Triveni Engineering and Industries Limited
Q3 & 9 months FY 21 Results Conference Call
February 04, 2021

Moderator: Ladies and gentlemen, good day, and welcome to Triveni Engineering and Industries Limited Q3 & 9 months FY 21 Results Conference Call. 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 the 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. Rishab Barar from CDR India. Thank you and over to you, sir.

Rishab Barar: Thank you. Good day, everyone, and a warm welcome to all of you participating in the Triveni Engineering and Industries Limited's Q3 and 9MFY 21 Earnings Call. We have with us today Mr. Tarun Sawhney – Vice Chairman & Managing Director; Mr. Suresh Taneja – Group CFO; Mr. Sameer Sinha – President, Sugar as well as 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 sent 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 will start this call with opening remarks from the management followed by an interactive question-and-answer session.

I would now request Mr. Tarun Sawhney to open the call. Over to you, sir.

Tarun Sawhney: Thank you. Good afternoon, ladies, and gentlemen and welcome to the 9-month results of Triveni Engineering and Industries Limited. The overall performance of the company during the nine months ending December 31st, 2020 has been in line with our expectations. The revenue from operations stood at just above ₹ 3,515 crore which indicates a growth of 19%. Similarly, the profit before tax stood at ₹ 326 crore, a growth of 16% and the PAT stood at just above ₹ 209 crores. The increase in turnover over the previous periods is on account of higher sugar and ethanol dispatches and consequently the increased turnover of sugar which has compensated for the decline in the engineering business due to the lockdown and COVID-19 issues. The sugarcane season for Triveni started a little earlier during the current season where we crushed approximately 2.81 million tonnes of sugarcane in Q3 FY 21 at an average recovery of 10.19%. The gross recovery, this is after the adjustment on account of B-heavy molasses was 10.93%. Till today, we have crushed 4.37 million tons of sugarcane at a recovery of 10.44%, the gross recovery after the adjustment of B-heavy molasses being 11.18%. There is a marked difference from last year. Last year our crush to date was 4.09 million tonnes and therefore due to the early start and a better crushing capacity for all the units combined, we have been able to achieve a significantly higher crush to date; however, the recovery is little bit lower. Last year, the recovery stood at 11.06% and the gross recovery was 11.55%.

Now the notable difference of course is the fact that last year we were producing large quantum of raw sugar which is produced at a very high recovery and for the quarter under review it is important to note that the company did not produce any raw sugar at all. The company has under its alcoholic beverages vertical forming part of our distillery operating segment started producing country liquor towards the end of the current quarter at its bottling facility in the premises in our alcohol chemical premises at Muzaffarnagar in Uttar Pradesh. The company holds an approval to bottle 52.8 lakh liters of portable alcohol on an annual basis and this will be achieved in a phased manner and this is the first approval for this business.

The performance of our engineering businesses was also most interesting. For the power transmission business, it was a muted quarter, but we are anticipating a clear catch up during Q4 FY 21. The water businesses performance was commendable during the quarter given the pandemic situation and we are looking forward to very active quarters going forward. The outstanding order books to date is just under a ₹ 1000 crore for the combined engineering businesses at ₹. 988 crore. The board has approved the establishment of two new distilleries of 40 KLPD which is a grain-based plant at Muzaffarnagar and a 160 KLPD molasses, juice, syrup, and grain plant at our sugar factory at Milak Narayanpur, district Rampur, Uttar Pradesh. This is of course subject to the necessary statutory clearances and this will raise our total distillation capacity to 520 KLPD and the cost of this two combined expansion will be ₹ 250 crore and this is approved by the board at our meeting yesterday. We expect both distilleries to be up and running within the next four quarters, perhaps earlier. The company has also completed the buyback of ₹61.9 lakh equity shares at a price of ₹. 105, the total amount being ₹ 65 crore and this was done in October 2020.

Now turning to the financial highlights for the quarter:

Revenues from operations stood at ₹ 1,123 crores with an EBITDA of ₹ 168 crore, signaling a 5% and 78% retrospective increase from the corresponding quarter of the previous fiscal year. For the PBT, the number was ₹ 145.8 crore which was a 119% increase from the previous corresponding quarter. Significantly, despite lower buffer stock subsidies by ₹ 9.85 crore, our finance cost for the 9 months has been significantly lower by 39%, mainly due to lower CC utilization by approximately 58% and this is directly due to much better working capital management and lowering of our cost of funds by 34 basis points. The total debt of the company on the 31st of December 2020 is ₹ 550 crore which is much better than the ₹ 1,544 crore on the 31st of December 2019. The ₹ 550 crore number as of December 31st 2020 comprises of term loans of ₹ 412.5 crore and all of these loans are with interest subvention or at subsidized rates of interest. Our average cost of funds for the quarter was 5.66%. So it is a very substantial improvement quarter-on-quarter etc. and indicates the improvement in the financial standing and balance sheet of the company.

As far as the sugarcane season, let me turn to our operating businesses and I will start with our sugar business. For the 2021 season, sugarcane crush was 2.81 million tonnes as I mentioned an increase from 2.57 million tonnes in the previous corresponding quarter. The sugar production has commensurately been higher at 2.86 lakh tonnes versus 2.79 lakh tons in the previous corresponding quarter. Our dispatches in the quarter under review were 2.57 lakh tonnes and exports of approximately 14,000 tonnes also took place in the quarter. The average domestic realization was ₹ 32.78 per kilo, which was slightly lower than the previous corresponding quarter at ₹ 33.55 per kilo. And this is a factor due to the increase in production year-on-year and of course in the first quarter of the sugar year, as factories start producing, etc., there is pressure to evacuate sugar stock for cane payments etc. and it always leads to some kind of an effect. That combined with of course a much higher crush in this sugar season has led to some wavering of sentiment in Q3 which is the first quarter of the sugar year.

Pursuant to the additional export allocation granted over initial allocation under MAEQ of the company has exported a total of 3 lakh tonnes against the previous, against MAEQ 2019-20. The total sugar quota of export for sugar season 2021 MAEQ is 1.82 lakh tonnes, of which 0.5 lakh tonnes of sugar has been contracted in January 2021. The remainder will of course be contracted as the time progresses and there is plenty of flexibility that is being given by the Ministry of Food and GOI in terms of how to evacuate the sugar; there are possibilities of third party evacuation; there are direct evacuation, raw sugar, white sugar, the trading of domestic quotas, so it is a far more complex system that exists this year giving a tremendous amount of flexibility to companies like us.

During the nine months of FY 21, the sugar revenue includes export subsidy of ₹ 57.66 crore pertaining to export sales made in the previous year and likewise for the nine months FY 20 the export subsidy of ₹ 93.22 crore has been included. Further, the export subsidy of ₹ 40 crore was not booked by the 31st December 2019 for exports undertaken in Q3 FY20. So it is important to note that in your comparisons over quarters. The sugar inventory as on the 31st of December 2020 was 28.2 lakh quintals valued at ₹. 30.9 per kilo. The co-generation operations which include our incidental co-generation achieved sales of just under ₹ 32 crore in the previous corresponding quarter, a growth of 24% due to the higher number of operating days and of course improved performance.

Current sugar realizations at the mill gate for crystal sugar stands at about ₹ 31.5 per kilo and refined sugar is ₹ 32.5 per kg. So they have sort of come down, there has been a little bit of pressure in January and in the start of February as well, there appears to be a little bit of pressure. But I am very confident that this balancing once the cane price situation gets more under hand, we will get balanced out and we will see a relative increase, small increase to comfortable levels going forward.

Turning to the industry scenario for sugar season 2020-21:

The country produced 27.4 million tonnes and at the end of September 2020 the estimated inventory of the country stood at 10.6 million tonnes. As per the latest estimates the production for this season, season 2020-21 is estimated at just higher than 32 million tonnes with about 2 million tonnes being reduced from this total due to B-heavy molasses or rather ethanol made from B-heavy molasses. The estimated sugar production will be just above 30 million tonnes. But it is important to note that this is a 10% increase from the previous sugar seasons and therefore these 6 million tonnes of MAEQ for this year is a very welcome move in terms of evacuation of this extra stock.

The sugar produced for Uttar Pradesh is estimated at 10.5 million tonnes versus 12.64 million tonnes in 2019-20. The lower estimates for Uttar Pradesh are primarily on account of lower sugarcane yields and lower sugarcane recoveries apart from significantly higher diversion to gur and Khandsari units. Further during this season, it is estimated that approximately 0.67 million tonnes of sugar will be diverted for the production of ethanol using from B-heavy molasses and some from sugarcane juice, an approximately 82% increase from the previous sugar year**.** The estimated decline for the state of Uttar Pradesh as a whole is expected to be 17% and when I turn to our numbers and our estimations, we would certainly be significantly better off than that reduction and that is now our present estimate. Maharashtra on the other hand is expected to produce 70% more and Karnataka 22% more minimum in this year, perhaps even 25%-26% more. So there is a lot more sugar in central and south India being produced in this year which accounts for the substantial increase in sugar production for sugar season 2020-21. The government during this period has also announced an export subsidy of ₹ 3,500 crore to export 60 lakh metric tonnes of sugar under the MAEQ. And this is as I mentioned a very welcome move by the Government and I anticipate the entire 6 million tonnes will be evacuated in one form or the other to our coastal based refineries and through export destination.

India is fortuitously in a unique scenario of being able to delivery sugar across the eastern hemisphere and the demand in the eastern hemisphere is quite substantial and therefore India has been able to secure relative premiums over New York and that is being welcome in terms of the evacuation of the sugar. And therefore despite the smaller or rather the lower subsidy that is being allocated, export subsidy by the government of India we believe that the full 6 million tonnes will be evacuated. As on the 15th of January, the sugar in the country, production stood at 14.27 million tonnes compared to 10.89 million tonnes in the previous year. Sugarcane arrears are a very important factor and I think a lot of policy determination is based on the growth or reduction in cane price arrears. For Uttar Pradesh, cane prices arrears stood at just under ₹ 8,000 crore for sugar season 2020-21 as per the most recent government data and ₹ 1,406 crore for the previous sugar year. So a very substantial amount of arrears is building up in Uttar Pradesh at the present time.

As per industry reports for the marketing year 2019-20, the final receipt of ethanol by oil marketing companies has been 173 crore liters against a contracted demand of 195 crore liters which translates to approximately 5% lending. For this year, the tenders have been issued for 457 crore liters of which the finalization has been 248 crore liters, 59% of the contracted quantity would be ethanol manufactured through B-heavy and 17% and 15% are from C-molasses and sugarcane juice respectively. After the total ethanol contracted 9% is from damaged food grains. So that of course is the latest introduction into the mix of raw materials that can be utilized for the generation of ethanol. The production capacity of the country has increased by almost 400 crore liters and the government of India is targeting ethanol production supply target of 300-350 crore for this year to achieve 7.5% to 8% blending across the country, a marked improvement. As per market reports, 0.3 million tonnes has already, this is with reference to the MAEQ, has been contracted for export in the quarter under review.

Coming back to ethanol:

The central government announced a smart revision in December 2020 of prices, of C-molasses which increased by just under ₹ 2 and B-heavy molasses which increased by ₹ 3.34 to ₹ 57.6 per liter. There was also a smart increase for sugarcane juice. Ethanol derived from sugarcane juice which increased by ₹ 3.17 per liter to ₹ 62.65 per liter. This augurs extremely well for the sugar industry and more importantly for the ethanol blending program which is a real target and focus area for the government of India. Another recent development was the modified scheme for financial assistance by way of interest subvention which is announced by the central government. This is for the enhancement of ethanol distillation capacity to establish distilleries producing first generation ethanol from feedstocks or converting molasses-based plants to dual feedstock plants. It is expected to bring about in an investment of about ₹ 40,000 crore. This combined with renewability of prices and these clear signals that the government would like to achieve the 20% blending target in an accelerated manner by 2025. Certainly, means that this investment in the short term by the industry is something that can be easily achieved and we will certainly make steps towards that. It is equally important to note that we had this discussion 3 months ago, we talked about initiatives that the government could take to hasten the ethanol blending program and to increase these targets. So a lot of what I have just spoken about is very much in line with that. And I had also spoken about the expectation of quick movement from the government on this front and we have seen that in just 3 months there has been a tremendous amount of developments that has taken place on a policy perspective and a tremendous amount of signaling from the central government to initiative this investment from private industry. All are very encouraging scenario.

I will spend just a minute on the international sugar scenario. Center-south in Brazil is estimated at 38.2 million tonnes. And the ethanol output has fallen by almost 9% in the same region. In Brazil, recovering fuel demand is raising the possibility of more ethanol production and less sugar which should certainly support sugar prices in the 2020-21 season. When one looks across the globe, Thailand, South Africa, EU, Russia, there is a huge amount of problems in the sugar programs of these nations, especially in Thailand where there has been a massive fall. The current crop is also quite bad and of course this assists the Indian export program to the traditional countries where Thai sugar for example had found its home. As per International reports, the deficit for 2021 should be approximately 3.8 million tonnes of sugar compared to a deficit of 5.5 million tonnes in the previous year and this again is expected to ensure that raw sugar prices certainly trade range bound at the levels that we are at now, which is a very encouraging increase, a smart increase especially since the lows that we saw in March at the time of the COVID lockdown. At that point, raw sugar prices touch lows of just about 10 cents, around 10 cents in April 2020 and rose to 15.4 cents per pound on the 26th of January, the increase has been on the back of this estimated huge global deficit in prices are now in excessive 16 cents on the 2nd of February. The March contract delivery prices settled at just about 16.3 cents per pound and the white sugar contracts settled at $463.6 per metric tonne. Again the market is indicating very strong and smart moves towards the positive side.

Turning to our alcohol business:

Our production over the previous quarter was by and large on par whereas the sales was slightly higher. Our average realization per liter stood at ₹ 47.8 per liter which is higher than ₹ 46.8 liter of the previous corresponding quarter. Commensurately, we have had a higher PBIT as indicated in the results that has been shared with you. During the current fiscal year, 39% of the distillation capacity has been used to produce ethanol using B-heavy molasses whereas it was only 15% in the previous year. The profitability of the distillery in the nine month period is lower than the corresponding period of the last year due to a much lower raw material which is molasses price relating to ethanol sold in the previous year. The distillery has received contract of 9.86 crore liters during the ethanol supply at 2020-21. I would like to point out that well over 90% of this contract will be supplied to ethanol from B-heavy molasses. With the approval of the two distilleries, as I had mentioned, the aggregate distillation capacity of Triveni Engineering will go up to 520 KLPD.

Turning very quickly to our engineering businesses:

Our power transmission business had a muted quarter and this was due to some COVID related delays in terms of dispatch, delays from Q3 that have been pushed forward to just Q4. So we anticipate that there will be a tremendous amount of catch up in Q4. The outstanding order book stood at a ₹ 160 crore which included some long duration orders of approximately ₹ 55 crore. The businesses had strong enquiries from Defense, and it is hopeful of concluding more such orders in the coming quarters. The water business had a good performance under the circumstances of Pandemic. A PBIT of ₹ 5.2 crore for the quarter under review, the above results are consolidated with the wholly owned SPV of our Mathura project which was awarded to us by NMCG under the Namami Gange program. Despite lockdown and COVID-19 related issues the company has performed well and due to the pandemic, the order finalization has been slow. But we participated in a large number of tenders in the quarter under review and we expect positive results to follow in the next few months. The outstanding order book stood at ₹ 827.5 crore of which ₹ 467 crore is towards O&M contracts which are for a longer period of time.

If I look at the outlook for both of our business segments, the agriculture as well as engineering, as far as sugar is concerned the recovery levels and yields in Uttar Pradesh are lower. There are slight causes of worry and this is due to climatic conditions and potentially due to a very long season last year and therefore the amount of time given for growth and the timing of the plantation of the crop last year is showing some weakness in this year. However, I guess by that logic if one looks at this year, where we are anticipating a smaller crop in Uttar Pradesh, it augurs very well for the coming year of sugar season 2021-22. There has also been an increased amount of diversion towards gur and Khandsari and last year due to the COVID lockdown which came into effect mid-March, gur and Khandsari units had completely shut shop and so for the tail end of the season, in the last portion of the season, there was absolutely no diversion that happened, and all that sugarcane came to the sugar factories. At this point in time, it is almost business as usual and so we are seeing a few more gur and Khandsari units operating in Uttar Pradesh. So the diversion levels are back to the usual levels.

The company is actively pursuing a varietal substitution program to reduce our dependence on CO 238, the miracle variety. There are large number of sugarcane varieties that are now available in North India and to Triveni Engineering in our farms and in our tests in some of the plots. And we fully intend to ramp up the diversification of our sugarcane portfolio which has a twofold benefit. Number one, it allows us to mitigate the risks of CO 238 and it also allows us to introduce some general varieties and therefore perhaps even reduce our cost of cane because general varieties are priced ₹ 10 per quintal lower.

The government of India has come out with an excellent and timely export scheme as I had mentioned and I fully anticipate the 6 million tonnes of sugar being exported. The MAEQ of 1.82 lakh tonnes has been allocated to the company. As per the guidelines, the company, may and can apply for higher quantities as well. Last year, we had applied and exported the bulk of the additional quantity that was allocated to us and I think these export programs are very useful and we will see in the month of February and March exactly how much has been contracted to the country, I expect a bulk to be contracted then and then if there is an opportunity, there is scope for players like Triveni to gain the pending quantity.

As far as the engineering businesses are concerned, as far as the PT business, power transmission business, the deliveries of deferred orders from Q3 to Q4 with scheduled deliveries of Q4 are expected to have a significantly higher turnover and profitability in Q4 FY 21. The company believes that the order booking is getting normalized and with the easing of COVID-19 and travel restrictions, both the supply of product to customers and order booking should improve dramatically in the coming quarters. We are exploring a variety of new product segments and geographies to further improve our turnover and profitability.

In the water segment, as I mentioned just a few minutes ago, we participated in a large number of tenders and we expect a positive outcome in some of those tenders over the next month. We expect some subdued activities in some of our new business opportunities in FY 21 but the business has geared up to tackle all of these issues quite commendably.

So thank you very much. I would now like to open up for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sanjay Manyal from ICICI Securities. Please go ahead.

Sanjay Manyal: I have a few questions about the export. So you have mentioned that you have exported or you have contracted some quantities this year. At what price you have contracted these quantities and whether they are white or raw?

Tarun Sawhney: So, we don't discuss the price that we have contracted them at, but suffice to say that we have contracted at very good levels in terms of the prevailing market and the contract that we have entered into are only for raw sugar as yet.

Sanjay Manyal: And you have still sufficient quantities left to be contracted?

Tarun Sawhney: Correct.

Sanjay Manyal: And the prices are prevailing at 16 cents, somewhere around that and I am sure you are getting the premium over that. So, how it will translate into the rupee terms if I just try to see the current prices, say 16 cents?

Tarun Sawhney: So, effectively if you include the location premium that India is getting and the VHP premium for raws that are coming out, for Uttar Pradesh, let me talk about Uttar Pradesh, this does not include the transportation to the port etc. you are looking at gate realizations somewhere around ₹ 2,700 to 2,750 per quintal.

Sanjay Manyal: And including the ₹ 6 then it will become ₹ 33 – ₹ 34 you are saying?

Tarun Sawhney: Yes, but you have to then deduct the cost of transfer of this sugar to the port which will vary. It can be anywhere between ₹ 150 – ₹ 175 – ₹ 180 per quintal.

Sanjay Manyal: And sir if I just may, the current position as far as the recovery rates are concerned, what I understand, as on 31st December it was 40 basis point odd below like-to-like recovery, how do you see that you will end the crushing season with what kind of recovery, whether it will be down by 20 basis points or you see more than that?

Tarun Sawhney: So, for us it is not an exact comparable. And the reason it is not an exact comparable is because last year we were producing raw sugar as well which is a much higher recovery. For the quarter under review, we weren't producing any raw sugar at all. At the end of the season, we anticipate no more than a 5% decline in total sugar production, approximately 5% decline in sugar production for Triveni.

Sanjay Manyal: And in terms of recovery then if suppose recoveries are say 20 basis points down or 30 basis points, then probably it will increase the cost of production by ₹ 1 or so if I am not wrong. So if you can just tell me in terms of recovery what you are anticipating the recoveries at the end of the season?

Tarun Sawhney: So in terms of a balanced recovery compared season-on-season, so par-on-par we anticipate a reduction of about 0.3%.

Sanjay Manyal: So that will be ₹ 1 cost of production increase?

Tarun Sawhney: I didn't say that. I mean that is a calculation you will have to work out. We are happy to assist you to work that out as well offline.

Sanjay Manyal: Sure sir. Just one last thing on, if you can elaborate bit more on the CAPEX plan, in the sense, what would be the total capacity or total volume you will be generating in distillery after the entire CAPEX is completed and can this CAPEX come on stream before the next crushing season?

Sameer Sinha: Well, just to supplement this, as we mentioned our capacity is going to go up by 160 KLPD for the molasses/ethanol and this will come up well during this season and as Mr. Tarun Sawhney did mention, it will be done within four quarters and maybe earlier. We are targeting to do it right in the initial stages of this season. Similarly for the grain-based, we believe that it can be done in this calendar year.

Moderator: Thank you. The next question is from the line of Ambar from Vachi India. Please go ahead.

Ambar: Just one question, wanted to reiterate. So the effective reduction in recovery is 37 bps on a like-to-like basis, is that correct? Assuming that we strip away the effect of the B-heavy diversion.

Tarun Sawhney: No, it is not just B-heavy diversion, it is also production of raw sugar as well. So it is going to be slightly less than 37 basis points.

Ambar: And second question is that I see that you got quite a healthy realization compared to some of the other companies that have reported results. So I am guessing you did mention that you did not make any raw, so that is probably part of that. But on a cost of production could you give me a ballpark number how much cheaper is it to make raw sugar versus white sugar, how much difference does it work out in a cost of production basis?

Suresh Taneja: You know, very roughly speaking it makes a difference of approximately ₹ 100 between raw sugar and white sugar.

Ambar: So approximately a rupee a kilo.

Suresh Taneja: Yes.

Ambar: And then last question, actually the phone company cut me off when you were answering the first question. But just to reiterate, at current prices you said ex-factory can be about ₹ 2,700 a quintal without the subsidy and then another ₹ 200 to get it to the port. So effectively for the company exporting it should be about ₹ 31 is that right?

Tarun Sawhney: Well, it is approximately ₹ 2,700 or ₹ 2,750. It is in that range right now.

Ambar: And then you have to bear the transport cost to the port?

Tarun Sawhney: Yes, your mathematics is correct. You deduct the transport, you add this ₹ 6 per kilo.

Ambar: Does it make any material difference if instead of doing it this way you want to create the certificates or some of the other routes that you are saying, because I am guessing not. Everything will ultimately equalize, right?

Tarun Sawhney: You would imagine that it would. But it is a market-based phenomenon. So you do have times where one route is more profitable. At this point in time if you were to sell the quota it is approximately ₹ 3 a kilo.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.

Kunal Mehta: Sir, for this quarter could you please give us an indication, also for the quarter coming ahead, from the cost of production perspective what will be the average cost of production for this quarter also and for the coming season?

Tarun Sawhney: We can't give you any projection for the coming quarter. We typically don't do that. But for this quarter I will let our CFO handle that.

Suresh Taneja: Our cost of production for this quarter is approximately at about ₹ 32. And it is because of the fact that in the initial part of the season the recoveries are lower, but as we go along and when the recoveries are improving, you would find this cost of production would sufficiently come down.

Kunal Mehta: So if I understood you correctly sir, going ahead as the recoveries improve, this cost of production will come down from the ₹ 32 which we have in this quarter, so we may land up to somewhere in the range of let us say ₹ 31 and ₹ 32, that would be the right estimation, sir?

Suresh Taneja: I think it could be little below ₹ 31 also.

Kunal Mehta: And secondly, on the export front, I wanted to understand just wanted a perspective on this. In the marketplace if the entitlements for exporting sugar are being traded at ₹ 3 per kg then from the perspective of the opposite person who is, let us say who is buying the entitlements, how does it make commercial sense? Could you please help us understand? Of course, at this level of prices it may make some sense but any perspective would be very valuable on how this is going around?

Sameer Sinha: So the normal trade would be that if you buy the quota from any mill, you would buy sugar from the lowest cost seller which will probably be Maharashtra and you would export the sugar, bear the cost for transportation etc. and attain the ₹ 6 from the government of India. Now a portion of that is given back and that would be your profit for the mill that sells that quota. So it is simply a function of buying sugar cheap, exporting it, and sharing the export incentive.

Kunal Mehta: And sir, just from the future export commitment perspective sir, do you think that with respect to the prices which are trading in the range of 16 cents plus, so is it possible for mills to contract at even higher than that rates for the other geographies, for example I think last year it was the case where lot of mills had, of course in the far end lot of mills have been able to have 16 cents plus maybe a cent more for exporting to lot of these countries on the east and southeastern side. So does it look likely that this year also?

Tarun Sawhney: No, I think last year's numbers were much lower, substantially lower and if you remember in April of 2020, we touched lows of 10 cents. So, huge difference between then and now. Having said that, this is the exchange traded price. There are location-based premiums and there is high pol sugar-based premium that will go on top of that. That number changes day-to-day, it is traded based on where the demand exists and how much are people willing to pay for it. It is also fluid, it is not exchange traded and therefore there is no way of being certain what that number is, it is a negotiation between buyer and seller, but certainly there is a positive amount that gets added on top of this 16.3 number for example.

Kunal Mehta: And finally, 1-2 questions from my end. So just wanted to understand your, cost of production on the ethanol side for this quarter and how much, what is the composition between B-heavy and C-heavy and going forward how will the composition, is there any meaningful increase in C-heavy do we envisage?

Tarun Sawhney: Yes, I just announced that in my opening remarks. And it is in the investor report as well. During the current financial year we have done 39% using B-heavy molasses which was 15% in the previous year. Of the just under 10 crore liters that we have contracted, 90% plus is using B-heavy molasses.

Kunal Mehta: One last question from my end, this accounting only I wanted to understand, so when I look at the Q2 results, when I study the inventory situation, last quarter we had an inventory which was costing us around ₹ 27 and change, ₹ 27.4 per kg and so from a profit booking perspective, since we liquidate this inventory on a first-in first-out basis, so if we are liquidating this inventory at ₹ 27.42 versus the realization of ₹ 31.7 or something, the realization is somewhere around ₹ 4.8, that is the way we look at it or maybe as the production stands out, you average it out?

Tarun Sawhney: No, it is not that. We still have some inventory of last year's low-cost sugar with us at the end of the quarter under review. And so in the preceding quarter there was sugar of the new season sold and the accounting for that will be at that cost of production.

Suresh Taneja: You know this is the reason in the investor brief, we said our stocks are valued at ₹ 30.9. It is a mixture of new sugar as well as old sugar.

Kunal Mehta: That is right. But when you are booking the cost of production, when you are booking the COGS in this quarter, the COGS for this quarter would be a function of this quarter's production and the inventory which you were carrying on books which you have sold, that is the way one would look at the COGS?

Suresh Taneja: No, this cost of production which I told you just now only pertains to the sugar season 2020-21.

Moderator: Thank you. The next question is from the line of Anupam Goswami from B&K Securities. Please go ahead.

Anupam Goswami: Sir, my first question is on the sugar recovery that you have said impacted because of the climatic condition. How long is it going to persist? Is it going to persist for the entire sugar season or do we see any recovery in this?

Tarun Sawhney: We have already seen a recovery in this. So we had a muted start and the ratoon crop which is and I mentioned the reasons why, which is the late end of the last year etc. and climatic factors, the ratoon crop is finishing as we speak. It is almost over. And so the traction that we are getting from the plant crop of sugarcane is much better. The recoveries are pointing, and the purities are pointing to some sense of normalcy and we have seen and we will see continued increases in our day recoveries.

Anupam Goswami: Sir, on a like-to-like basis for the full financial year do we, or this full sugar season, sugar year will we see any drop in recovery, even though there is a recovery from the next, that would be by how much like 30-40 bps?

Tarun Sawhney: We would anticipate somewhere around 28-30 bps on a like-to-like.

Anupam Goswami: Sir, my next question little bit on the results EBIT side, sugar EBIT is high even though our cost of production you mentioned is a little higher this time. What led to such high sugar EBIT, is it because of the molasses transfer pricing were higher this time?

Suresh Taneja: No, I think the high EBIT is only because of the fact that we sold much cheaper sugar of last year during this quarter. In the new season, in the initial part of the season your recoveries are generally on the lower side, so therefore your cost of production is higher. As you go along your recovery starts improving and as a result of that your cost of production is normalized. So that is why the initial cost of production cannot be seen as an indicator of what the final cost of production would be. So again to come back to your question, the EBIT was higher because of the fact we sold sugar of last season with much lower cost of production.

Anupam Goswami: But did not happen in the last year same quarter, right?

Suresh Taneja: It actually depends on what is the kind of stocks you are sitting on. It is all on first-in first-out basis. Either you can sell your stocks which was produced before March or you can sell your stocks which was produced after March. So the two lots of the sugar may have different cost of production.

Anupam Goswami: While going forward how much our proportion from B-heavy and C?

Tarun Sawhney: So, as I mentioned of the total contracts of Rs. 9.8 crore that we have received, ₹ 9.86 crore we had received, 90% plus is from B-heavy. So the majority is going to be from B-heavy, the vast majority.

Moderator: Thank you. We move to the next question from the line of Rajendra Shah, an Individual Investor. Please go ahead.

Rajendra Shah: My question is on the segment wise, last year there was a ₹ 35 crore profit updates here on ₹ 920 crore turnover and this year ₹ 1,003 crore turnover we are making ₹ 116 crore profit. How we can map this mathematics, sir?

Suresh Taneja: Let me explain to you. In the previous nine months we had not booked the export subsidies to the extent of about ₹ 40 crore because of the fact the prescribed conditions were not fulfilled. So this is one of the reasons for such a large variance and secondly during the current quarter, our dispatches and contribution has been much better as compared to last year. So these are the two reasons by virtue of which the profitability is much better than last year.

Rajendra Shah: Sir if I add that ₹ 40 crore in ₹ 35 crore it will be ₹ 75 crore…

Suresh Taneja: And the balance is because of higher dispatches as well as better contribution.

Rajendra Shah: Better contribution due to which we are having the…

Suresh Taneja: Not because of the realization, it is because of the cost of the sugar being lower. Roughly speaking, we got a contribution of about ₹ 350 per quintal of sugar.

Moderator: Thank you. The next question is from the line of Udit Gupta, an Individual Investor. Please go ahead.

Udit Gupta: Sir, my question is that after the expansion on the distillery is complete sir, how many liters of ethanol can we produce sir from the current 10 crore liters?

Sameer Sinha: See, after this is complete, we can be producing from each distillery about 5.5 crore liters of ethanol incrementally from what we are doing today. So if I am doing 10.5 right now, I could be up to 16 crore liters or even a little higher.

Udit Gupta: And sir, this includes the levy molasses or sir this is like separate from that?

Sameer Sinha: This includes the levy molasses of about let us say 80-90 lakh liters that we are doing.

Udit Gupta: And sir, is this the 200 KLPD that we are talking about, sir is this based on rated capacity of C-heavy or B-heavy, sir?

Sameer Sinha: This 160 KLPD is based on the C-heavy as of now. We are designing it for C-heavy. But in all probability depending on the current situation, the current environment, and the current pricing we will be using it on B-heavy molasses and cane juice and as a supplement also a little bit of grain.

Udit Gupta: Sir, so the weighted capacity on B will be higher obviously, sir.

Sameer Sinha: Once we get the approval for that, yes.

Udit Gupta: Correct. And sir have we proceeded for the ordering of the machinery and stuff or are we waiting for the approvals to be in place?

Sameer Sinha: Well, the board has approved it yesterday. We have already done some initial spadework, that is why we are confident that we should be in a position to set it up well within the four quarters, that was announced well within that. Maybe we are targeting it by the end of this calendar year or by December let us say. And the second thing is we have already moved quite ahead in terms of getting an environmental approval for this which we hope that in the next couple of months shall be in our hand.

Moderator: Thank you. The next question is a follow up from the line of Kunal Mehta from Vallum Capital. Please go ahead.

Kunal Mehta: Have you booked any export subsidiary this quarter?

Suresh Taneja: Yes, I think we have received very sizeable amount of export subsidy which is roughly about ₹ 135-140 crore and further in the month of January also we have received very substantial part of export subsidy. Now very small amount of about ₹ 40 crore - 55 crore is outstanding.

Kunal Mehta: And this quarter have you booked any export subsidy?

Suresh Taneja: No, there were no exports and we have not booked any export subsidy.

Kunal Mehta: And sir, this is one question from my end, sir wanted to understand how do you see the prices on the northern belt, UP and joining areas in the next few quarter, I mean starting from maybe after April or so, once a lot of these excess production in Maharashtra gets shift, so just wanted to understand on the government side, how do you see the pricing developing going forward?

Tarun Sawhney: We have seen sugar prices come down by about a ₹ 1 to ₹ 1.25 from the prices that prevailed 4-6 months ago. I see that gap firstly getting bridged completely and we are having some stability at those levels. But the next big step, the next big step is really an increase in the MSP by the government of India. Which is something that is under discussion at this particular point in time and the industry hope is that in the near future we would certainly see that ₹ 2 increase from ₹ 31 per kilo to ₹ 33 per kilo.

Kunal Mehta: You don't look at the theory that maybe from April once, I think because of the tightening production maybe from April the prices have the potential to maybe even cross somewhere ₹ 33.5 to 34+. Do you see that as a potential or you think that the supply currently will not be permissible based on the supply demand where we are? Any view would be very helpful, sir?

Tarun Sawhney: So, I think for the prices to go above that level which you are talking about requires 3 things to happen or a combination of 3 things to happen. The first thing is that you will have nearly the full season's data that point in time and therefore if there is any downward bias from the 30.2 million tonnes of sugar production for this fiscal year, of course that adds to further buoyancy in the sugar market. The second is if there is further bad news that emanates from any global sugar manufacturing destination in terms of their sugar. At that particular point in time is also the start of the Brazilian sugar crop and the way that the crop starts, how it starts etc. we're seeing it can also have an impact. So that is the second point. The third point of course is transportation and global transportation etc. So if we are seeing an accelerated 6 million tonnes contracted by India, moment that program is over I certainly think that we will see a little bit of buoyancy in domestic sugar prices. So it is about how quickly we are able to achieve that 6 million tonnes as well.

Moderator: Thank you. The next question is a follow up from the line of Anupam Goswami from B&K Securities. Please go ahead.

Anupam Goswami: Sir, my next question is on the portable alcohol that we have decided to sell, what is our target in terms of kitty and what is our prices and cost?

Tarun Sawhney: So, we have just started this business. It is just started towards the end of last quarter under review and we hold an approval for 52.8 lakh liters. So at this particular point in time, it is really very much the start of the business and therefore the margins are of course much lower, etc. As the business progresses and we have some state of stabilization of monthly dispatches, etc., we will come certainly towards our budgeted numbers. At this point we don't disclose those.

Anupam Goswami: And sir, on the grain-based distillery that we are speaking, what are the unit economics if you can share at this moment?

Tarun Sawhney: I won't share the unit economics with you. What I can say is that the payback that we expect is between 4 and 4 and a quarter year, or 4.5 years.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Tarun Sawhney: Ladies and gentlemen, thank you very much for joining us for the 9M FY 21 results earnings review for Triveni Engineering and Industries Limited. We are at a very interesting point. The company has come out stronger through the COVID experience in many ways. The sugar industry is certainly looking very buoyant and one is hopeful that over the next few quarters we will move towards more transparency and clearer policy directions as far as the industry is concerned. As far as the ethanol picture stands, I think there is great progress that has been made and we are going to continue to see a lot of development across the country for multi fuel distilleries etc. which augurs well for the entire program. The fact that the government of India has announced have accelerated the 20% target to 2025 is a huge positive, absolutely enormous positive and I cannot talk more about the importance of that. As far as the engineering businesses are concerned, as I had mentioned during the call we are very hopeful that Q4 is going to be excellent certainly for the power transmission business and going forward we are anticipating a good number of increases in our order booking across both engineering businesses. Thank you for joining us today. I look forward to speaking to you in approximately 3 months.

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