



## Triveni Engineering & Industries Limited

### Q2 and H1 FY 16 Conference Call Transcript

#### November 16, 2015

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**Moderator** Good day ladies and gentlemen and welcome to the Q2 H1 FY 16 Earnings Conference Call for Triveni Engineering & Industries Limited. As a reminder, 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 this conference call, please signal an operator by pressing \* then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

**Gavin Desa** Thank you, good day everyone and warm welcome to all of you participating on Triveni Engineering & Industries Q2 and H1 FY 16 earnings call. We have with us today on the call Mr. Tarun Sawhney – Vice Chairman & Managing Director, Mr. Suresh Taneja – the Group CFO and 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 invite which was emailed to you earlier. I would also 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 call with the opening remarks from the management followed by an interactive Q&A session wherein you can discuss views and key issues. I now invite Mr. Tarun Sawhney to commence the call. Over to you, sir.

**Tarun Sawhney** Thank you, Gavin, good afternoon and welcome to the H1 fiscal 2016 results call for Triveni Engineering & Industries Limited. On a consolidated basis for the half year our net sales stood at ₹ 935.35 crore with a loss after tax of ₹ 68 crore. The sugar business highlights were quite simple. The prices are in the process of stabilization considering the lower production forecast both domestically and globally, the government of Uttar Pradesh has paid a Cane subsidy of ₹ 268 per metric tonne for the sugar season 2014-2015 and while doing that it has hopes for a more realistic cane price fixation for the ensuing sugar season 2015-2016. The Government of India has announced mandatory exports and a 10% ethanol blending program which are important steps in the right direction. As on the 30<sup>th</sup> of September, All India Sugarcane arrears stood at ₹ 9,000 crore with Uttar Pradesh at over ₹ 4,000 crore.

With respect to our engineering business, the highlights are very brief. The engineering business performances were marginally muted due to the overall economic environment. However, there has been excellent inflow of orders in H1 2016 in both our Water business and in our Gears business. As a result, our outstanding order book at the half year end stands at ₹ 763 crore which is a year-on-year growth of 37%. The last highlight is the scheme of arrangement where we

have obtained in-principle approval from SEBI and the stock exchanges and the petition has also been filed in the High Court.

Turning to the financial highlights for the quarter. In Q2 fiscal 2016 our net sales were ₹ 430 crore with a profit after tax of ₹ 22.17 crore. The turnover has been lower on account of lower realization for sugar even though the volume of sales was higher. The engineering business as I mentioned upfront were slightly muted in this quarter but the inflow was excellent in both the water and gears business. The overall debt of the company as on 30<sup>th</sup> of September is ₹1,073 crore which is marginally lower than compared to prior year on 30<sup>th</sup> September 2014 and this includes loans of ₹114.5 crore which have been availed under the Center Government Scheme SEFASU-II. The term loans as of the 30<sup>th</sup> of September were ₹ 599 crore and that was approximately 16% higher than the preceding year.

Turning to the sugar business, I would like to segregate our sugar and engineering business and talk about the highlights that we can expect in the future individually for both businesses. As far as the sugar business is concerned the sugar operations reported a profit for the quarter under review and this was primarily due to a reversal to the extent of ₹ 40.42 crore which was the inventory write down reversal considered in the quarter. This was done because of the improvement in sugar prices over the quarter that has existed all the way up to till today. Sugar inventory as of the 30<sup>th</sup> of September stood at ₹15.38 lakh quintals valued at an average of 2,630 per quintal.

During the quarter a very important step was the fact that the Government of Uttar Pradesh paid ₹ 286 per metric tonne as a subsidy for the sugar year 2014-2015. This subsidy was paid directly to the farmers' accounts and thereby ensuring that the Government of Uttar Pradesh has become a stalwart in terms of this type of subsidy payment and directly to the eventual stakeholder. Payment of such a vast amount of over ₹ 2,000 crore directly to the stakeholder raises hopes for the future in terms of the tripartite Association between the Government of Uttar Pradesh, the Industry and most importantly the farmers and it leads to a great degree of positivity going forward.

As on the 30<sup>th</sup> September, as I mentioned, UP arrears stood at ₹ 4,000 crore. Our average realization during Q2 fiscal 2016 was ₹ 24307 per metric tonne. Turning to the co-generation business this will be the off season and there were no operations during this quarter. As far as the Distillery operations was concerned the sale quantities and average realization has been higher by 21% and 8% respectively from the corresponding previous half year and has enabled us to achieve higher turnover and higher profits. The share of ethanol for H1 fiscal 2016 is 83% of the total sales volume which is more than double when compared to the corresponding period of the previous year.

I would like to turn to the industry scenario in sugar. As per industry estimate, country's production for the year 2015-2016 is in the range of 27 million tonnes. As the company, we are projecting marginally lower between 26.8 million tonnes to 27 million tonnes which is lower than at least 1.5 million tonnes for the sugar year 2015. Sugar prices had declined to six years low in July due to the impact of surplus stock in the country and weakening of international prices. International prices fell to the 10 cent mark which was seven year low and there was steep depreciation of the Brazilian real that happened concurrently. The prices has substantially firmed up during the latter part of the quarter and there are multiple factors both domestic and international that played an important role in this rise from historic lows and they can be tune down to talk by the government, to export 4 million tonnes of sugar that has been made the mandatory limit. In addition to that there has been the El-Niño impact in Brazil. But let me start by just saying that

the prevailing sugar prices are still below the cost of production and that is something very important for us to consider. Total sugarcane acreage for the year 2015-2016 is estimated to be 52.8 lakh hectares which is just 0.4% less than the previous year and according to Triveni's estimates Uttar Pradesh is going to have exactly the same acreage. Due to the better varietal balance across the state and a normal weather pattern that has existed for the last few months we are expecting higher production in the state of Uttar Pradesh. Maharashtra and Karnataka had a decrease in cane area with the draught like situation that existed in part of the summer months. There will be a substantial fall in sugar production in those states. I think the important factor to consider here is that the Uttar Pradesh has never been in the swing state in the fortunes of the sugar industry for the country. The swing states have always been Maharashtra and Karnataka and therefore it is important to track the future of Maharashtra and Karnataka sugarcane planting and performance in determining what the future of the Indian sugar industry and the future of Triveni Engineering sugar businesses going forward. We are seeing that the 18 month planting in Maharashtra also suffered significantly because of no water in the dams and reservoirs and due to poor rainfall. It did pick-up very slightly at the very beginning of this quarter because there were some rainfall but the damage has already been done.

Turning to the Central Government's notification for mandatory export of 4 million tonnes, over 100,000 tonnes of exports have already been finalized and we are seeing that move quite substantial. At present export is in the form of white crystal sugar but I anticipate that as the season progresses there will be raw sugar production in the coastal states and that raw sugar will meet major part of that 4 million tonne target. Even if we come to 3 million - 3.2 million 80% of that target let us say raw sugar production and export is absolutely crucial for that to happen. International sugar prices as mentioned have rebounded up to the 15cent mark and that coupled with the increasing domestic prices and parity between them has allowed for this export to take place perhaps a lower loss than what was anticipated. Three months ago if we had this conversation we anticipated a ₹ 5, ₹ 6, ₹ 7 loss where the loss is lower than ₹ 5 and that is why this export is taking place and will continue to take place going forward.

Looking forward for this sugar year until mid-October 2015 the sugar production in the center south region of Brazil stood at approximately 25 million tonnes. In Thailand the sugar production is marginally lower from the previous year and therefore, what we are looking at globally is a scenario for sugar deficit moving into this year of several million tonnes and the estimates of several houses, etc. everyone agrees that there is deficit, the variances is between two million tonnes and three million tonnes of sugar to maybe four million tonnes as some of the extreme estimates are and all of that is leading to a positive sentiment in the international sugar market.

Looking at the outlook for sugar I think it is important to revisit my statement which is looking at the performance of Karnataka and Maharashtra as the swing states for the performance of the sugar industry across the country. But turning towards Triveni I think we in this season will be beneficiaries of the hard work that has been done by the teams in terms of cane development. There has been extensive work done in our cane areas and this will certainly have a better impact in terms of our recoveries once the sugar factories get started. As of today the sugar factories have not yet started for the season. We are anticipating that the Government of Uttar Pradesh will set a reasonable cane price however there is no clear indication at this point as to what that date of setting might be and no proposal has, as of yet, gone to the cabinet of the Government of Uttar Pradesh.

On the Central Government's perspective, the move to embrace 10% ethanol blending has been welcomed by the industry, to reach those levels I think we will

take few months or maybe years, there will be a need and requirement for fresh capital expenditure for ethanol manufacturing capacity and this will happen as the tide and fortunes of the sugar industry changes. The current sugar price as of now in Uttar Pradesh is approximately ₹ 2,700 per quintal.

Turning very quickly to our engineering businesses, the turnover and PBT for the Gears business in H1 2016 was higher by 12% and 11% respectively; there have been an increase in the off-take by OEMs even though there has been some lumpiness in terms of the mix of sales between original equipment refurbishment spares, etc. The important factor is that the exports have shown good growth and account for 14% of revenue which is quite significant change and development year-on-year.

The overall market is impacted but we are benefiting from the approach of becoming global in our outlook in marketing. The order intake of ₹ 58 crore was higher by 17% in H1 from the corresponding period in the previous year and the outstanding order book of this business stood at ₹ 69 crore which is a growth of 29% when compared to 30<sup>th</sup> September 2014. Water business during the half year has suffered due to the lower order intake in the previous year and project delays and some payment issues with customers. The position of order intake has improved in H1 fiscal 2016 and our water businesses has received orders of over ₹ 300 crore which includes a very large portion of operations and maintenance. There are many other enquiries across all segments in the pipeline and are awaiting finalization. I expect that this quarter and in the next quarter we will see substantial order finalization for our Water business and the performance in the half year and the previous quarter is because of that lumpiness in terms of revenue recognition.

The weakness in the domestic market for the capital goods industry is seeing a lot of change and that change is primarily because of increased government spending. So we are seeing that the State Government and the Central Government look very aggressively in terms of investment in infrastructure and both our Water and Gears business will be beneficiaries of that, the benefit to be accrued over the subsequent quarters. One is also seeing a pick-up in enquiries in the private sector as well however, the conversion of that into solid orders is yet to happen, and therefore we are seeing that the sluggishness does continue to an extent. I think where the rupee stands today from an export perspective we are beneficiaries of that, the competitiveness that manufacturing industry in India at this point in time and our Gears business has been a beneficiary and you can see that in the results of this quarter where our export revenues have increased fairly significantly.

Looking forward and looking at the outlook for our engineering business from the Gears perspective we are focused on growing the export market, the regional markets are Southeast Asia and a host of other countries. Our relationship with General Electric, GE Lufkin and GE Oil & Gas is most important in our growth story over the next coming quarters in years and that business is already starting we expect to reach new heights in subsequent quarters. With a strong executable order book we believe that the second-half of the current financial year should reflect a better growth for Gears business in terms of both turnover and profitability. With respect to the Water business, with new orders having received the turnover should show a growth based on the execution of these orders and therefore the lumpiness which is the main reason for the loss we expect to even get more orders. We are expecting a large amount of order finalization this quarter and in the next quarter we will see that when we get into execution of those orders this lumpiness and variation will be avoided quarter-on-quarter.

Lastly, with respect to the scheme of arrangement as I had mentioned the Company had initiated the process of restructuring of the business and separating of sugar and engineering for facilitating the growth of both the businesses and for creating value for the stakeholders. The in-principle approval has been received from SEBI and the Bombay Stock Exchanges and National Stock Exchanges and the scheme has been filed with the High Court. The 19<sup>th</sup> of December has been set as a meeting for all stakeholders and we are expecting that we should get final approval for this and the scheme should be complete by the end of this fiscal year March 2016. Thank you very much. And with that, I would like to turn over the floor for any questions.

- Moderator** Thank you very much, sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Nirav Shah from GeeCee Investments.
- Nirav Shah** Few questions, firstly, on the Gears front, what is the current revenues that we can do on the current capacity that we have and how many shifts are we operating right now?
- Tarun Sawhney** As far as the Gears business is concerned you will recollect that the Board of the Company had approved a significant capital expenditure to expand the capacity of the Gears business. The Gears business capacity stood at ₹ 150 crore prior to this expansion let us say between ₹ 130 to ₹ 150 crore based on the product mix as you can imagine these are unique products so it is impossible to give you a spot number. So the capacity depends on what is the exact product mix such as the weight, the size, the specifics of each and individual gear box. With the expanded capacity we will be approximately at ₹ 250 crore based on the average product mix that we have had for the last few years. The capacity expansion will be completed by the end of this fiscal year.
- Nirav Shah** Okay, by fourth quarter. And sir, how many shifts are you calculating while arriving at ₹ 130 crore to ₹ 150 crore of capacity?
- Tarun Sawhney** We are looking at three shift operations from Monday to Friday and till Saturday.
- Nirav Shah** So technically because we are currently under-utilized and we are seeing a growth of at least 30%-40% over the next two to three years in our Gears revenue that is why we are expanding in such a fast manner is it safe to assume that?
- Tarun Sawhney** Right.
- Nirav Shah** And sir, with regards to the strategic supply agreement that we have entered just wanted to know broadly on the directional front that margin on these sales will be lower than the current margin or it will be at par or slightly better?
- Tarun Sawhney** You know these are the original equipment sales, so our margins that you see are blended margins of service revenue, repair revenue, refurbishment revenue, and our original sales. Original sales margins are much lower in the other service sectors so the relationship with GE will be at par with respective to original equipment sales.
- Nirav Shah** Product margin, yes.
- Tarun Sawhney** Product margins, correct.

- Nirav Shah** They will be at par and sir secondly in the Water segment are we having some loss making projects under execution and if yes, when are these loss making projects expected to be completely executed so that we can start a fresh?
- Tarun Sawhney** No, that is not correct. There are no loss making projects at all, we employ very strict forms of revenue recognition because we are not able to account for the amount of revenue that we will like or will as much as we would like in the previous quarter. There has been lower overhead absorption which leads to a loss. So it is not because of you see in any type of project business, project accounting you can do it very prudently and the way we do it is to only account for something where we have gone out and performed the job, therefore the loss that you have expenses is not because the project was loss making, the project is profitable and at the end of the day ones the project is fully executed that profit will be in our books however because of revenue recognition you get sum lumpiness.
- Nirav Shah** Only reason I ask this is because you have been making losses for number of quarters now so is that project can you just explain that
- Tarun Sawhney** Very simple, if you win a project and it is a 24 months or 30 months project, yes the customer is not ready to take over the hand over after 24 months or 30 months and they wanted after 48 months you are lumped with that so you do not get the full revenue recognition and you have to carry it in the books. Once you have been able to recognize revenue and everything else.
- Nirav Shah** Is this project from private client or municipal?
- Tarun Sawhney** It is a combination as you know is to work with both the private and the public sector. We have worked with industrial customers, we work with municipalities on a whole host of different projects. So it is a combination of things and the environment of last two years - three years has not been very encouraging in terms of taking delivery of large CAPEX and larger infrastructure projects. The number of power plant for example they have come up over the last three years - four years has been insignificant. None of the large power projects had come up. None of the other large water utility have restructured themselves and gone according to schedule so there have been delays on all fronts across both the private sector and the public sector. Frankly where in this business, catering to public and private sector with respective to infrastructure and so we have suffered.
- Nirav Shah** So just last question, what is the CAPEX on this expansion for gears and how much you have spent out of that?
- Tarun Sawhney** The total combined capital expansion is approximately ₹ 50 odd crore and we spent the bulk of that.
- Moderator** The next question is from the line of Dhimant Shah from Principal Mutual Fund.
- Dhimant Shah** On three divisions given the current situation, if you can just give us the growth and sustainable margins that you see in each division, that is question number one? Question number two, the rationale for the preparation, or the scheme of things where you separate the sugar business, you have removed the cyclicity of the business is there a significant CAPEX or any other plans once this transaction is consummated? So these are the two questions I will just take it from there.
- Tarun Sawhney** Let me address the first question of yours about the growth and the profitability of the various business segments all right. Typically caveat this by saying that we do

not give forward looking statements in any of our calls but I will try now and answer.

The sugar business as I mentioned is predicated on the fortunes of the Maharashtra and Karnataka, sugar industry. It is also predicated on what the market considers the future of sugar availability for the country domestically and what international market forces have in play. So the scenario today we have seen increase in sugar pricing by about 15% to 20% domestically, however internationally we have seen raw prices gone up by 50%. So there is a lot of scope domestically for price increase for sugar. Now these price increases happen because of multiple factors and you may ask why it is that international market prices has gone up so substantially and domestic prices have not followed suit to the same extend. Reason for that is simple despite what the future occurs for us we have substantial stocks of sugar in the country. The Government of India has provided a mandatory export scheme of 4 million tonnes; there has been press articles that they will give some production subsidy for those miller that export there is no point commenting on that because none of that is a reality today one hopes that it will happen. It is a step in right direction for production subsidy to be given and I think it is a very good move on behalf of the Central Government. Now in all these things there are wheels within wheels, if they all click we have a scenario where we will certainly have stabilized sugar pricing going forward. So the growth of the business depends on when you see a stable environment, there is a possibility for promoters, for entrepreneurs to invest within the business. So that scenario is very different from the scenario that existed for last 36 months to 48 months where the writing on the wall was very clear that there was going to be a loss. I think when we look forward we are looking positively provided we can tackle the issue of sugar cane pricing, we are talking about break evens for sugar and I think that is something to look at for the year forward.

**Dhimant Shah**

Now given the current prices what kind of contribution is from the other two businesses namely the distillery and the cogen?

**Tarun Sawhney**

I am dealing with each business separately. One does not have a crystal ball to really know what the UP government will set as the sugar cane price but for example last year they offered a very good one time subsidy directly paid to the sugar cane farmer. If one assumes that UP Government takes on the responsibility for the gap between FRP and SAP then we are coming to the scenario that I was just talking about where there is no loss no profit. As far as the co-generation business is concerned as I mentioned the cane area in Uttar Pradesh remains the same. The cane area for Triveni remains the same, however we have seen an increase in yields, and we were expecting better recoveries. In comparison to our players the better recoveries will allow us to have a better cost of production and the better yields will allow us to have more bagasse availability and that will directly impact the co-generation business in terms of more units of power exported to the grid. Concurrently, as far as the distillery business is concerned as I have mentioned in my opening remarks the most significant portion of our business output is ethanol. We are seeing Excise Duty removal and a whole host of different measures and the Company to some extent will benefit from these measures and therefore we are seeing a scenario where the profitability for the distillery business for sugar season 2015-2016 is certainly better than sugar season 2014-2015. And if you look at the sugar business as a whole we are seeing an environment where there is potential for growth, that growth potential will come towards the latter half of this year. But it is certainly there and as far as the profitability is concerned provided the wheels move in the right direction and in the same direction we can certainly see that the contributing businesses of co-generation and distillery will provide a very healthy support to that particular business.

- Dhimant Shah** But worst come worst sir in your opinion these two can set off the sugar losses in your opinion just in case the wheels don't move?
- Tarun Sawhney** No that is right, I think we encapsulated that very well that the wheels never move in the right direction at the same time, that is very challenging to have that happen. In a more realistic scenario we have a scenario where there really should not be any loss per se. Turning to the engineering businesses I think I have just spoken about the Water business to the previous participant.
- Dhimant Shah** On the Water business do we encapsulate all the technologies available be it RO, the membrane, the chemical, the combination of technologies that require both industrial and municipals addressability?
- Tarun Sawhney** That is correct. We are agnostic to the type of technology so we have access to / own all the technologies across the value chain and therefore what the customer wants is what we propose to the customer.
- Dhimant Shah** Yes, in the water business is there a mix between the municipal industrial, also has a corollary to that maybe you have favorable working capital?
- Tarun Sawhney** No, there is no mix like that we do not even view it from that perspective. What I can share with you is more that you move towards higher technology solutions, the more profitable the order is.
- Dhimant Shah** And that is what is happening in your stated order book that is likely to fructify or atleast the enquires that you are getting?
- Tarun Sawhney** Correct. See you have multiple things happening and let me just sort of briefly mention in a municipal level I think state Governments are becoming acutely aware of the water crisis that are engulfing country and the massive water crisis that we are going to face over the coming decade. Now that is also coupled with the fact that if you are looking at the large cities, not just the metros but large state capitals, and you have space constraints for the Jal Boards. So you have to employ and turn towards better quality of solutions that are space saving in nature and that as a corollary is the higher technology solution. I think as far as the Water business is concerned the growth is certainly more visible at the Central Government which has been most aggressive in its spending program in the recent months as in certain State Governments and we are seeing that the order booking will certainly happen and will increase for Triveni over this quarter and the upcoming quarters.
- Dhimant Shah** In the water space how do you see yourself vis-à-vis competition
- Dhimant Shah** as far as you are concerned what do you think how are you competitively positioned to address the size of order the kind of technology and all of that put together?
- Tarun Sawhney** So let me say that, you see water is a lot about qualifications and some of our largest projects, The Agra Project, The Hyderabad Project, just to give two for example, they have been handed over and they have been operating for the substantial period of time therefore they are a part of our qualification literature. Let me suffice to say that where we were qualifying for x percentage of all projects across the country today we will qualify for almost for all. So as the CAPEX cycle and the infrastructure improves, our ability to be able to work on all water related projects is not a concern for the Company. As far as the competition is concerned there is limited competition in this space and we are right up there with best of the companies both internationally and domestically.

- Dhimant Shah** What kind of growth trajectory you see, I mean given the very robust pipeline that you are mentioning?
- Tarun Sawhney** I do not want to comment on that, for many quarters on this call I have been saying the enquiry book is robust. We are not seeing that enquiry book fructify. We are quoting against those enquiries, time and again the tender, fixed date tenders but they never closed. My estimation is that in this quarter, next quarter and the quarter after we will see great improvement in order closing but for me to give you a number of how much it is going to happen is very challenging.
- Dhimant Shah** Yes, perfect. And briefly can you comment on the working capital cycle that you are seeing on the engineering both Water and Gears
- Tarun Sawhney** These are very specific questions and we are very happy to take all of this offline if you would like to call in. Let me just quickly answer your question related to the scheme of arrangement. On the last Earnings Conference Call I had covered this in fairly great detail about the rationale behind doing this, the fact it most importantly helps to see our engineering business which is very heavily dependent on design and unique orders and that is both Water as well Gears and is intrinsically different from sugar business which is a production business and agriculture business. Both businesses have different trajectories in terms of their growth and in terms of our strategy to make those businesses evolve and the board has found that this is the appropriate time for them to follow their own trajectories. Now in following their own trajectories this move also happens to be very stakeholder friendly as well and therefore, we are going ahead with the scheme of arrangement.
- Dhimant Shah** Just one comment on the Gears business, is it that this kind of gears possibly we are at the forefront in terms of addressing this opportunity in the country?
- Tarun Sawhney** So bulk of our business high speed gearings, and we have no domestic competition. So yes, we are at the forefront.
- Dhimant Shah** And are we restricted, with our arrangement with GE not to export it to certain markets?
- Tarun Sawhney** No, we have a license agreement as well with GE Lufkin which has territorial restrictions. So there are 26 countries that we can export to.
- Moderator** Thank you. The next question is from the line of N.K Arora who is an Investor.
- N.K Arora** Sir, first question is SAP from the UP Government has not been declared but at present what is our breakeven price of sugar with everything covered, at what price of sugar we breakeven in the sugar business?
- Tarun Sawhney** For the next sugar year the factories have not yet started producing, we have not started our operations and as you said the SAP has also not been announced. So it is not possible to answer that question because we do not know what price we will buy that sugarcane. The factories have not started and the cane price has not been announced, I think within the next seven to ten days or may be two weeks both those things will change. And so we will be in a better position if you call in, we will be very happy to let you know what the cost of cane is and what is the breakeven price, but at this point without having that notification from Government of Uttar Pradesh and without the factories having started it is impossible to give you that number.

- N.K Arora** Okay sir. Secondly sir, in the Distillery business in the last concall there was a proposal to set up an incineration at the Distillery, any progress on that front which is the requirement from the Pollution Control Board?
- Tarun Sawhney** That is correct, so there are two various possibilities of exploring incineration as well as MEA and we are going ahead with it and we will meet the guidelines of CPCB in terms of implementation of all environmental norms. We are well on track.
- N.K Arora** Sir, secondly there was a large order by OMCs for ethanol?
- Tarun Sawhney** Correct.
- N.K Arora** Any quantity that has been finalized for our company?
- Tarun Sawhney** As I mentioned in the opening remarks, over 85% of our production is ethanol and all of that is given to the Oil Marketing Companies. So from tender to tender we get, we tender for large quantities. Even in the last tender which happened in September we achieved our desired targets. Going forward into the next year I would imagine that we would still divert about 80% to 85% of our production towards ethanol. So every tender that comes out, there will be a tender that will come out next month, may be at end of this month or early next month we will participate in that also, because all these tenders are for specific periods of time moving forward and for us we have to match our production with the tendered quantities. So we will keep participating on all tenders, in a nutshell what you need to look at is how much do we produce in a year and what percentage of that is ethanol that goes to oil marketing companies and I would like to share with you it is over 85% and it will continue to be over 85%.
- N.K Arora** Okay, sir. Secondly, sir Government of India has two major programs “Defense Production in India” and “Swachh Bharat Abhiyan” so in any way, what are the ways in which our Company is going to get benefited by this two major program of Central Government?
- Tarun Sawhney** Excellent, question. I am very happy that you have asked this question, I think Triveni is very actively looking at both programs and participation in both programs. For more I can share with you and I mentioned this on several previous calls, we are looking at Marine Gearing market, this is for our Gears business where we are looking at basically getting in the technology, qualifying and then supplying very large marine gear boxes for massive naval vessels. So we are in the tendering process these are multi-year tenders you can imagine long-term arrangements with all the defense and naval ship yards to be able to supply transmission equipment to them and participate in that “Made in India” program for defense technologies. So that is one such area that I can simply tell you about at this point. With respect to Swachh Bharat, our Water business is very clear beneficiary that coupled with “Clean Ganga” program will lead to large scale infrastructure investment in the future in the next three, –to five or–to seven years’ time. At the moment, it has not started but the Water business will be clear beneficiary and participant in that program.
- N.K Arora** Sir, one last question is with new cane varieties that have been planted in our fields so what is the expected recovery, how much improvement can we do this year over last year?
- Tarun Sawhney** The factories have not started yet, as I have just told you that.
- N.K Arora** But newer varieties usually give higher recovery?

- Tarun Sawhney** Yes, we have much larger percentage of early varieties, much larger percentage of high sugared varieties. We have much higher percentage of them and that is why I mentioned that we are expecting a much better performance from our Sugar business. In terms of anticipated recovery I think we are higher than where we were last year and the moment the sugar factory starts we will get actual data.
- Moderator** Thank you. The next question is from the line of Shubhankar Ojha from SKS Capital.
- Chintan** Yes, this is Chintan from SKS Capital. On the capacity side can you brief me about the sugar capacities you have in UP and cogen and as well as distillery?
- Tarun Sawhney** In Uttar Pradesh we have installed capacity of 61,000 tonnes crush per day for sugar, we have exportable power of 45 megawatts in cogen exportable and 160,000 kiloliter per day distillery is also available.
- Chintan** On the distillery side you mentioned you are going for a two options to meet the environmental norms basically CPCB norm. So what will be the CAPEX for that and how our capacity will improve or utilization will improve in terms of distillery?
- Tarun Sawhney** If any capacity expansion which means in agree to number of days that if it does happen we require certain notification for that to happen, it has not happened as yet, It may happen in future, we may give you another two months but right now there is nothing. The investment which is done is only to meet the pollution norms.
- Chintan** Okay. What will be the investment will be going to?
- Tarun Sawhney** Approximately ₹ 40 crore.
- Chintan** And post the demerger any plans for expansion in the sugar business after the demerger the scheme of arrangement you are planning, any plans to enhance your capacity in sugar business given the outlook favoring the sector?
- Tarun Sawhney** We do not give forward looking statements like that, the Board is looking in multiple growth strategies for all the businesses and as and when that comes about we will certainly brief you and keep you in the loop.
- Chintan** Okay. And the scheme you mentioned SEBI approval and exchanges and when will be the final announcement in terms of what will be the merger ratio and all this out or we are still in planning stage?
- Tarun Sawhney** The scheme has been filed with the stock exchange and with SEBI, we have received the approval, we have filed that with the court, the meeting of all stakeholders is planned for later in this December and all going smoothly we expect the demerger will have happened and the scheme arrangement will be in place by end of this fiscal year
- Chintan** Okay. So by this year-end we will get the blue print how the merger will take place?
- Tarun Sawhney** This fiscal year. No, the blue print is already on the website of the stock exchange for you to download. It is also on the company website for you to download.
- Moderator** Thank you. The next question is from the line of Bimal Sanpath from Sunidhi Securities.

- Bimal Sanpath** Just one question, there was one article on this cogen in the paper few days back that the UP Power Corporation is refusing to take power from the cogen plant all over UP, so I am not sure if you can throw some light on this?
- Tarun Sawhney** Yes, you are very right, I believe one factory that has started operations it had a co-generation plant and UPPCL had refused to accept power. But I believe by the time our plant start all there will not be any problems going forward. As the Government is looking into that and has found the solution.
- Bimal Sanpath** And suppose if they do not accept that what is the alternate for us, do we have a private I mean alternate private?
- Tarun Sawhney** As of today they are accepting it
- Bimal Sanpath** They are accepting it, okay. And one more thing on the Gears business sir, I just missed after the expanded capacities will the margins remain the same, when you are supplying to GE or margins overall we are having and EBIT of around 27%-28% so will this continue or there will be a drop or increase?
- Tarun Sawhney** We are expecting, we do not give forward looking statement but we are not doing anything to lower our margins let's put it that way.
- Moderator** Thank you. As there are no further questions from participants I now hand the conference over to the management for their closing comments.
- Tarun Sawhney** Thank you everyone for joining us for H1 consolidated Results of Triveni Engineering & Industries Limited. I look forward to speaking to you after our next quarterly results, good afternoon.
- Moderator** Thank you very much members of the management. Ladies and gentlemen, on behalf of Triveni Engineering & Industries Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.