



## Triveni Engineering & Industries Limited

### Q1 FY 18 Earnings Conference Call Transcript

#### August 11, 2017

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**Moderator** Good Day, Ladies and Gentlemen, and a very warm welcome to the Triveni Engineering & Industries Limited Q1 FY 18 earnings conference call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing \* and 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, Gavin.

**Gavin Desa** Thank you. Good Day everyone and a warm Welcome to all of you participating in Triveni Engineering & Industries Q1 FY 18 earnings call. We have with us today on the call Mr. Tarun Sawhney, the Vice Chairman and Managing Director; Mr. Suresh Taneja, the Group CFO; and Mr. Sameer Sinha, President, Sugar, as well other senior 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 invite which was sent to you earlier. We would also like to emphasize that while this call is open to all invitees, it may not be broadcast live or reproduced in any manner. We would start this call with opening remarks from the management followed by an interactive Q&A session. I would now like to invite Mr. Tarun Sawhney to open the call. Over to you, Tarun.

**Tarun Sawhney** Thank you, Gavin. Good Afternoon everybody and Welcome to Q1 Fiscal '18 earnings conference call for Triveni Engineering & Industries Limited. We are pleased to report a strong performance for the Company for the quarter. Revenue stood at ₹ 844 crore which was a growth of 34% and PBT stood at ₹ 84 crore which was also growth of 34%. The Board is pleased to announce an interim dividend of 25%. As far as the Engineering businesses were concerned, there was a solid order book which was approximately ₹ 788 crore at the very end of the quarter. The significant improvement in performance during the quarter under review is mainly attributable to the Sugar business. Robust sugar price realizations coupled with low-cost of goods sold and increased volume of sugar dispatches resulted in better profitability of the Sugar business.

The performance of the Engineering business on the other hand was muted. The overall debt of the company on the June 30, 2017, stood at ₹ 1,348 crore which was 22% lower than the March 31, 2017. The term loans at the end of the quarter were ₹ 376 crore which included ₹ 76 crore of loans with concessional interest and interest subvention, and the cash credit utilization was the balance which was ₹ 972 crore. During the quarter, the company repaid and prepaid total debts amounting to ₹ 114 crore. On the last earnings conference call, I had mentioned

that this year we had a target of repaying approximately ₹ 200 crore of debt. I am happy to report that given our estimates we plan on substantially beating that previous forecast of debt increment.

Turning to the business highlights, the company crossed a record 6.4 million tonnes of sugarcane crushing, which was an increase 42% from the previous sugar season and produced 0.71 million tonnes of sugar which was an increase of 45% over the previous season at an average recovery of 11.06%. The sugar realization has improved 6% q-o-q with average realizations of Q1 FY 18 at ₹ 36,890 per tonne. Current sugar realizations are approximately ₹ 37.5 as a blended average per kilo. Sugar inventory on the 30<sup>th</sup> June stood at 33.5 lakh quintals, which was valued at ₹ 30.7 per kilo. Turning to the industry, Uttar Pradesh as expected far surpassed Maharashtra in sugar production producing 8.75 million tonnes approximately. Maharashtra produced 4.25 million tonnes and Karnataka 2.1 million tonnes both 49% lower than the preceding season.

Considering a consumption of approximately 24.2 million tonnes and our estimates of 20.1 million tonnes of sugar produced in this sugar season and an import of half a million tonne of sugar, the estimated sugar inventory at the end of this sugar season on September 30, 2017, would be approximately 4.35 million tonnes. Consequently, it results in a sufficient balance of sugar to meet consumption demands for the entire country and it is our view that there is absolutely no need for the Government to import any sugar or for any change in sugar policy going forward because this very robust closing balance needs to take first, then sugar prices should remain stable, and the second, that there is sufficient sugar and the distribution of that sugar across the country is also fairly healthy. There may be pockets which would be slightly higher, slightly lower, but with sugar traversing all across the country, I think there is no necessity to panic at any point; we do have enough sugar to meet our consumption requirements.

The FRP for the next season is also been declared at ₹ 255 per quintal which is an 11% increase from the previous season linked to a base rate of recovery at 9.5% and subject to a premium of ₹ 2.68 per quintal for every 0.1% increase in the recovery level above 9.5%. Recently, the Central Government increased the import duty on sugar to 50% without giving an end date. This is a clear signal to the growth of market with respect to Government policy and we are most appreciative of this foresightedness from the Union Government. As per public information, the Union Consumers Affairs Ministry has written a letter to the UP State Government mentioning very clearly that the time may be ripe for the implementation of the Rangarajan formula for sugarcane pricing.

Prices have been stable for the last quarter. The average NCDEX spot price from Muzaffarnagar was approximately ₹ 39.15 per kilo, which is an increase of about 19% to 20%y-o-y. Sugarcane planting over the last few months has increased. We are estimating that the country's production will be approximately 25 million tonnes of sugar for the upcoming season, '17-18. The acreage has increased very substantially between 30% to 40% in Maharashtra and Karnataka; it has increased in Uttar Pradesh by a little over of 10% as well. However, the only state where there has been a decline because of the trouble with irrigation and with water availability in Tamil Nadu where there has been a decline of about 35%.

Looking at the International sugar scenario, the next 12 months are looking at a rather large surplus for the broader markets. Brazil has produced a record crush, in Thailand the production is estimated in the next season to be approximately 12 million tonnes, and Chinese production is also high so we are anticipating that raw sugar prices globally and white sugar prices globally will certainly be range bound from these levels. Prices as you know having touched a very substantial peak of

six year high six months ago has retreated to the 13.5 cents levels and we have seen the market close slightly above 13.5 cents for raw sugar and we estimate that these prices will be fairly range bound going forward.

Looking back at our other businesses, the Co-generation business for the company on the account of a longer sugar operating season had a better performance q-o-q. Our Distillery business had a bit of a lumpy quarter. The Distillery remained closed for over a month in the last quarter because there were some checks mandated by the NGT. Since then, it has been ordered for reopening by the National Green Tribunal as well. In view of re-fixation of the basic ethanol price of ₹ 39, the average realization price in Q1 FY 18 is lower in comparison to the corresponding quarter. Share of ethanol sales is substantially higher at 83% against 75% in the preceding quarter.

Looking at the Gears business, it is an interesting bag and as I have mentioned even on the last call despite a slightly muted performance, the reasons for that muted performance are pretty clear. The implementation of GST did cause a substantial decline in dispatches in the month of June and this is because a large number of our customers wanted to save 2% CST, and therefore, accept the dispatches in the month of July which has happened. More encouragingly, the order intake during Q1 FY 18 was ₹ 25.5 crore substantially higher than the preceding quarter. In addition to this, the Company received a long term contract for supply of wind gear components worth about ₹ 50 crore and this will be supplied over 4 to 5 years and possibly on an accelerated basis. The business has very strong enquiries in the defence sector and it is hopeful of concluding a large number of them over the coming quarters as well. The outstanding order book on June 30, 2017 stood at ₹ 70.7 crore, excluding aforesaid order of ₹ 50.8 crore executable over a period of five years starting from FY 19.

Looking at the Water business, the order intake for the quarter was ₹ 77.4 crore, the outstanding order book on the June 30, 2017, stood at ₹ 666.3 crore which included approximately ₹ 270 crore towards O&M contracts which are of longer duration. The Company has participated in a lot of tenders and they are also in advanced stages of finalization. I would like to point out that over the last call, one had anticipated a revival in this market, and we have certainly seen it. I think last quarter there were many exigencies, many facts that happened which created some lumpiness in the market, but we overall from a business perspective are encouraged, there was some delay in execution which resulted in a small PBIT loss for this business division, however, we are fully supporting our projection for this FY 18 for large revenue growth and of course return in terms of profitable business.

Looking at the outlook for sugar, we estimate that for the season '17-18, the demand and supply are favorably placed and there will be a period of great stability over the coming quarters. The stability is not only with respect to consumption but also with respect to sugar pricing. There are adequate stocks in the country and it is hoped that any import decisions will need to be carefully evaluated. We believe that they are not necessitated at this point in time. It is indeed a fortunate situation that we have the same Government both at the Centre and at the state level and we are very hopeful being a player in Uttar Pradesh that the UP State Government will listen to some of the suggestions that have come in from the Centre, some of the suggestions that have come in from NITI Aayog and of course the pleas that have been made by the industry in the formulation of sugar price not just for sugar season '17-18, but also going forward.

A brief look at the outlook for our Engineering businesses as far as our Gears business is concerned, the Company is exploring new products and geographies to

expand and improve its turnover and profitability very much in line with the strategy that the Company has had over the last few quarters. We are witnessing that the Government plans to upgrade and revamp refineries, fertilizer plants, etc., which will lead to good number of orders with respect to our products from the Gearing business. With respect to the Water business, we expect that the turnover should show healthy growth going forward based on the execution of our interesting order book and the orders that we hope to attain over the next few quarters. As I mentioned, there are large number of tenders which are coming up for finalization and we are seeing that the finalization is moving at a much faster pace than it did even compared to the corresponding quarter a year ago. Thank you very much; I would like to now open the floor for questions.

- Moderator** Thank you. Ladies and Gentlemen, we will now begin the question and answer session. We will take the first question from the line of Praveen Motwani from NMV Securities. Please go ahead.
- Praveen Motwani** Sir, firstly I would like to know, you have ₹ 666 crore order book in water business, right?
- Tarun Sawhney** That is correct.
- Praveen Motwani** Sir, how much it will execute in this FY 18 to give a rough number?
- Tarun Sawhney** It will execute approximately 25% to 30%.
- Praveen Motwani** Sir, in Gears business, you are holding ₹ 70 crore of order book, right?
- Tarun Sawhney** That is correct, this order booking is for all execution in this year and it does not include the ₹ 50 crore plus order that we attained for execution over a 4 to 5 year period.
- Praveen Motwani** Sir, how do you see for FY 18 in Engineering business, so when can we expect the margin improvement in both the segments?
- Tarun Sawhney** As far as the Gears business is concerned, we are very much on track for a reasonable growth, handsome growth actually y-o-y. Last year, we were impacted by global and domestic factors, but we are seeing very good growth, very good order booking and the order booking is for this particular year and it is profitable order booking. With respect to the Water business, as we mentioned on the last call, we certainly maintain our same position that this business will have a reasonable year and we have to look beyond the lumpiness that exists because of various factors on the ground because a lot of this is project execution on the ground, dealing with local Government, municipalities, etc., but from an overall perspective for the year and I am glad that you asked this question, we stick by our projections that this year is the turnaround year for our Water business.
- Moderator** Thank you. We will take the next question from the line of Yashpal Madan, Individual Investor. Please go ahead.
- Yashpal Madan** Sir, I would like to know what had been your capacity utilization for Sugar last season?
- Tarun Sawhney** Last year we crushed 42% more sugar cane as compared to last season. The season days were of course longer. In terms of capacity utilization as far as sugar factories are concerned, the intent of course is to always run every sugar plant at peak capacity, so it really depends on the number of days and the cane availability.

- Yashpal Madan** Let us say this year as everybody is going to start the season slightly earlier, I am sure you must also be looking at starting earlier and if the cane availability is there, so how much more you are targeting to crush, how much production can you increase in this sugar season '17-18?
- Tarun Sawhney** It is a challenging estimate, as I mentioned earlier in my opening comments, we are seeing that a minimum of 10% is the area increase in the state of Uttar Pradesh. Now there will be a yield increase as well in the state of Uttar Pradesh, because of the dominance of a few high yielding varieties including 238, 118, etc., the list goes on. Consequently, as far as Triveni is concerned, we have done some debottlenecking at few of our units in terms of maximizing crush in fact enhancing crush at those units, that coupled with the fact that we will be starting at least approximately two weeks earlier compared to last year will allow us more crushing dates and an ability to be able to crush that extra cane that is available. I do not see that diversion to the unorganized sector would play too much of a significant role this year, because there is plenty of cane.
- Yashpal Madan** One can comfortably assume that there can be at least 20% more production this year?
- Tarun Sawhney** I am sorry we do not give forward projection, so I cannot comment on that.
- Yashpal Madan** At an industry scenario, the whole of UP what do you see, there is a possibility of 10 to 15% additional production.
- Tarun Sawhney** For Uttar Pradesh as a whole, we estimate that the production could be somewhere between 9.8 million tonnes and 10 million tonnes for the state which is an increase of approximately 12% to 15%.
- Moderator** Thank you. We will take the next question from the line of Bobby Jayram from Falcon Investments. Please go ahead.
- Bobby Jayram** What is your longer term projection for the Sugar business, projection as in is this how it is going to be a feast or famine kind of a business or sugar prices are not going to be linked to the cane prices?
- Tarun Sawhney** I think it is an excellent question and I sort of alluded to it in my opening remarks. The opportunity that exists today is one that has not existed in a very long time in many decades, where we have the same Government both at State and Centre. We also have a scenario where the state Government has received letters not just from the NITI Aayog but also from the Union Consumer Affairs Ministry to look at a cane pricing formula. The Union Consumer Affairs Ministry has gone as far as saying that the adoption of Rangarajan committee formula is something that should be also considered very seriously by the State Government. Now, it is clear that the gap between FRP and SAP has closed given what the 11% increase in FRP. Given that fact and the variety of balance shift in the state of Uttar Pradesh, the return to the farmer has increased very, very substantially over the last three years and this year the return is going to be even greater to the farmer, so there is no better time.
- We also do not have any impending elections in the state of Uttar Pradesh, the elections are just over, the Central elections are not there because of the political part of it is also favoring a linkage between sugar price and sugarcane price and revisiting a countrywide formula, so I think everything is pretty much in a row, it is a political decision as I am sure you understand and one that can only be taken by the incumbent Government and so as far as the industry is concerned, as far as Triveni is concerned would certainly support the Government in terms of provision

of data and provision of scenario analysis etc., but the decision will certainly be based on that.

Now, with respect to whether it is feast or famine, yes, the Sugar business is a cyclical business, it is not just a cyclical business in Uttar Pradesh but also in the rest of the country and around the globe for that matter of fact as our several other commodity businesses, but if we do have an implementation of a Rangarajan committee type formula coupled with a Union Government sponsored price stabilization fund, which is something that the industry association has supported and a concept that they have put forward and it is also a concept that has been used by the Union Government for the last exports that happened, that can be a very powerful tool to mitigate the highs and lows of feast and famine as you called it going forward.

**Moderator** Thank you. We will take the next question from the line of Jitendra K. Jain, Individual Investor. Please go ahead.

**Jitendra K. Jain** Sir, since you have so many practices so you must have some impulse on the international situation particularly in Brazil and all these areas. Recently, there was a news that Brazil is switching from sugar to ethanol because they have reduced the tax rate for ethanol in Brazil and in Brazil the American ethanol is cheaper than what they produce at Brazil, so do you not think that going forward in 2 to 3 years international situation in sugar will change dramatically for the better because as an investor in sugar shares and in your Company for the past 10 years, we have not got any much return, so what is your view about the sugar industry going forward in view of Rangarajan committee reports and international situations and all these things, if you can give some idea?

**Tarun Sawhney** You have to divide the domestic market from the international market. You are right that there has been long-term positive news coming on to Brazil for the sugar sector, however, that is also combated with the fact that the EU now enters the global markets as well as of 2017. We also have capacity expansions that are happening in China, in Thailand and in South Africa. These are all important factors to play. The road to refined sugar balance is also changing quite substantially with the large number of tolling units coming up across East Africa, in Australia, in other parts of the world, and in Europe as well and so that balance is very precarious. It is difficult to say that everything points towards a rosy scenario for sugar. Sugar is a commodity; it will always have its ups and downs. Having said that, as far as the impact it has on Triveni being a Company in Uttar Pradesh and in India I think it has very limited impact on us for the simple reason that domestically we are fairly isolated and protected from the international markets. We have been in the past and I do not see that scenario changing simply because we have to look inwards first for our domestic consumers and India as you know is the largest consumer of sugar in the world as a country. We are projecting that consumption to be 25 million tonnes for the next year for example. All these factors as far as international changes are concerned will have limited-to-no impact I think on India. As far as the measures that you mentioned about Rangarajan committee in India in Uttar Pradesh is concerned, yes, the implementation of that would certainly result in the creation of our tolling model, so you will have a scenario that sugar factories will simply become tollers of sugarcane, which is a very exciting proposition, but it is yet to happen.

**Moderator** Thank you. The next question is from Vijay Gupta, Individual Investor. Please go ahead.

- Vijay Gupta** I have two questions, first question is what is our stock position of sugar as on date and the second question is what is the order intake in the Q1 FY 18 for Water business?
- Tarun Sawhney** As far as our sugar stocks are concerned as on 1<sup>st</sup> July <sup>t</sup>, we had 33.5 lakh quintals of sugar. If your question is as of today what is our stock, I am afraid I am not at liberty to disclose that number, it is a dynamic situation, it changes constantly. As far as the order intake for Water business for Q1 FY 18, it was ₹ 77.4 crore in the quarter.
- Vijay Gupta** Last time in the call, the number as on date for the sugar was available, so is that for any particular reason that is it is not being disclosed right now?
- Tarun Sawhney** We never disclose the stocks as on date, we always disclose stocks at the end of the quarter.
- Moderator** Thank you. We will take the next question from the line of Saket Kapoor from Kapoor & Co. Please go ahead.
- Saket Kapoor** My first question is regarding last quarter this exception items, net income expense, ₹ 85 crore if you can throw light what was the reason behind this exception item?
- Suresh Taneja** The ₹ 85 crore was an exception charge which took place for the year 2016-17, so it is not pertaining to this quarter, it is pertaining to Financial Year 16-17 and this is the amount of incentives which were recoverable from the Government on account of UP Sugar Industry Promotion Policy 2004. In view of the fact that so much of time had elapsed and the case is legally going on, so we thought it prudent to write it off.
- Saket Kapoor** Sir, what are your expansion plans as far as sugar is concerned?
- Tarun Sawhney** It is an excellent question, we are looking at this point in time of debottlenecking a lot of for sugar units, so we are looking at maximizing production given the operating assets that we have on the ground at the seven sugar units, and also maximizing the operating efficiency and days at our Co-generation plant. Over the last few months, the few initiatives that we have undertaken include minor expansion and debottlenecking at all of our new sugar units. We have also established a pharmaceutical grade sugar plant at our facility at Sabitgarh. We have also received permission to operate our Distillery for a period of 330 days which represents slightly above 20% added capacity utilisation for our Distillery.
- Saket Kapoor** Sir, why your Distillery profit is down, this quarter it is ₹ 2.4 crore, whereas the last year quarter, this was ₹ 12.95 crore, what is the prime reason for such a drastic reduction in profitability of Distillery segment?
- Tarun Sawhney** It is an excellent question, the Distillery as I mentioned in the opening remarks was shut for approximately one month over the last quarter and the drop in profitability is really because we booked all of our fixed costs while we did not have the benefit of operations for one month.
- Saket Kapoor** Sir, the peak cost could have been adjusted throughout the year, why you have taken the beating in one quarter, is there any specific reason?
- Suresh Taneja** The only thing is it is again prudence basically, instead of building up such an exceptional item as the cost of production, we thought it prudent to expense it off

and apart from this reason, the profitability at the Distillery is also lower because of the lower realization price because ethanol was fixed at a lower price.

- Saket Kapoor** Sir, in the same line I would like to add a follow up question to this, Government of India is coming with ethanol and ethanol policy for blending fuel with it, so have you heard anything from the Government as far as blending of ethanol with petrol and diesel is concerned because that can be a great revenue driver for our country, what is your view on it?
- Tarun Sawhney** We have 10% ethanol blending target that is being fixed, it is actually a pet project for the honorable Prime Minister as well to get the 10% ethanol blending be achieved. At this point in time, the country has achieved no more than, it has touched 5% in one year, but in all other years it has been substantially below 5%, so there needs to be some structural change, there needs to be significant capital investment and there needs to be policy changes that allow for free flow of ethanol across the country, so all three things do require very significant change before we see it. You are absolutely right, the blending program is an outstanding program on multiple counts, it helps foreign exchange, it helps the Indian farmer, it has huge impact on climate control with respect to zero pollution as far as ethanol is concerned and the list goes on and on. The other benefits are minor in nature, but these are the three major ones, but for it to happen on a large scale, we need to have a greater direction in terms of pricing which at this point in time changes from year-on-year. This year the price is lower, last year the price was higher, next year we anticipate that the price will remain the same if not higher. If there is a longer term perspective on those factors, I think that there will be more investment and certainly a big push by the industry to touch those high-levels of blending.
- Saket Kapoor** That point is well accepted, my question was have you received any order on ground because everybody know the benefits and I appreciate that, if this concall is being forwarded to the government, but on ground have you received any order?
- Tarun Sawhney** We participate in all the Government tenders, we have received orders as per our Government tenders.
- Sameer Sinha** We have orders of about ₹ 3 crore liters under the existing tender which expires in November this year and a new tender is supposed to come next year. In addition, we have orders from Reliance for supply of about ₹ 85 lakh liters of ethanol, so these are the tenders which come out and against which we are participating.
- Moderator** Thank you. We will take the next question from the line of N K Arora, Individual Investor. Please go ahead.
- N K Arora** Thank you for declaring a dividend that has been excellent for the retail investors. Sir, my first question is order book in the Water business this quarter it is ₹ 77 crore, but if I remember correctly in the last concall we were told it was a bit higher ₹ 93 crore or something, so has there been any scale down or change in order?
- Tarun Sawhney** There is absolutely no change in order. This is basically based on the LOIs that are given and advances that are given to our Water business group and the more we recognize we report it as an order, but not everything comes at the same time, there is more to come.
- N K Arora** Secondly Sir, though we have a very good fine balance in sugar of demand and supply, but I think there is much more shortage in South India than in North India and the production is in North India, so we are holding a large inventory, do you foresee any problem in liquidating the inventory?

- Tarun Sawhney** I do not see any problem in liquidating the inventory and as far as you have raised an important point which is that certain parts of the country, the stocks will go down to the barebones level, but you have to understand that sugar flows throughout the country, so from Uttar Pradesh today there is sugar going all the way to East India, it is going to North India, it is going to West India, it is going as far as Gujarat as well which were our traditional market going back 15 to 20 years. From Maharashtra, Karnataka, sugar goes all the way to Calcutta, it also goes down south to Tamil Nadu and Kerala etc., and it has always done that. In Maharashtra today, you have about 4 million tonnes of stock that is lying in balance, you still have some stock lying in Tamil Nadu and in Karnataka, and I see that there will be no scenario of shortage because sugar will freely move. It is a commodity that moves freely from state to state and as a consequence, I do not see any real shortage over the holiday season. It is important to also factor that industry across the country will be starting early and in fact in South India in particular in the state of Tamil Nadu in particular, the special season will start in the next couple of weeks if it has already started and so you will see factories in Tamil Nadu crushing and producing sugar over the next few weeks.
- Moderator** Thank you. We will take the next question from the line of Afshan Sayyad from Dolat Capital. Please go ahead.
- Afshan Sayyad** Sir, just wanted to know regarding this NGT check, what led to that if you can throw some light on that would be helpful?
- Tarun Sawhney** Absolutely, it was a frivolous arbitration, it was with a person that we had a dispute with who sought to take this upon himself and file a suit against us. The NGT of course looks at all these matters very closely and carefully, and therefore, after close deliberation and getting certain tests done by the Central and UP Pollution Boards collectively, they decided there was no merit in the case and they disposed of it, but sadly for us it did take time and it did result in a shutdown of our plant.
- Afshan Sayyad** The matter is resolved now?
- Tarun Sawhney** The Distillery is open for business.
- Afshan Sayyad** Are there any more checks expected going forward or is it like?
- Tarun Sawhney** No.
- Afshan Sayyad** Secondly Sir, I just wanted the number of days of crushed in the last season?
- Tarun Sawhney** We have seven factories, so each factory will have crushed varying number of days. We are happy to provide you with that information if you call us off-line because there are seven units each unit started on a different date and stopped on a different date also. Broadly speaking, the season was about 160 days.
- Afshan Sayyad** Okay, and you are expecting higher next season?
- Tarun Sawhney** We are certainly expecting higher number of operating days next year.
- Afshan Sayyad** Sir, lastly on the SAP pricing for '17-18 what are your thoughts on the same?
- Tarun Sawhney** I mentioned this even earlier in the call, I think we are hopeful that there is certainly an opportunity for the Government to do away with SAP and to use last year's SAP potentially even as a threshold price or as a minimum price, so that the farmer does not get anything less than what he has gotten in the past. The closing of the

gap between FRP and SAP has happened and I think all parties are conversant that if SAP should go up, then the gap between FRP and SAP will go up and therefore implementation of any pricing formula then goes for a toss again. We are hopeful that with an early start of the season, the decision-making as well by the government will be early. We have seen that the start of the reservation process etc. has followed suit, in fact the government has been focusing a lot of its energy, the State Government, in terms of executing all of those details and planning point in advance and we are hopeful that they will also announce the cane price well in advance so that your question will be answered.

- Afshan Sayyad** So early October?
- Tarun Sawhney** I would hope so.
- Moderator** Thank you. We will take the next question from the line of Prashant Bhaskar, Individual Investor. Please go ahead.
- Prashant Bhaskar** Sir, one question you said that the Distillery was closed for one month, when has it started again?
- Tarun Sawhney** I said the Distillery was closed for a month in the last quarter, it was also closed for a month in this quarter.
- Prashant Bhaskar** Basically, it was closed for two months?
- Tarun Sawhney** That is correct.
- Prashant Bhaskar** Now, second question I wanted to know about the dividend which you have declared like in comparison to your peers, I do not want to name anyone, but do not you think that the retail investors would look forward to a higher dividend yield because this dividend yield would be on a very, very lower side, so what is your expectation going forward for the retail investors in terms of dividend?
- Tarun Sawhney** The board in its deliberations wanted to show a positive sign to the shareholders to support that we have received from them and gave a 25 per cent interim dividend, it does not stop the Board from giving any further dividends after any other board meeting either, so I would hope that you would bear with us for the rest of the fiscal year and then hopefully your questions would be answered.
- Prashant Bhaskar** Going forward, we can expect this financial year some more dividend coming in probably?
- Tarun Sawhney** I would hope so, yes.
- Prashant Bhaskar** One last question, in terms of balance sheet, the net debt what you are holding right now, what do you feel at the end of this fiscal in terms of percentage, how much should that percentage come down from your balance sheet, in the debt level?
- Tarun Sawhney** Here is the point, you have to divide up the debt into cash credit and term debt. We have given a forward-looking statement very much against what we usually do in the last call where I had gone out and said that we are looking at repayment of at least ₹ 200 crore of our long-term debt, out of that, we have already repaid and prepaid ₹ 114 crore. Our anticipation for this year is we will far supersede that number of ₹ 200 crore of long-term debt repayment. As far as the short-term debts are concerned, cash credit is concerned, that is dependent lot on the sugar stocks

that we have on hand. We ended the quarter with 33.5 lakh bags of sugar, which is fairly substantial and the short-term debt is only and really on account of that. Going forward, I think as of the end of this fiscal year next sugar season being a big sugar season, we will probably see a very high number for short-term debt, but as far as long term is concerned, the Company is doing it best in order to reduce that very, very significantly.

**Prashant Bhaskar** In terms of percentage for the long-term debt, any percentage which you think should be like 10%, 20%, 30%, whatever like in terms of percentage, how much it should come down?

**Tarun Sawhney** Without giving you physical percentages, I think I have said quite a lot that we are certainly superseding the ₹ 200 crore debt repayment number.

**Prashant Bhaskar** What was your total long-term debt at the start of this fiscal year?

**Tarun Sawhney** ₹ 490 crore at the beginning of the fiscal year, which is now ₹ 376 crore, so roughly speaking it is down by about 23%.

**Moderator** Thank you. We will take the next question from the line of Yashpal Madan, Individual Investor. Please go ahead.

**Yashpal Madan** My question is related to FRP, let us say it gets implemented this year with the existing rates what are there, I think it will be almost neutral for everybody, for farmers also and for the mills also?

**Tarun Sawhney** You mean compared to last year's SAP?

**Yashpal Madan** Yes, let us say the FRP price which has been declared ₹ 255 if that formula gets implemented this financial year and let us say the last year pricing for UP remains the same this year, then will it be neutral?

**Tarun Sawhney** Not really because it depends on how you look at FRP, do you look at it state wise, do you look at it region wise, do look at it zone wise, or do you look at it mill wise. I will answer your question for all four. If you look at it for the state as a whole at 10.6% average recoveries for the state, the FRP calculation would come to somewhere around ₹ 280 something per quintal of sugar based on the new FRP price. Now, if you looked at it on a zone wise or district wise level, you would see fairly big differences, for example, in Bijnor or in Moradabad you would see an FRP that is higher than last year's declared SAP, similarly in few other districts you will see that. If you look at it on an individual factory level, any factory that had a recovery above about 11.5% for the season will cross that ₹ 305 barrier. Now it is important to understand that the ₹ 305 was for general variety cane, for early variety cane, the price is ₹ 315, the bulk of the state's cane availability has moved towards early variety, so you will have to calculate that as a blend. For broadly speaking depending on which methodology, if the government were to choose this depending on which methodology they were to adopt be it mill wise, region wise, zone wise or state wise, there will be some variances over there. I would like to point out in the implementation of this formula in Maharashtra and Karnataka, it is not necessarily mill-wise payment, it is done in a different way where they look at certain regions or zones that are calculated and changed actually y-o-y, and I think that would be the best scenario because it would be very unfortunate for a farmer who has allocated this cane to one factory to receive a different price than somebody who is 2 or 3 kilometers away.

- Yashpal Madan** Then how it will be done, it will not be done mill to mill, the farmer who is supplying to you, you will not pay him as per what recovery you have got?
- Tarun Sawhney** It is a very good question, it is what is being deliberated at this point in time. The decision on what price if FRP were to be implemented in the state of Uttar Pradesh, how would that implementation actually happen is the subject of great deliberation right now because there are variances in recoveries from factory to factory that is precisely the point that you are raising, do I have an answer to your question, I am afraid I do not. We have offered several of our suggestions to the Government, but the eventual decision on, (a) do they go ahead with this formula and (b) if they do what is the mode that they will seek to follow is really something that the State Government can answer and not I because it will be hypothesis on my part.
- Yashpal Madan** What do you feel on farmer's acceptability, are they ready to accept this kind of formula or there will be some kind of resistance on their front?
- Tarun Sawhney** I think the bulk of farmers are willing to accept this kind of formula provided it is explained properly, because it is certainly in their interest. The amount of work that has been done by the industry in terms of fostering new and better varieties and high yielding varieties has been substantial. The return to the farmer for sugarcane in the state of Uttar Pradesh versus any other crop has never been better in the history of the state and so as far as the acceptability is concerned I do not see why not, you are getting far more money even at the same price as last year simply because of the good work that has been done by both the farmer and his sugar factory.
- Moderator** Thank you. We will take the last question from the line of Saket Kapoor from Kapoor & Co. Please go ahead.
- Saket Kapoor** My follow up question was cost of production, if you can give a brief guideline of comparing with your peer, what is your cost of production of sugar as compared to your peers like Balrampur Chini?
- Tarun Sawhney** I think you will probably be in a better position to do that, I am afraid we do not have that data on hand.
- Saket Kapoor** Sir, second question was regarding this growth plan which you are telling, what are your growth plans for Co-generation as Distillery is concerned?
- Tarun Sawhney** As far as the Distillery is concerned, we have increased our operating days from 270 to 330, we have gotten the permissions that were required, it equates to a slightly little over 20% increase in capacity of the fact that it will allow us to consume a lot more of the molasses that we would produce at our own sugar factories. As far as Co-generation is concerned, we have no immediate plans of an expansion.
- Saket Kapoor** Sir, one question I was asking regarding the waste which we generate, the sugarcane waste which is used for making boards, Sir do we have any plans for utilizing the waste product of sugar?
- Tarun Sawhney** Waste is called bagasse and it is that very bagasse that is burnt in boilers to generate power, that is called Co-generation, so you either go in for co-generation or you go in for board, there are many other technologies, there are a lot of people who are talking about the manufacturing of ethanol directly from bagasse, and these are experimental technologies, one test plant that is up and running in India

and these are new things, so I am sure that there will be many other things that one can do with bagasse, but at this point in time we have are not considering any such opportunity.

**Saket Kapoor**

Final question, Star Industries in one of the companies which is very active, it is participating with the Government of India for producing ethanol, Sir, does our company have any concrete plan looking into this sector because this government has an initiative and it is working and it is delivering on certain front, you can see in the power sector and you yourself in your commentary you have said this is an opportune time that this industry at in inception point that we have the same government in the Centre and state and something good can happen, so are we working on this project of developing ethanol from sugar bagasse, are we working on this project?

**Tarun Sawhney**

We have one of the largest ethanol distilleries in the country already operating and I have spoken about it at length during this call, we already have that factory.

**Moderator**

Thank you very much. That was the last question. I now hand the conference over to the management for their closing comments.

**Tarun Sawhney**

Thank you very much for joining us for the Q1 Fiscal 18 earnings conference call for Triveni Engineering & Industries Limited. I would like to close by saying that this quarter, Q2, for this fiscal year is a very exciting quarter on all fronts. On the sugar front, I think it is good we have very positive quarter and I look forward to giving you the results of this quarter when we next speak. As far as the Engineering business is concerned, we are still as I mentioned earlier on the right track and looking forward to new business opportunities over the coming few months. Thank you for joining us today.

**Moderator**

Thank you. Ladies and Gentlemen, on behalf of Triveni Engineering & Industries Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.