcoming tender and what is the headroom vis-à-vis parity of petrol over the next 2-3 years where it can head?
- Tarun Sawhney** In the recent ethanol tender, we cannot comment on what the pricing has been, we are unaware of what the pricing has been. We can only speak for ourselves where we gave a higher rate by several rupees. I do not know whether that means that we will be L1 or not. If we are not L1, we will have to match L1. If we are L1, we will get that increase. We are certainly looking at a few rupees increase, but it is very difficult to say because we do not know what anybody else has tendered. It has been an open tender as you know. As far as the trend going forward is concerned, we know where crude prices are heading. We know what the import bill is for crude and the cost of the excise, the 10% blending that the New Government has brought about require some amount of legislative changes in terms of using different varieties of molasses for making ethanol, etc., so that the quantum made in the country goes up. In addition to that, we need some amount of parity in terms of interstate taxes. Once we have all of these rationalized or if ethanol has made into a Central Government subject which is what we would ideally like to see, we will have a large quantum being blended at least all the 10% and we will see ethanol prices rising up to the parity like in Brazil where the difference in calorific value determines the difference in cost between ethanol and petrol. We will see ethanol prices also rising.
- Sunny Agrawal** Do we see any possibility going forward where in Government permits the direct conversion of sugarcane into ethanol and that it takes out the extra sugarcane from the industry and at the same time satisfies the needs for various industries for alcohol.
- Tarun Sawhney** Well, there were some changes that had been brought about by the Government and HPCL has bought a factory in Bihar looking at direct conversion of sugarcane into ethanol. The change that is required right now, the industry is asking for is that if heavy molasses can be converted directly to ethanol taken straight into the distillery that will allow us more flexibility. There is some amount of legislative change that is required and well we hope that the Government works together in implementing this.
- Sunny Agrawal** The water division seems to be having lot of excitement with lot of flare into it. In the long run, where do you want to take this segment?
- Tarun Sawhney** We as a company are not tied down to any technology. We have made some investments in technology and as far as we are concerned, we play across the entire value chain in the water business. However, in terms of positioning we made ourselves very clear. We are looking at larger projects, sewage and water treatment and pushing forward along those lines is the current short-term and medium-term objective. As far as the longer term objective is concerned, it is to have a robust water business with the entire vast presence looking at not just new project implantation but also supporting O&M activities for existing projects.
- Moderator** Thank you. Ladies and gentlemen that was our last question. I now hand the floor back to the management for closing comments.
- Tarun Sawhney** Ladies and gentlemen, thank you very much for joining us for this quarterly update. Over the next few months holds a lot in store for us. In the engineering business, we are clearly looking at a more, a greater, faster pace of industrial growth and revival in the country. We believe that this is a distinct possibility and I am quite certain that when we come back to you in three-odd months' time, we will have excellent news to report. As far as the sugar business is concerned, the ball is very much with the central and state governments in various manner; the Central Government to announce certain policies and State Government to look into cane price. As far as the industry is concerned, our hands are pretty much tied and we are looking for relief from the

government and hopefully when we come back to you we will have some positive news. Thank you very much for joining us today.

Moderator

Thank you. On behalf of Triveni Engineering & Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.