



## Triveni Engineering & Industries Limited Q3 and Nine Months FY 17 Earnings Conference Call Transcript February 10, 2017

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**Moderator** Good day, ladies and gentlemen, and welcome to the Q3 and Nine Months FY 17 Earnings Conference Call for Triveni Engineering & Industries Limited. As a reminder, all participants' lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal the 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 a warm welcome to all of you participating on Triveni Engineering & Industries Q3 and Nine Months FY 17 Earnings Call. We have with us today on the call today Mr. Tarun Sawhney - Vice Chairman and Managing Director; Mr. Suresh Taneja -- the Group CFO; and Mr. Sameer Sinha, President (Sugar); as well as other senior members of 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 of this effect has been included in the invite which was sent to you earlier. I would also emphasize that while this call is open to all invitees it may not be broadcasted live or reproduced in any manner.

We would like to start this conference call with opening remarks from the management followed by an interactive Q&A session where you can discuss your key views and issues.

I now like to invite Mr. Tarun Sawhney to commence the call. Over to you, Tarun.

**Tarun Sawhney** Thank you, Gavin. Good afternoon everyone Welcome to the Q3 Nine Months Fiscal 2017 Result Call for Triveni Engineering & Industries Limited.

For the nine-month period our net sales stood at ₹ 1,930 crore which was approximately ₹ 500 crore higher than the same period in the last fiscal year.

EBITDA increased by ₹ 310 crore to ₹ 370 crore for the nine-month period equating to a margin of approximately 19%.

The net sales for the quarter and nine months were higher by 34% and 33% respectively. The Company achieved a record PAT for the quarter and the nine months' period.

Regarding the sugar business, we had stable sugar pricing which resulted in improved sugar business performance. According to ISMA India's estimated outlook is approximately 21.3 million tonnes for this sugar season. The consumption is a shade above 24 million tonnes and I will share views of Triveni Engineering in this regard as well.

As a consequence we are expecting a season ending on the 30th of September 2017, stock of approximately 4.7 million tonnes which equate to about 2.5 months' worth of consumption.

Of course, there are several variables in this and I will be discussing them as the call goes on.

The demand-supply balance is going to support sugar prices barring the government's action, if any going forward. But our expectation is very clear that these prices will be stable in the foreseeable future not just this year but also going into the following year given the effect that the country has enough sugar to tide itself over and having comfortable position for the government, consumers, producers and of course farmers.

Current recoveries are slightly lower this year in the state of Uttar Pradesh. However, for Triveni the improvement in year-on-year recovery is approximately 15 basis points.

Regarding the engineering business there is a muted performance in the engineering business due to the slow revival of economic activity.

We have received an order of ₹ 125 crore in our water business and outstanding order book as on the 31st of December, 2016 stands at ₹ 725 crore.

The Board of Directors of the Company has decided to withdraw the Scheme of Arrangement in the overall interest of the shareholders and stakeholders and I will be discussing that in much greater detail at the end of my opening comments.

The overall debt position of the Company as on 31st of December, 2016 is ₹ 1,076 crore, which is 21% higher than Dec 31, 2015 but this is primarily on account of higher cash credit due to accelerated and timely sugarcane payment. So, we have absolutely no sugarcane dues at this point or during the course of the season.

Our term loans as on 31st December, 2016 stand at ₹ 536 crore including ₹ 97 crore of loans with concessional interest slash interest subvention and the cash credit utilization is ₹ 540 crore.

The Company is generating excellent cash flows and we have no substantial CAPEX over the next foreseeable future and as a consequence over the next four to five quarters we are looking at deleveraging the Company and looking at substantial repayment of debt.

I will now like to focus on our sugar business first and then our engineering business. For the quarter ended the cane crush stood at 2.26 million tonnes which is a stark difference to the previous season which was approximately 1.29 million

tonnes. The recovery was on par with previous year. However, sugar production was higher by a 100,000 tonnes which is very substantial year-on-year.

Our realization price for the quarter stood at ₹ 36,362 per metric tonne and for the nine months stood at ₹ 35,801 per metric tonne.

The Company has crushed 38% more and produced 40% more sugar to date in comparison to the previous year and as I mentioned, our recovery is higher by 15 basis points which is a stark difference to actually what has happened not just across India but certainly in Uttar Pradesh as well. This data that I am sharing with you is as of yesterday.

The Company has also crushed 1.07 crore quintals cane higher year-on-year as of yesterday.

Triveni's factory at Rani Nangal has an on-date recovery of 12.55% which is the second highest in the state of Uttar Pradesh at this point of time and Triveni's factory at Chandanpur also has similar recovery as on today.

Owing to higher sugar prices and sales volumes over the nine months, the sugar business has recorded a 40% increase in turnover while the profitability has been phenomenally higher in comparison with the corresponding period of last year when we were coming out of the few years of slowdown in the sugar industry.

The realization has improved by 32% quarter-on-quarter and the current sugar prices at this point in time, which have been fairly stable for the last several weeks, have been hovering around ₹ 37,500 to ₹ 38,000 per tonne of sugar.

With consistent, aggressive and focused cane development over the last few years the results have started showing great benefits to us in terms of crush recovery and the relative ranking with other companies in the state of Uttar Pradesh. Consequently, we believe that the increase in sugar production will be considerable over the previous season.

Our effort in cane development has been 3 pronged the first has been to improve the varietal balance and this effort has shown great success over the last few years and we are almost there in our journey in terms of finding an excellent varietal balance of high sugar varieties across our seven units. The second program, is an ongoing program and is far longer in duration, is to correct the soil deficiency that have occurred over multiple decades. This program has been started a couple of years ago but we are seeing greater farmer acceptability in terms of partnering with farmers and assisting them and improving the soil health which will of course have direct impact on yield and recoveries.

And the third is our attempt to improve our farming yields and that has had a lot of success and the two-pronged strategy there is to focus on autumn planting and also to increase the interspacing for sugarcane and these are programs that are ongoing and as the spring planting gets underway the focus will certainly be across all three of these areas.

This year the sugarcane season started about a fortnight earlier which has resulted in higher crush as I had mentioned earlier. I would also like to mention this year, for a variety of reasons including demonetization, we had fantastic availability, lower diversion to the unorganized sector and that has resulted in record capacity utilizations as compared to the performance over the last few years, this is on a per day crush basis across all of our seven units.

The sugarcane price for season 2016-2017 was declared at ₹ 305 per quintal which is an increase of ₹ 25 per quintal of the previous season. The delta for early and rejected varieties remains the same year-on-year.

However, the U. P. government did withdraw the remission of society commission of ₹ 3 per quintal which was part of the sugar season 2015-2016 package and this resulted in higher charge that was taken by the Company in third quarter of ₹ 13.57 crore.

The export of Incidental co-gen at Chandanpur, Milak Narayanpur and Sabitgarh factories resulted in revenue of ₹ 5.35 crore for the previous quarter.

Inventory as on 31st December was 21.7 lakh quintals. Cost of production on 31st December, 2016 was about ₹ 33 per kilo. I would like to mention that our expected cost for this season will be approximately about ₹ 31.75 per kilo given the increased recoveries from the 1st of January till the end of the season so, it will certainly reduce our overall cost of production fairly substantially.

The industry scenario is quite interesting at this point in time. The sugar produced across the country till 31st January was 12.86 million which is about 1.43 million less than the production in the previous year. As the expectation from ISMA as I have mentioned is approximately 21.3 million with a consumption of 24.2 million. Our perspective on that is that the production number can vary by approximately 200,000 tonnes plus or minus.

Whereas, the consumption number can also vary negatively by approximately 200,000 tonnes to come down to approximately 24 million, this will result in adequate about 2-2.5 months stock as of the end of this sugar year which is absolutely fine from the government perspective, it is fine for consumers and the availability for the holiday season which will be early this year and more importantly it will augur well for the sugar industry with respect to pricing which will certainly be stable at these levels going forward for the remainder of this year.

Uttar Pradesh I would say is on track for production of approximately 8.3 million with plus-minus of approximately 200,000 tonnes and we are seeing that the planting in Maharashtra for the next season has been good, part of South India have also been good, so anticipating that the following sugar year will be a year of good sugar production, the estimates of market pundit at this point in time range around 25 million tonnes which will be equating to consumption and for the next year at this very early point in time we can see that we will have fairly reasonable sugar pricing based on demand and supply going forward.

As far as the international sugar scenario is concerned we have seen some amount of volatility in terms of raw sugar pricing while over the last weeks has been greater stability and the trend has certainly been towards achieving new highs in international raw and white's market.

The comment I would make over here is that the rumors that were floating several weeks ago about the possibility of imports. Imports will always be at higher price compared to domestic production and therefore, I do not see that as a realistic possibility at this point in time.

There has been excellent production in Brazil, the anticipation for the following year is a focus on sugar production or diversion of sugarcane towards greater sugar production versus ethanol. We are seeing a renewed focus in both China as well as Thailand in terms of sugar production and the expectation for next year is that

the overall global sugar balance which this year would be in deficit for the following sugar season. .

With respect to our co-generation business, our expectation for this year is that we have substantially higher number of off season days which will lead to higher generation and also we have benefited by better steam efficiencies across our plants which have co-generation and all of this will come in this quarter and the following quarter as well.

With respect to our distillery business, sales decreased owing to low dispatches of ethanol as the previous tender expired in November 2016 and the finalization was delayed. However, on a nine-month basis it is marginally lower. But important to note that the Ministry of Environment, Forest and Climate Control has approved our request for operating our distillery for 365 days, effective would be approximately 330 days' subject to few conditions.

We are in the process of complying with these conditions and based on the availability of molasses which of course we do have across all of our plants, we expect to operate for a greater number of days in the next fiscal year. It can amount to a 20% increase in capacity and there will be a small associated CAPEX in terms of covering the bio composting yard which will happen over the next few months.

Turning to our engineering business, I would like to discuss our gears business first and then move on to our water business. There has been muted economic performance in the outlook which has resulted in slowdown in the off take from customers. This has been both domestically as well as internationally.

The overall market is impacted by the slowdown in capital goods with significantly lower OEM off take year-on-year and this is a very important point. So, while our gears business has had good growth and good orders in the repair and refurbishment and service side of our business, the heart and soul, the real growth engine of course is OEM sales and we have had varying performance. Certain OEMs have certainly been up to the mark but certain OEMs have actually just collapsed and that has been an unfortunate and not predicated by us.

The share in the aftermarket went up from 21% to 39% in the nine months compared to the previous year.

The various areas of expansion, the GE Supply Chain Agreement, foray in marine gears, foray in specialized low speed gearing have been moving along but again, order finalization in both these three areas has certainly been frustrating.

The order in-take during the nine months was just a shade under ₹ 60 crore whereas in the previous year it was approximately ₹ 56 crore. With respect to our water business as I mentioned, we did receive an order of ₹ 125 crore during the order. The total intake for the nine months was ₹ 166.7 crore which effectively meant that we received only ₹ 40 crore of order booking in H1 of this fiscal year.

The Company has participated in various tenders and some of these enquiries still remain at advance stages of finalization however, the exact dates have been pushed forward so many times as there is great uncertainty as to when the order will be finalized.

Surprisingly the enquiry book with respect to our water business has risen quite substantially. But because order finalization has been varying and uncertain it places us in a bit of peculiar predicament.

With respect to the Scheme of Arrangement, in the Board Meeting the Board of Directors reviewed the progress of the Scheme of Arrangement between “Triveni Engineering & Industries Limited”, its wholly owned subsidiary -- “Triveni Industries Limited” and their respective shareholders and creditors, the proceedings of which are pending at the NCLT for the sanction of the Scheme. While the prospects for the sugar business seem promising, industry outlook relating to the engineering business appears uncertain in the near-term to medium-term.

However, it is firmly believed that the fundamentals of the engineering business continue to be strong and upon return to normalcy, these are expected to achieve the desired performance.

In view of the aforesaid position and in the overall interest of all the stakeholders the Board has decided to withdraw the Scheme with immediate effect from the NCLT.

I would like to mention that contrary to our expectation and the Board’s expectations there is continuing uncertainty in the overall business environment in the capital goods and especially in the infrastructure area across the country.

With respect to our gears business, the order inflow that one has expected from General Electric which is a function of the global climate conditions has been disappointing.

OEMs sales have been patchy as I mentioned and some OEMs have faced pressure while others are still growing at a muted pace. And that has been contrary to our expectations and what the Board had expected several quarters ago.

With respect to our water business, except for Q3 as I mentioned order booking for H1 was only ₹ 40 crore and for a variety of reasons finalizations are simply not happening. We have a lot of movement etc., a lot of talk about the Namami Ganga coming up etc. and so the enquiries while they are very robust, the finalizations are simply still not happening. But these as I mentioned of fundamentally good businesses got unfortunately in a prolonged slow down and that has been the opinion of the Board of the Company.

In view of this and all these factors that I have just spoken about, the Board has decided to withdraw the Scheme.

Thank you very much; I would like to open up the floor for any questions.

**Moderator**

Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Arun Malhotra from Santalum Capital. Please go ahead.

**Arun Malhotra**

Just wanted to ask in the de-merger scheme earlier there was a twist and now the Scheme has been withdrawn. Though you did mention the reason for the back and forth. But I think the initial point and thesis of that it will create more focus for different businesses and create shareholder value, so why a sudden change?

**Tarun Sawhney**

Arun, I think it is an excellent question. I want to take this question right up front. Let me dwell deeper, the Board in its considerations about a year ago looked at

these businesses exactly as you had said which is that it would be given independent focus and direct focus which will result in an accelerated growth trajectory. Now, the process for such a demerger is very long, there is nothing that one can do about, the process was in the High Court now it was moved to the NCLT and that process takes time. However, over these period of 12 months or so ballpark, the fortunes of those businesses, the order booking in those businesses has changed significantly compared to our initial expectations. As I had mentioned, in our gears business which is tied up with global market there is great expectation with our partner GE under our supply chain agreement. Those orders have not fructified, we have seen volatility within the domestic market as well. So, while the profitability in the business is still good, it is because we offer fantastic repair and service solution but the growth engine which is new product sales is muted and the fact of the matter is at this point in time in the very near-term we do not see where that is going and there is uncertainty over there. With respect to the water business I want to mention very categorically that we have not lost orders, it is just that finalization have not happened. So, quarter-on-quarter when I have spoken to you, I have said, that we are placed extremely well in all of our orders it is just that those orders have not been finalized. We have just seen one order and these orders are of large sizes I mean the order we received this quarter is of ₹ 125 crore, it is not a small order. The Namami Ganga orders are all going to be large orders. The challenge is that when we see government agencies with plans for finalization, those plans are certainly not being met and they not even being met by our planned delays they are exceeding those delays and that is creating a little bit of uncertainty. So, rather than have two separate entities, one the sugar where the prospects are very encouraging and the engineering where the fundamentals are excellent but the performance is muted, that in itself the Board felt it is not the right time for the growth of those businesses at this point and therefore it withdrew the Scheme. I hope that answers your question.

**Arun Malhotra**

Yeah, it does. Just my feedback would be that both are totally unrelated businesses, there are no synergies involved and it would have been better that there are two different SKUs with different performance criteria and with different management focus. I am sure, that we have not seen enough performance in both engineering and the water business with businesses being split, we would have definitely seen much higher focus and management, resources being deployed in that business, and secondly I do not think when we started with the scheme the sugar business was not doing well, so the idea was to separate the engineering business from the sugar business so that the sugar business does not impact the engineering business. Now, we are back to square one with both the businesses are together. Lastly, you did mention that, but I still feel the timing we cannot time it, we have already gone enough on the road and we are just waiting the final approval. I still do not see much of a reason in withdrawing the scheme, and lastly, have we spoken to any of the shareholders and got any feedback from them, the institutional shareholders, have we done any conversation with them.

**Tarun Sawhney**

As a listed company, we cannot have conversations about subject.

**Arun Malhotra**

Just a feedback, I understand Tarun.

**Tarun Sawhney**

The first interaction is with our investors on the call today. In fact, I have not given any interviews in the media etc., because I wanted to have this very open exchange, we always had a very open exchange and I appreciate your views. We have made a note of your views, we will take it back to the board, that this is some of the feedback that has been given and we appreciate your feedback, but the fact is it still does not change the fact that I have just told you, the reasons why the board has withdrawn the scheme, but I appreciate your feedback. Let me just end by saying that the board may very well review this later, but I have no way of providing you any guidance.

- Arun Malhotra** I understand, but too much back and forth Tarun definitely will have a question mark on the credibility of what we are doing, so that is my request, be firm on what we are doing and think long term.
- Tarun Sawhney** I appreciate your feedback, thank you very much.
- Moderator** Thank you. The next question is from the line of Dhimant Shah from Principal Mutual Fund. Please go ahead.
- Dhimant Shah** I think the previous question is the overwhelming question which most of us would be having today, just to reiterate by the same logic, would you let us say if one of the businesses or the entire engineering piece possibly would have been doing much better than your expectation, would you by converse logic have expedited the demerger or what is it, this flip flop possibly kind of gives us to understand that both the pieces of the business would not see cash flows for a long time, is that true?
- Tarun Sawhney** You have asked about three questions, I will split them up. First, thank you for your comments. I would like to start off by saying that the Company had done all its efforts to expedite the scheme of arrangement. The process is long in such a demerger and with the jurisdiction change, etc., there are certain time delays which are out of our hands, so it is not as if we could have expedited it in any circumstance at any point in time. In fact, what we were doing was expediting it from the word go. Secondly, had the fortunes of the engineering business, the order intake, the order finalization, and the growth trajectory been on track as per what had been planned and reviewed by the board 12 months ago, certainly the scheme would have gone ahead, because those business, the growth trajectory of those business, the cash flow generation as you have very rightly said would have been very different to what it is today. Is the cash flow generation negative, it is certainly not? They are still profitable businesses. It is just that the growth trajectory is muted and we do not have visibility. The most important thing that I hope you appreciate that we had a very, very long board meeting with a lot of serious discussion along these points was about visibility because as the gentleman before you also mentioned, it is important to have a long-term perspective. In having that long-term perspective, it is important to be able to view the visibility or at least have a greater control on the imponderables. Sadly, at this point in time, we do not have that comfort, and therefore, the board had to take this decision.
- Dhimant Shah** By the same parlance, just drawing from in the earlier calls, you did mention that now the water business is in overwhelming part of the engineering business, and that seems to have turned around, you are getting orders, so the traction is improving. You earlier mentioned that we had some loss-making orders, those are over, which means that the threshold and the overbearing part of the engineering business is turning around and you also mentioned that henceforth we would not take any orders where we suffer trajectory or low margin the way we had taken earlier. Then I do not understand where the uncertainty part is coming from?
- Tarun Sawhney** Let me talk specifically about the water business, I think part of what you have said in terms of what I had said in previous quarter is accurate and part of it is not accurate. I do not think at any point we took any loss-making orders and I think I was very clear; I do not have my minutes on the last few conference calls with me right now.
- Dhimant Shah** Not loss-making orders per se, but may be lower margin which culminated into loss making for whatever reason.

- Tarun Sawhney** The losses were only because of delays in execution and economic reasons it was not to do with the overall scenario at the time of taking the order. Anyway, let me come to your question, and the question really is that with one single order of ₹125 crore, it is not a game changer.
- Dhimant Shah** I am not saying that way, it may be a combination of order or a single order, my only humble submission here is that, okay we are finally seeing some decent traction here which you had earlier mentioned that now we are kind of seeing more activity at least.
- Tarun Sawhney** The overall assessment of the board and my personal assessment was that the overall growth in orders in water is delayed and as a consequence, it is not about the one order that we took in the last quarter, we have to look ahead and see how many orders do we actually see getting finalized not just in gears, but also in water over the subsequent few quarters and that is what was the overriding concern and the overriding point that the board considered in arriving at its decision yesterday.
- Dhimant Shah** Would it be fair to conclude that post this order we do not see visibility in both the businesses?
- Tarun Sawhney** We have an order book, I have given you an idea of the order book and there is a muted visibility, there is opaqueness in terms of order inflow, we are working our level best, but it is a challenging environment.
- Dhimant Shah** As far as the sugar business goes, in comparison to the leaders in the business, let us say without naming the specific companies, how are we placed as far as our varietal mix goes in terms of the high recovery plantation and there are one or two varieties which yield substantially higher, I am told?
- Tarun Sawhney** We look at our basket of varieties and as you know in Uttar Pradesh we have a two-year rotation, you have a plant crop followed by a ratoon crop which is then uprooted and fresh plant is sowed. Our varietal mix as of having these, and we do not just look at one or two varieties, we look at a basket of varieties that will be important from a long-term perspective. We had an achievement of approximately 80% last year, which would be close to about 97%, which is the theoretical maximum that we anticipate after the planting this year. In terms of recoveries, you have to understand that Uttar Pradesh is actually a very large state and it does have some sub-climatic zones. In my opening remarks, I did mention that we have two units which are in probably the best area with respect to climate in the state of Uttar Pradesh and they have the joint second highest recovery in the state of Uttar Pradesh today, so for the remainder of the season, the expectation from them is that this recovery will certainly remain the same if not further improve. Now, with respect to the other plants, because we do have seven factories spread across the state, there are many initiatives that we were doing and it is not just about varieties. The variety part of it is actually the simplest part of the equation. After achieving a 97% varietal mix that does not guarantee you to be an industry leader in terms of recovery. Your work has to happen with respect to improving soil health which has degraded in the state of Uttar Pradesh with over-usage of urea, over-production from the soil etc. and that resuscitation in terms of the nutrient balance is something that we are working very aggressively. Lastly, we are also looking at farmer productivity which will result in greater ties of our farmers with the factory and that is with respect to improving row spacing and allowing the farmers yields to improve substantially over the coming future. So, it is a multi-pronged strategy that we are evolving. I think we have made very important and marked strides in terms of catch up with as you mentioned the industry leaders and that is going to further reduce.

- Dhimant Shah** What is the stated intent of the debt level that you wish to come down by March?
- Tarun Sawhney** So, with respect to March the current cash flows of the Company has been utilized in terms of ensuring that there is absolutely no remaining payments, no dues to any farmers, however, we still expect a reduction of about ₹ 40 crore-₹ 50 crore in overall long term debt. However, over fiscal 2018 we expect a substantial reduction in our long-term debts for the Company.
- Dhimant Shah** The substantial given be about ₹ 100 - 200 crore?
- Tarun Sawhney** Well yes, it could be.
- Dhimant Shah** If one see is, if your crushing capacity is let say 100 and let say in common size parlance the matching capacity of the power and distillery, if let say both can be 10 megawatts or let say 10 kiloliters for simplicity. Are we there in terms of both power and distillery capacity?
- Tarun Sawhney** No, you see it is not possible to make that generalization, I will tell you why. The fact is for a co-generation plant to be truly profitable, you need to have a minimum crush per factory at that unit and you have to have that at a sustained level. So, if you look at a group's overall capacity and try to calculate what should the theoretical co-gen capacity, you will not get that balance because we do have some units that are medium size units 5000 TCD, 6000 TCD plants and those units if they do not crush 70 lakhs, 75 lakhs, 80 lakhs quintals on a consistent basis they do not have the viability in my mind for co-generation. As far as distillery capacity is concerned with the approval that we have received and, the extended operations and we are implementing all of that we will be absorbing the bulk of molasses generation at one single plant. So, yes that is the maximum.
- Dhimant Shah** And sir, In the water business is there a mix between government and private and is one of the portion lending significantly to the change in view that we had?
- Tarun Sawhney** Well the balance is heavily skewed towards the government and municipalities because there has been absolutely no investment in large power plants for example or any of the larger private sector undertakings which require sophisticated water treatment facilities that has been very small, very muted for a long period of time. So, yes our business is skewed heavily towards the government sector which has shown opaqueness in terms of order finalization.
- Moderator** Thank you. The next question is from the line of Aman Sonthalia from AK Securities. Please go ahead.
- Aman Sonthalia** Sir my question regarding that ISMA is coming out with a figure of around 213 lakhs tonnes of sugar for the current region but my internal estimate sir, I am tracking this sector since last 13 years and gone to all this states and have ground reality, it will not cross even 195 lakh tonnes it will be in between 192-195 lakh tonnes. Because already Maharashtra is almost closed, Karnataka is almost closed, Tamil Nadu is not doing well, and Andhra is not doing well. So, why there is miss match, it is around 213 and 193. Do you think that my assumption is wrong or there is something wrong with the ISMA figure?
- Tarun Sawhney** There is absolutely nothing wrong with the ISMA figure, I think your calculations are, I am sorry, incorrect. We too have sent our research analyst across the country. ISMA's numbers are based on satellite mapping in very sophisticated data collection, etc. Will there be a variance in that, quite possibly. So, while you have mentioned some other states which will be producing less and they have resulted

in the (+25) million tonnes production of last year to come down to approx. 21.3 million tonnes for this year. We have seen Uttar Pradesh go up very substantially in fact with every passing day the Uttar Pradesh government actually, I am happy to share with you. Meeting with Very senior officials has happened in Lucknow yesterday where they continuously upping the total sugar production for the state. Now that is happening at the same point in time.

- Aman Sonthalia** But my question is that in Uttar Pradesh there has 2 type of sugars which are supplied to the market. One is sugar produced by the mills and other is produced by the Khandsari producers. So, total supply is produced by the mills and produced by the Khandsari. Right now what is happening is that Khandsari sugar will be diverted.
- Tarun Sawhney** No, very honestly, I do not agree with you because Khandsari sugar and gur which is made are used for other purposes, it is not used as a replacement for sugar. So if you are assuming that both sugar are going to be consumed by the same set of people that is not correct.
- Moderator** Thank you. The next question is from the line of Vijay Gupta, he is an individual investor. Please go ahead.
- Vijay Gupta** My question is, are there any tax benefit that the Company sees out of the withdrawal of the demerger schemes? If yes, can you please quantify that?
- Suresh Taneja** Yeah, certainly they would be some kind of tax benefits which would be there to the Company, if the Company remains composite. But as Tarun has said very clearly that was not the driving force. Driving force was basically business related.
- Vijay Gupta** My second part of the question was can you please quantify whatever the tax benefit would be coming, so do you have any estimate on that? If you can quantify please?
- Suresh Taneja** We do not have a very meticulous estimate on that. We are still in the process of computing, we do not know how the Q4 is going to look like. So, once all this information is crystalized then only you can calculate the benefits, if any.
- Vijay Gupta** But you do not have any estimate also around that let us say any figure that you would like to quote?
- Suresh Taneja** Very premature to give you.
- Moderator** Thank you. The next question is from the line of Bimal Sampat, he is an individual investor. Please go ahead.
- Bimal Sampat** Now looking at the current trend, only for Triveni how much extra production will be able to do compared to last year?
- Tarun Sawhney** Year-on-year we have crushed about 40% higher, 107 lakhs quintals.
- Bimal Sampat** Because you started early.
- Tarun Sawhney** Also we have better capacity utilization, so it is two-pronged benefit. We anticipate that this increase will certainly be maintained or rather this delta over 107 may increase little bit for the season.

- Bimal Sampat** So, broadly about 35%-40% overall extra we will do. Correct, we will crush, we will get more sugar.
- Tarun Sawhney** 30%.
- Bimal Sampat** And second thing, now even for our sugar crushing will be reaching capacity close to maximum capacity or still there is further scope
- Tarun Sawhney** No, there is still debottlenecking that can happen and we have enhanced capacities, a lot of it is tied up. I am very glad that you asked this question because our capacities are larger. However, we have to balance the available quantum of cane over a period of time. We cannot start crushing at our rated capacities which in some units are little bit higher because we will exhaust the cane in a period of 90 days versus crushing it over a period of 145 days. The benefit of crushing over 145 days is that you get excellent recovery, you get excellent maturity. Now, the moment we actually improve the yields of our farmers very substantially which is what we are working on that will allow us to further enhance our capacity utilization going forward and that is the plan.
- Bimal Sampat** So, any CAPEX plan for the next 6 months?
- Tarun Sawhney** It is not CAPEX related. It is related improving yields with the farmers which we are doing and spending our regular CAPEX on.
- Bimal Sampat** So, since we do not have substantial CAPEX, all the cash flows will go towards retirement of debt?
- Tarun Sawhney** Well, not all but you can safely make that assumption that the majority of the cash flows will certainly go towards repayment or retiring of debt and deleveraging the Company.
- Bimal Sampat** So, when do you expect by 2019 we should be debt-free, that is our target or we looking at some inorganic growth?
- Tarun Sawhney** The board has not considered that. Very honestly speaking I think in any business environment to be total debt free, even for some people can do it, we have not considered it as yet.
- Moderator** Thank you. The next question is from the line of P.D. Gupta from Investors Forum. Please go ahead.
- P.D. Gupta** Sir, so many questions are asked on that scheme of arrangement and the withdrawal of debt and one fine question was asked by Mr. Vijay Gupta that some tax benefit also due to carryover losses. But definitely we can see as investors that before taking the decision board might have considered all by interest of those stakeholders including shareholders like me the tax payer and we have done it. So, the time is concern, time has taken much more earlier we have changed then at the time of when it was going to be approved but at the stage this withdrawal is only due to the reason which you have given or due to some tax benefit.
- Tarun Sawhney** So, let me just say that the time duration was never longer, in fact I was asked the question 6 months ago as to how long it would take for this demerger if it was to go through to actually happen and I did mention that it would be in the first quarter of this calendar year to which I received many follow up questions. I foresaw that to time these things are not very simple. They do take time and as it transpired of course we had a jurisdiction change as well. The Company had all efforts in terms

of acting in a speedily manner to implement this. The Board in its decision yesterday to answer the second part of your question factored in the business implications and the business environment and looked at the assumptions that we had with respect to all of our businesses in arriving at that decision as I have spoken about at length over the course of this call. The any financial benefits accruing out of tax saving etc. we have not even computed, calculated or considered in arriving at that judgment because we do not even know you have to look at Q4's performance in terms of arriving at those numbers.

**P.D. Gupta** Current sugar season we are going to crush 30% more of sugarcane and whether our production be 30% more it will reach to 64 lakh bags?

**Tarun Sawhney** Approximately. I do not want to give a number but approximately somewhere in the tune. The total, if you are taking in the total bags then it will be about 25% to 30%-odd.

**P.D. Gupta** Sir, there is a mismatch in our inventory figures. At the end of September quarter inventory was 30.91 lakhs bags, production 23.30 then total comes to 37.21. Our total dispatch during this December quarter is 14.78. So, balance would be 22.43 is become 21.70.

**Suresh Taneja** This is basically because of the fact that some sugar is in the process. It is the work in progress that is why this small discrepancy comes in.

**Tarun Sawhney** It all gets balanced out after the season has ended because all the sugar comes back out.

**P.D. Gupta** The difference may be related to that?

**Tarun Sawhney** Correct.

**P.D. Gupta** And what will be the value for our inventory at December end?

**Tarun Sawhney** The valuation is ₹ 33 and it is 21.7 lakh bags.

**P.D. Gupta** No, the value of that?

**Tarun Sawhney** The value is ₹ 33 per kilo and we anticipate this value to fall to ₹ 31.75 at the end of the season.

**Moderator** Thank you. We will take one last question from the line of Akshay Ajmera from Nirzar Securities. Please go ahead.

**Akshay Ajmera** Sir, already so many questions has been answered on the arrangement, scheme of arrangement just a quick one considering that what you have said and the board has taken this decision after prolonged meeting in a due diligence. Just wanted to understand in Board's opinion when can we expect this demerger if at all to happen in the coming years. What was your expectations for the engineering business, what kind of order book or what kind of top line you see there to have this arrangement again?

**Tarun Sawhney** So, the Board did not put any firm timeline on it but it did arrive at a conclusion that it will review this restructuring continuously going forward. There is no timeline.

- Akshay Ajmera** But any expectations on the numbers like what kind of business or what kind of visibility will trigger this decision or Board to review it again?
- Tarun Sawhney** I think that is an excellent question. I think that is a part of our strategic plans, etc. cannot really be discussed on a call like this.
- Moderator** Thank you, ladies and gentlemen, that was the last question and I hand the conference over to the management for closing comments.
- Tarun Sawhney** Ladies and gentlemen, thank you very much for joining us for the Q3 Fiscal 2017 call of Triveni Engineering & Industries Limited. I think over the next 3 months we are anticipating a very good quarter for sugar. The signs are very promising and with respect to sugar pricing, one expect stable sugar pricing going forward, which I think will be a positive for all the players in the sugar sector and I hope to come back to you with a good set of numbers when we speak next. Thank you very much and have a good day.
- Moderator** Thank you and behalf of Triveni Engineering & Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.