



Investors/Analysts Conference Call

January 31, 2006

Moderator

Good afternoon ladies and gentlemen, I am Monali, the moderator for this conference. Welcome to the Triveni Engineering conference call hosted by ICICI Securities. Mr. Anand Shah of ICICI Securities is your call leader today. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to hand over to Mr. Anand Shah of ICICI Securities. Thank you and over to you sir.

Anand Shah

Thanks Monali. On behalf of ICICI Securities I would like to welcome all of you to this conference call. We have with us Mr. Dhruv Sawhney, Chairman and Managing Director. Mr. Suresh Taneja, Chief Financial Officer, and other senior members of the management. Mr. Dhruv Sawhney will first throw light on the performance of the company and thereafter would take question and answers. Over to you Mr. Sawhney.

Dhruv Sawhney

Thank you Anand. Good afternoon everybody. We are very pleased to be able to have this call and announce our 9 months results. Our net turnover has increased by 21% at 8.5 billion. EBITDA is also higher by 26% and similarly we have over 32% rise in our profit before tax at 1.14 billion and profit after tax has grown by 32% at 0.92 billion. Our sugar operations are proceeding on schedule. Our two expansions at Khatauli to 16,000 and Deobandh to 14,000 were completed during the last quarter of the calendar year and our new sugar unit at Sabitgarh started operations yesterday. Expansion of capacity at the Bangalore steam turbine unit and at the Mysore gear unit were also completed in the third quarter financial year 2005-2006.

Our sugar realizations are much better than last year and we forecast realizations to be at least at these levels for the balance of the financial year and well into 2006-2007. The world market for sugar as you know is very good, it has been at a record high, the highest for the last 12 years, and we believe that the shortage will continue in the next sugar year 2006-2007 as well. To take advantage of these events we are proceeding with our 2 new sugar units, which will come up in November 2006, they are coming up in Chandanpur, District JP Nagar, and Rani Nagal in district Muradabad, Uttar Pradesh, and they would be of capacity of 5000 tons per day. Currently the sugar capacity of the Triveni factories is 40,500, and in the financial year 2006-2007 this will rise to 50,500.

Our engineering businesses have done extremely well and the highlight of it is our steam turbine unit. After the expansion of capacity we still have a very strong order book. Order on hand as on the 31st of December were Rs. 3.40 billion and these would be executed by October 2006. Apart from the increased turnover there has been a significant increase in margins as

well. The industries we cater to are, sponge iron, textiles, paper, independent power producers, and sugar co-generation plants. Because of this increased market demand and our increased market share which has gone up from 66% to 74% including imports, we are now contemplating a further expansion in our steam turbine production capacity by another 100%. This will allow us to shorten our delivery times and cater effectively to the export market as well, and we believe that the second expansion will be complete in the second half of 2006-2007. Our co-generation facility at Khatauli of 23 megawatt has also come on stream, and we now have 45 megawatts of co-generation capacity. We are looking at further additions of co-generation capacity and the possibility of adding an ethanol distillery in the future.

With our investments we have already made and those planned for 2006-07, we will have crossed the Rs 500 crore limit to get the UP government incentive for 10 years, and we are contemplating the first year of these incentives to be financial year 2006-2007.

Our high speed gear and gearboxes unit in Mysore has also had a record year. In the first 9 months, it had a higher turnover than for the whole of 2004-2005. Orders on hand again are at 255 million and sales versus last year increased by 92%. In the water and wastewater treatment products, we have had a healthy growth in sales of 90% in the first 9 months and again orders on hand are at 105 million.

We expect the growth in the engineering division to continue in the future as it has in the first 9 months of the current year and that is primarily because of our positioning as one of the foremost providers of energy and water solutions and the growing capital goods market in the country. With the growth rates of the country protected to be 7 to 8% in 2006-2007 this will auger well for this engineering division, and our expansions in capacity and our further expansion in capacity which we are contemplating.

In our sugar manufacturing business, because of the late rains in western UP the crop has had a lower recovery than last year, and that has been the cause of higher cost of production for sugar in this quarter versus the last year. However, we expect these results to be evened out during the whole of the year and we expect financial year 2005-2006 to end on the same trend as what we have had for the first 9 months of the current year versus the 9 months period last year.

I will be more than happy to take questions. Anand, over to you.

Moderator

Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions may please press *1 on your telephone keypad. On pressing *1 participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking questions. To ask a question please press *1 now. First in line we have Mr. S. Ranganathan from LKP Shares.

Ranganathan

Yeah, good afternoon and congrats for a good set of numbers.

Dhruv Sawhney

Good afternoon.

Ranganathan

My question is, you know, how do you see the situation as far as cane is concerned. We are hearing reports about some sort of fight going on for cane availability as far as UP is concerned, are these reports correct?

Dhruv Sawhney

In our region the cane availability has gone down overall because of the late rains and the yields are about 5-7% less.

Ranganathan

Right.

Dhruv Sawhney

But the cane grown in western UP goes for gur and khansari as well as for sugar, so the total amount of cane grown is more than the cane that is crushed by the factories. The competition that you are hearing about is mainly coming from gud and khansari.

Ranganathan

Okay.

Dhruv Sawhney

And we are paying some incentives to the farmers, we have already started, what we did last year also. So our crush in the current year will be higher than last year.

Ranganathan

Okay, okay. Thanks a lot.

Dhruv Sawhney

Thank you.

Ranganathan

All the best.

Dhruv Sawhney

Thank you.

Moderator

Thank you sir. Next in line we have Mr. Abhishek Agarwal from Brics Securities.

Abhishek Agarwal

Good afternoon Mr. Dhruv.

Dhruv Sawhney

Good afternoon.

Abhishek Agarwal

Following the same question which Mr. Ranganathan had asked. What are the cane prices you have paid for this quarter including the incentives?

Dhruv Sawhney

For the quarter up to December we paid the state advised price.

Abhishek Agarwal

Okay.

Dhruv Sawhney

But in the next quarter, that is from January onwards, we are giving an incentive of Rs. 13 a quintal.

Abhishek Agarwal

Okay. Can I have...

Dhruv Sawhney

Which was the same as last year.

Abhishek Agarwal

Okay.

Dhruv Sawhney

That was the same incentive we gave last year. It was only it was given 2-3 weeks later.

Abhishek Agarwal

Okay. Can I have the capacity utilization at all the three different units, what sort has been the capacity utilized?

Dhruv Sawhney

At the moment we have just stabilized our capacity at Khatauli and Deobandh in the expanded capacity, which you like it vis-a-vis the expanded capacity....

Abhishek Agarwal

Yeah expanded capacity.

Dhruv Sawhney

Yeah, Suresh would you like to give it. Can I ask my CFO to give you those figures?

Abhishek Agarwal

Yeah sure.

Suresh Taneja

You know, as a matter of fact up to December 2005 by and large our crush is almost the same as last year. We have basically gone through with the initial stabilization of the capacity, so actual benefit of the capacity would only be felt for the subsequent period and more over the new plant of Sabitgarh of 7000 TCD which started yesterday, you know, it will have the effect in the next quarter.

Abhishek Agarwal

Okay. What was the average recovery rate for the last quarter?

Suresh Taneja

Average, the recoveries are down as compared to last year by about 0.5%, but this is the initial period and it is expected that you know from January onwards when the plant cane starts coming in the recoveries go up. So as of now the recoveries are down by about 0.5% as compared to last year.

Abhishek Agarwal

Okay. What was the realization for molasses for the last quarter compared to the last year figure.

Suresh Taneja

You know the realization price has been in the region of about Rs. 230 per quintal.

Abhishek Agarwal

230.

Suresh Taneja

230.

Abhishek Agarwal

Okay.

Suresh Taneja

So last year at the same time, the realization was about 325 per quintal.

Abhishek Agarwal

Okay, and what sort of trend you see going forward?

Suresh Taneja

As far as the molasses pricing is concerned?

Abhishek Agarwal

Yeah.

Suresh Taneja

Yes, the molasses definitely will rise. As you know at this particular point of time the prices are little low because of abundance, because the whole molasses is available abundantly, but as you go further in the season, the prices may firm up a little bit.

Abhishek Agarwal

Okay. Then last question, in your turbine business what sort of orders have you executed in terms of megawatt for the 9 months December ended?

Suresh Taneja

You know for the period of 9 months we have executed orders to the extent of about **296** megawatts.

Abhishek Agarwal

Okay.

Suresh Taneja

And this is as compared to 231 megawatts in 2004-2005 for the whole year.

Abhishek Agarwal

Okay.

Dhruv Sawhney

So we are expecting about, if I may comment Suresh...

Suresh Taneja

Yeah.

Dhruv Sawhney

We are expecting about 450 megawatts this year and over 700 megawatts in 2006-2007.

Suresh Taneja

Sir I would just like to make a small correction, when you gave the perspective of the turbine division you said the total orders in hand are 2.8 billion, actually the total orders in hand are 3.4 billion.

Abhishek Agarwal

That is it from my side. Thank you.

Dhruv Sawhney

Thank you.

Moderator

Thank you very much sir. Next in line is Mr. Aditya from Fortis Securities.

Aditya

Sir just one question regarding your sugar business, what kind of crushing do we expect aggregate for the company this year?

Dhruv Sawhney

We expect about 4.25 MMT versus 3.68 last year.

Aditya

And what were the realizations....

Dhruv Sawhney

In the financial year 2005-2006 versus 2004-2005?

Aditya

Sir what was the realization in the preceding quarter?

Dhruv Sawhney

Suresh, will you give that please.

Suresh Taneja

The average realization of sugar in the preceding quarter was Rs 1719 PQ which is average of levy and free sugar.

Aditya

Okay.

Suresh Taneja

And in the case of free sugar, the realization was 1745, and in the next quarter the realization is expected to be substantially better because the current sugar prices are around 1850 per quintal.

Aditya

So this is gross realization or net of excise.

Suresh Taneja

This is net of excise.

Aditya

Net of excise?

Suresh Taneja

Yes.

Aditya

And sir there are some reports that levy quota could be increased basically, any update on that front?

Dhruv Sawhney

No, no, one minute, I will answer that. I don't think this is going to be possible. It will be a complete reversal of the government's liberalization. In fact the minister has said that he is postponing the removal of levy for 1 year, but I don't think they can go backwards on it because that would make the free market price go even higher.

Aditya

Okay sir. Secondly regarding your steam turbine division, you mentioned something about the delivery times being shortened, what is the current status of the order book in terms of execution?

Dhruv Sawhney

We are booked till October-November 2006 and our order book is at Rs. 3.4 billion.

Aditya

Okay sir. Thank you sir. Thanks a lot.

Dhruv Sawhney

Thank you.

Moderator

Thank you very much sir. Next in line is Mr. Vikram from Karvy Stocks.

Vikram

Hello sir. I want details about...

Dhruv Sawhney

Good afternoon.

Vikram

Yeah good afternoon sir. Sir I want details about the new plants you are going to set up that is in Chandanpur and Rani Nagal that will be starting in November 2006, so what would be the average working days and recovery we can expect from this plant?

Dhruv Sawhney

Right. These are in good irrigated areas. One is close to the Ganga and one is close to Uttaranchal, Raninagar is close to Uttaranchal, and we have ordered all the long delivery items already and the engineering is all complete. We expect the first season to be about a 140 to 160 days depending on the monsoon, and recovery there, we have a very strong cane

development program of sowing early variety cane such as in western UP, so we expect recoveries of around 9.9 in the first year.

Vikram

Okay sir. Thanks a lot.

Dhruv Sawhney

Thank you.

Vikram

Sir hello.

Dhruv Sawhney

Hello.

Vikram

Okay sir just one more question, will these be integrated plants, with power and distillery plants?

Dhruv Sawhney

We have not concluded on that as of yet. At the moment these will be straight sugar plants.

Vikram

Okay sir.

Dhruv Sawhney

The two new plants, that is.

Vikram

Okay yeah.

Dhruv Sawhney

Thank you.

Moderator

Thank you very much sir. Next is Mr. Utpal from IDBI Capital.

Utpal

Good afternoon sir.

Dhruv Sawhney

Good afternoon.

Utpal

I wanted to know what is the total cane area in Khatauli and in **Ramkola**.

Dhruv Sawhney

Total area in Khatauli is 48,000 something hectares.

Utpal

Okay and that is, the cane intensity is how much...?

Dhruv Sawhney

The cane intensity is around 70%.

Utpal

Okay.

Dhruv Sawhney

This is the area under cane, 48,000 is the area under cane. The cultivable area is that much higher.

Utpal

Okay, okay fine. So 48,000 is the net area under cane, 48,000.

Dhruv Sawhney

Yes, net area under cane, and that area will also increase as our capacities have been recognized. We have just won our appeal with the sugar secretary and he has directed the cane commissioner to take the new capacities, so the 48,000 was on the basis of the old capacity, so this should rise.

Utpal

Okay. So how much, after rising how much will be the total area, expected area.

Dhruv Sawhney

We will know in 10 days because he has been given 10 days to reply.

Utpal

Okay, but any, can we guess something like, a ballpark number kind of...?

Dhruv Sawhney

It is difficult to say, but we should get at least 4000 to 5000 more.

Utpal

Okay fine, and for Ramkola what is the area?

Dhruv Sawhney

Ramkola the area is 16,000 right now, and the intensity in Ramkola is under 45%.

Utpal

Okay ...

Dhruv Sawhney

So that has got a tremendous scope for expansion. We expect the area under cane to go up by 20% this year because of rapid cane price payment and the recoveries are very good in Ramkola. Our sugar unit in Ramkola, has got one of the highest recoveries in UP.

Utpal

What is the recovery rate?

Dhruv Sawhney

At the moment Ramkola has a recovery of 9.96 to date and current recovery is 10.5.

Utpal

Okay.

Dhruv Sawhney

And it is the second highest recovery today of any factory in UP.

Utpal

Okay, okay, okay fine. Okay again, this 16,000 hector this is the net cane area, am I right?

Dhruv Sawhney

Yeah, yeah.

Utpal

This is the net cane area. Okay, and you are expecting to go up by another what percentage, 20%?

Dhruv Sawhney

Yeah, by at least 10 to 15%.

Utpal

10 to 15%?

Dhruv Sawhney

To 20%...

Utpal

Okay, and again if I am not wrong Deoband, again you have 48,000 hectars, am I right?

Dhruv Sawhney

43,000.

Utpal

43,000?

Dhruv Sawhney

Yeah, Deoband 42 thousand something.

Utpal

Okay fine, and then 82% is the cane intensity, am I right?

Dhruv Sawhney

Well it is over 75 to 80, 82 is little high.

Utpal

75%. Okay, thank you sir.

Dhruv Sawhney

Thank you.

Moderator

Thank you very much sir. Participants who wish to ask questions may please press *1. Next in line is Mr. Vinay from Kotak.

Vinay

Yeah, good afternoon Mr. Dhruv.

Dhruv Sawhney

Good afternoon.

Vinay

Sir regarding our expansion plans, so how much capex do you see for 2007?

Dhruv Sawhney

Sorry how much CAPEX?

Vinay

Yeah.

Dhruv Sawhney

Well, we have not finalized the full figures as of yet, we have these two sugar units which will be 240 crores.

Vinay

Okay.

Dhruv Sawhney

But we may be deciding on further co generation and ethanol, so once we have that then we will know the total.

Vinay

Okay, and so we will not be knowing the financing mix also right now I guess?

Dhruv Sawhney

Not as yet. Yes, exactly.

Vinay

Okay, and sir regarding the subsidy, you said they should expect from 2007 so...

Dhruv Sawhney

2006-2007.

Vinay

2006-2007, so what kind of figure are we looking at?

Dhruv Sawhney

Well we are over the Rs 500 crores figure that means that whatever we spend total up to March 2007 will be due for the subsidy. Assume we have spent Rs 800 crores then we get 800 crores in the next 10 years.

Vinay

10 years, so it is spread uniformly over the next 10 years.

Dhruv Sawhney

No, no it depends on your extra crush.

Vinay

Okay, okay. And sir one more thing, in the sugar, like you said we have just stabilized our new capacity and hence the volume was flat, so what kind of volume growth are we looking at for the full year 2006 in the sugar sector?

Dhruv Sawhney

For 2006, we should crush about 4.25 MMT versus 3.68 last financial year.

Vinay

Okay, and regarding this sugar prices, we all know the international prices are going crazy but what kind of affect do you see that having on the Indian domestic market. Do you see prices going above Rs. 18-19?

Dhruv Sawhney

Well, I see them being at least at these levels, the reason being that even if you crush 18 million tons this year, our consumption is going to be over that and with high export prices the import of sugar will not allow the domestic price to go down too much, in fact imported sugar may make the price go over 19.

Vinay

Right. And you don't see any imports this year given the high raw prices.

Dhruv Sawhney

I do not know, it is at the moment the premium of raw, white sugar to raw sugar is very low.

Vinay

Fine. Sir by what time can I get the details on our capex plans and all. How long will it take to finalize things?

Dhruv Sawhney

The moment we go to our Board.

Vinay

All right sir, then I will get back to you later. Thanks a lot.

Dhruv Sawhney

Yeah, thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Prasanna from UTI. Mr Prasanna?

Prasanna

What are the rating of turbines that you sell and like how much is for domestic market and how much is for exports.

Dhruv Sawhney

At the moment because we have had a very good order book and we have got extremely good margins, our margins PBIT have gone up to 13% versus 8% in the previous period, we will be mainly taking domestic orders and we have been giving delivery of 12 months. So our exports are about 10% but the potential is to go up to 30%. Hello?

Moderator

Just a second sir.

Dhruv Sawhney

Hello, did he hear my reply.

Moderator

Yeah just a second, sir are you there online Mr. Prasanna?

Dhruv Sawhney

I did not hear his first part of the question.

Moderator

Yeah just a second, I think he has got disconnect, let me check.

Prasanna

Hello sir.

Moderator

Yeah please go ahead sir.

Prasanna

Yeah I heard your answer sir. Sir in the domestic market who are your major customers for the turbine?

Dhruv Sawhney

Yeah, see we have 74% market share including import, so our customers are sponge iron, textile, independent power producers, biomass, use biomass as a fuel, sugar co generation units, paper. Anywhere there is steam up to 18-20 megawatt.

Prasanna

Okay, and sir what are the rating of turbines that you sell.

Dhruv Sawhney

Up to 18-20 megawatt.

Prasanna

And like any JVs or alliances that you are doing in the domestic as well as export markets?

Dhruv Sawhney

Okay, I am glad you asked that question. I was going to mention that in my opening remarks but you have given me the opportunity of doing it now. We are in a very serious dialogue with 2-3 parties in Europe for expanding our range beyond 30-35 megawatt and these parties are looking for strategic alliances including maybe even in equity.

Prasanna

Okay sir. Sir what are the current utilization levels, what is the total capacity currently and how much do you plan to expand?

Dhruv Sawhney

We are running at over 100% capacity utilization right now and we are going to be expanding by another 66%.

Prasanna

Okay, but sir what is a capacity in absolute terms currently?

Dhruv Sawhney

We are utilizing our capacity totally, the capacity if you see it from last year to the megawatts that we delivered this year, if I put it in that way, we are already in nine months over the capacity that we had put last year, because of the capital good you don't have it like a unit.

Prasanna

Okay sir, right. And sir coming to your sugar business, why is there a decline in the PBIT level on a year-on-year basis for this quarter?

Dhruv Sawhney

For this quarter, you see, these quarters sometimes are not representative of the whole year. This quarter had lower recoveries that is why it was different from the last year, but in the nine months results you can see that the PBIT has shown an increasing trend and we expect this to be the situation at the end of the year as well.

Prasanna

Right sir. Do you manufacture all the components of the turbine sir?

Dhruv Sawhney

We manufacture all the components of the turbines in fact we are one of the few people in the world today who have their own intellectual property for tapered twisted blades. This is the heart of a turbine, if you look at an aircraft engine or if you look at any large power plant, it is the blades that are the main technology and we have spent 3½ year in this development which has just got through last year, and that is what has given us this quantum jump. Right now, we could have even taken more orders, but we could not give the people deliveries more than 12 months, that is why we are expanding capacity again.

Prasanna

Okay. And what are you sugar inventory levels currently as of this quarter?

Dhruv Sawhney

Suresh would you like to answer that.

Suresh Taneja

You know as of 31st of December we have total sugar inventory of about 8.3 lakh bags.

Prasanna

Right sir. Thanks a lot.

Dhruv Sawhney

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Anil Sarin from Prudential ICICI.

Anil Sarin

Good afternoon Mr. Sawhney, congratulations on very good results.

Dhruv Sawhney

Good afternoon, thank you.

Anil Sarin

Mr. Sawhney, I just wanted to check on the steam turbines part, the margins are heading straight up, so that is something to feel very good about, and the order book is also very healthy as you just mentioned, but the revenue during this quarter actually fell compared to the immediate preceding quarter, is there some slippage in terms of something that was to be shipped during this quarter, actually getting shipped in the quarter, the fourth quarter or something like that?

Dhruv Sawhney

You see very often, we make the turbine but take the orders for the complete turbine island, so we are dependent on people like BHEL for the alternators, who are our competitors also. And a capital good sometimes can go a few days this way or that way but we only book revenue when when it has been dispatched fully and reaches the site. So we don't account for revenue from work in progress.

Anil Sarin

I see, so essentially..., yeah please go on.

Dhruv Sawhney

The trend is exactly the same, there is tremendous growth in the sale, so when you look at it month on month, it does not give you the correct picture in a large capital good.

Anil Sarin

Yeah, absolutely. So essentially if I hear you correctly as you mentioned earlier on during the course of this conference call was that for the full year you would be having the same relationship to the previous year as the nine is having to the previous nine months in turbine sales.

Dhruv Sawhney

Yes, we are forecasting growth of, Suresh please tell me what we are forecasting as the growth for the year of turbine sales?

Suresh Taneja

In the case of turbine sales, as against 71% increase up to nine months, we will go up to 75%.

Anil Sarin

So the forth quarter is going to be quite healthy.

Suresh Taneja

Quite substantial, and as would be visible to you, our total margins in turbines have really gone up this quarter, 13% for nine months and 16% for the quarter. So end of the year you will see further strengthening in the margins, it will go up to 14-14.25%.

Anil Sarin

I understand. Yeah sorry...

Dhruv Sawhney

And our bookings are at the top end at the moment.

Anil Sarin

Okay and are you planning to take it beyond 22 megawatts also or it will be, first you will do 22 megawatts.

Dhruv Sawhney

No, as I was saying that we are in dialogue with 3 people in Europe for strategic alliances to take us to well above 30-35 megawatt.

Anil Sarin

That would put you in direct competition with BHEL, which is where their bread and butter comes from.

Dhruv Sawhney

No well, actually BHEL's bread and butter comes from 500 megawatts., but in the market of 20-30 megawatts we have seen a lot of orders going to China and Japan, Nippon and to HangZhou, a little bit to Alstom and that market is as big as our market right now, so we feel that we will be able to effectively compete in that market. Our costs are much lower.

Anil Sarin

Relative to the Chinese?

Dhruv Sawhney

Yes.

Anil Sarin

Okay.

Dhruv Sawhney

You know, one thing, if I have this quick opportunity, I was in Davos also and what most people are seeing in India is that in engineered products with service, if it is an engineered product with service, India has a definite competitive advantage to China. Because, one, for the service element you need the language, you need people who are versatile going on the field, and engineered product made to order, each order changes a little bit. On a standardized product, the Chinese are very low production cost, and technology wise our efficiencies are better.

Anil Sarin

Okay. Yeah, I have seen your plant, I think at that stage it was undergoing expansion, absolutely hats off to you and all the best for the future on the turbine side. The high-speed gears business, you have not separately given out the revenue, what was the revenue in the nine month period just ended?

Dhruv Sawhney

Yeah, Tarun would you like to handle that.

Tarun

For the nine month period just ended our sales were 33.7 crores. There is an increase of 92% over the same period in the last fiscal year. The PBIT was 5.6 crores, which was 117% increase over the same nine month period in the fiscal 05.

Anil Sarin

Okay, but if I remember correctly, your revenue total for the full year was 46 crores in high-speed gears, last year?

Tarun

No, our revenue for the full year in fiscal 05 was 24.2 crores.

Anil Sarin

24.2 crores, okay. So you have already exceeded that.

Tarun

Sorry, it was 23.88 crores.

Anil Sarin

23.88.

Tarun

Correct, we have already exceeded that.

Anil Sarin

And what was the PBIT last year, full year?

Tarun

The PBIT last year was 3.05 crores for the full year.

Anil Sarin

Okay, but Tarun in my earlier conversation, you said that this business cannot be taken to very high revenue sizes but this is the kind of growth that you are showing, and your investing behind that, so what sizes can this business attain?

Tarun

Anil, when one speaks of high revenues, one looks at the other businesses that Triveni is in, there are of course some challenges to make into a 500 or 1000 crores business of course, but this is an essential business and it is also driven by the usage of turbines, compressors, ID fans, etc. etc. Whatever requires either speed reducing or speed enhancing machinery...

Anil Sarin

I see. Okay.

Tarun

Okay. Potential for this business is enormous as we have shown in this quarter and for the 9 months of this financial year, and we see the same kind of growth for the next quarter and for the next fiscal year.

Anil Sarin

Okay, right. And that is where your expanded capacity would kick in?

Tarun

Absolutely.

Dhruv Sawhney

And as for our Turbine expansions; when you had visited our facilities you would have seen that we are now expanding our assembly facilities and putting up additional bays. We are also going to put up a vacuum tunnel which will allow dynamic balancing of rotors up to 30 megawatts with a provision of going up to 100. Not very many people have a high speed balancing tunnels globally.

Anil Sarin

Okay, that is very good to hear. And on the water side what was the revenue?

Nikhil

The water revenue for the 9 month ending was 91 million, 91.3 million, this is compared to 48.3 this is an 89% increase over the last year. In fact it was more than the full year, full year 2004-2005. And the PBIT was at 13.9 million which is more than a 400% increase. We see the same trend with this business as with the other businesses if not for the fact that it has started from a low base, we see triple digit percentage growth both in the coming quarter as well as in the coming year.

Anil Sarin

But are the municipal bodies really serious about water cleanliness, I mean those would be the prime drivers of your business, right?

Dhruv Sawhney

No, industrial also.

Nikhil

It is actually the industrial side which is willing to pay a premium in technology. We have positioned ourselves as a technology provider of water and waste water equipments, and the solution that we provide it is typically used by industries which want to minimize wastewater in their water operation.

Anil Sarin

Okay and is the government cracking down on polluting units which would in turn drive growth for people such as yourselves?

Nikhil

Well, I think the regulations have always been there, but it has been imposed on a stricter level. So that, as well as the fact that as you know our manufacturing growth is increasing at a rapid pace, the availability of water is also a question, particularly in South India.

Anil Sarin

The second last thing I wanted to know was on the retail side, are you in a position to talk about the retail business?

Dhruv Sawhney

Yeah. Tarun?

Tarun

Yeah.

Dhruv Sawhney

Yeah, can you answer it.

Tarun

Yeah, the operations of our retail business are now handled by a wholly owned subsidiary, Triveni SRI, as you know we had made that announcement about 3 months ago.

Anil Sarin

Oh, I missed that. Okay.

Tarun

So it is not part of these financial reported results. However, we now have 11 centers under operation. We are establishing new centers at the rate of 2 per month. We have a fairly good presence in western UP, all the centers are in western UP, and in the first quarter of the

financial year we will moving out of western UP and looking at central UP and Haryana as the next 2 locations for new centers. We have recently signed an MOU with State Bank of India to provide finance to farmers. It is unique, this MOU is unique and the first in a way to provide financing to farmers without any security. It is a first such case for farmers in India, we are very hopefully that the loans taken under the scheme will be fairly substantial. In addition to that we have also recently signed an MOU with Max New York Life, which will allow us to sell their insurance products through all our centers.

Anil Sarin

Okay, right. But the loans given by SBI would qualify as a priority sector lending?

Tarun

They will qualify as priority sector lending, absolutely.

Anil Sarin

So it is win-win for both sides.

Tarun

Absolutely.

Anil Sarin

Coming on to sugar Mr. Sawhney, the profitability seems to have taken large dip during this current quarter, what does that speak for the year going forward and the full year, you know, which will end in March?

Dhruv Sawhney

The profitability in this quarter has taken a dip because of the low recovery, the late rains made..., the recoveries were 0.5-0.7 lower, they are catching up now. The nine month results are more representative rather than the quarter and we expect that trend to be there for the whole year.

Anil Sarin

Would you hazard a guess for the full year how much sugar, how many quintals or kgs or tons of white sugar would be produced?

Dhruv Sawhney

Suresh can you give a rough figure.

Suresh Taneja

I will just tell you, we are looking at a total recovery of about 9.75 for the financial year 05-06, that will be on crush of about 4.25 million metric ton, so the balance is arithmetic and its very roughly speaking about 400,000 metric tons.

Dhruv Sawhney

Yeah about 10% more than last year, maybe 9% more than last year.

Anil Sarin

Okay, and going by the same, the expanded capacity and those that would come during the course of this year, what does that say for the year going forward, fiscal 07 in terms of...?

Dhruv Sawhney

That is the main thing, you see these capacities are really for 06-07, and in 06-07 one is our cane areas, we will now allocate it as per our established capacity. And number 2, our new sugar projects are in areas where there is no cane competition. So we expect a substantial jump next year because all the teething problems would have been over.

Anil Sarin

All right. What would that figure be in a rough ballpark?

Dhruv Sawhney

We had a rough ballpark, Suresh, what was that...

Suresh Taneja

Rough ballpark would be approximately about 30% more than this year.

Anil Sarin

Okay so 520 all going well.

Suresh Taneja

Because you have 40,500 capacity as of now.

Dhruv Sawhney

Yeah 30% is a fair figure yeah.

Anil Sarin

Okay great, but all the war stories that we are hearing over here that people are offering predatory prices to hurt the larger mills and the gur people coming back retaliating since they do

not have excise pressure anyway, you know, are offering some obscene prices and thereby denying cane to the larger mills?

Dhruv Sawhney

No, I will tell you what has happened. There is competition from gur and khansari otherwise we would not be having a reduced crush.

Anil Sarin

Right.

Dhruv Sawhney

But silver lining in the cloud is the low molasses price.

Anil Sarin

Okay.

Dhruv Sawhney

Because gur is used in many parts for illicit distillation.

Anil Sarin

I see, okay.

Dhruv Sawhney

So if the molasses prices had been 300 or 350, then there would have been a worst problem, but because of the higher sugar production in the country, the molasses price will not go very much more than what it is now from 230, may go to 270, 280. There is not a lot of speculation in forwards...

Anil Sarin

Okay, okay.

Dhruv Sawhney

And so the gur person never makes his money only on gur, he makes it on both.

Anil Sarin

I see, so that benefit is being denied him, so his ability to carry on with this kind of pricing would not be there next year, is that what you are saying?

Dhruv Sawhney

I am saying that, and also there won't be that much production because people are not stocking gur. They are having it because there was a very low stock of gur at the start of the year.

Anil Sarin

Okay.

Dhruv Sawhney

And the diversion has taken place because of that.

Anil Sarin

All right. No, but apart from that, because of the incentive mechanism in place, lot of entrepreneurs are expanding capacity, what I hear is on a base of 2005, 2006 sugar season there would be 40% greater capacity and most of it concentrated in UP.

Dhruv Sawhney

UP will go up by million tons.

Anil Sarin

So there do you see a scramble for cane and you know the cane prices going, I mean, above 130, 135 or so, impacting margins down the line?

Dhruv Sawhney

Well you see I expect sugar prices in 2006-2007 to also be very good.

Anil Sarin

Okay, okay.

Dhruv Sawhney

And I don't find that to be the case. The balance between sugar and cane pricing will become a little better in 2006-2007, unless we have low cane yield because of the weather, which is really very very difficult to project. But if you look at the normal year or the last 10 years, and this is how we make our projections because we try to be weather – neutral, then, having had this problem of weather in the last year we forecast next year to be better.

Anil Sarin

All right, thank you so much Mr. Sawhney, Tarun, thanks so much. All the best.

Dhruv Sawhney

Thank you.

Moderator

Thank you very much sir. Participants who wish to ask questions may please press *1. Next in line is Mr. Amit from Alchemy.

Amit

Good afternoon sir. Most of the questions have been already answered but I had a few questions. First on Co-gen, the 22.48 crores is the total Q3 co-gen sales, and if I am not wrong it includes the internal, you know, the captive utilization?

Dhruv Sawhney

No, no, Suresh would you answer that.

Suresh Taneja

Yeah, it includes the captive utilization.

Amit

So can you provide the breakup of captive and..?

Suresh Taneja

Very roughly speaking, in Q3 the total power exported the grid was about 10.08 crores. Power provided to sugar was about 3.02 crores, and the balance was steam provided to the sugar unit.

Amit

Okay, and what is our current PPA rate sir?

Suresh

Our current PPA rate is 2.86 for the all the units which will be setup this year, it will be 2.86 which will exalate to 3.02 by 2009-2010, and off season of course we are able to get 3 paisa more if you achieve more than 60% PLF.

Amit

How much sir, sorry?

Suresh

3 paisa more.

Amit

3 paisa more, okay. And another question about our, sir something about the average plant load for the Triveni as a whole for 06?

Dhruv Sawhney

Cogen?

Amit

No sir, average plant load factor for sugar? Sorry.

Dhruv Sawhney

Well as we just answered one of the questions, on the basis of our expanded capacity, which has just come on stream now, we are about the same as last year.

Amit

Same as last year, okay.

Dhruv Sawhney

Yeah, on the same capacity utilization as last year.

Amit

Okay sir, thank you.

Dhruv Sawhney

But not the expanded, on the original.

Amit

Okay sir, thank you very much.

Dhruv Sawhney

Thank you.

Moderator

Thank you very much.

Suresh Taneja

Yeah Monali we can take the last question if any.

Moderator

The last question I will take from Mr. Ghanshyam of BNK Securities.

Ghanshyam

Very good afternoon sir.

Dhruv Sawhney

Good afternoon.

Ghanshyam

Sir this Co-generation is the separate business unit, right sir?

Dhruv Sawhney

Yes, it is a separate division.

Ghanshyam

And _how it links to the sugar business?

Dhruv Sawhney

No, Suresh will you answer that.

Suresh Taneja

Yeah, in the case of co-generation, the bagasse is transferred from the sugar unit to the cogeneration, and cogeneration exports part power to the grid and also provides part to the sugar unit and also provides steam to the sugar unit.

Ghanshyam

But what price generally is it _____ the quarter.

Suresh

Sorry.

Ghanshyam

What was the bagasse transfer price?

Suresh

In the case of bagasse we go by the market value. During the last quarter the transfer price was in the region of about Rs 80 per quintal.

Ghanshyam

Okay sir. So we have expanded our capacity, I mean, in spite of having higher capacities, our crushing was about the same or little lower, so is because the availability of cane was lower or because there were some bottlenecks because we were expanding the capacity?

Dhruv Sawhney

No, our expanded capacity has only come on line now and after our expanded capacity, allocation of cane comes for the expanded capacity after you put it up, so we have now got our expanded capacities accepted only last week. You first have to achieve them and then they allocate the cane.

Ghanshyam

Okay. Sir what was the average, sir like, how much has been the increase in the cost of sugar, I mean over last year i, how much is it this year?

Dhruv Sawhney

Suresh.

Suresh Taneja

Yes, I will answer that question. You know, I will reply with reference to the current quarter of financial year 2005-2006. You know, since last year, one of the major component is a Rs. 8 increase in cane price and plus the additional incentive. So roughly speaking we are looking at about Rs. 150 to 170 rise in cost of production.

Ghanshyam

That will be about Rs. 1500 per ton.

Suresh Taneja

That is right.

Ghanshyam

Because we were doing this rough ballpark calculation, on your PBT level the realizations are about, contribution is Rs. 1000 lower.

Suresh Taneja

Are you looking at a period of 9 months?

Ghanshyam

No, only 3 months sir.

Suresh Taneja

You know 3 months, I mean, let me caution you is not a good illustration because in the case of sugar, the quarterly results may actually vary. It depends upon what season sugar was sold this quarter versus the previous quarter.

Ghanshyam

Suresh, basically assume that this quarter where we start the crushing not much left over from the previous quarter to carry on. So the cost of this quarter could be a good indicator of what the cost would be for the year, so that was our assumption.

Suresh Taneja

No, you know, you must realize that in the initial period of the season your recoveries are fairly low and the real recoveries really peak in the last quarter. Now when the recoveries peak in the last quarter, your cost of production also comes down very drastically.

Ghanshyam

Okay, okay, okay.

Suresh

So that is why I am saying this quarter is not a very good illustration.

Ghanshyam

Okay, okay sir.

Dhruv Sawhney

We follow this very strict accounting of doing the cost of production as it is, but recoveries are average for the financial year, so you get the benefit in the last quarter.

Ghanshyam

Okay. Because we thought that cost could be, as you said, you know, about 1500 higher side, about Rs. 800 for the cane and 700-800 other for the recovery.

Dhruv Sawhney

No, you cannot extrapolate that.

Ghanshyam

But we were seeing that actually the cost would have, in this quarter gone up by about 3000, that was as the financial _____ for the quarter so we were just _____ any other factors that we have not considered.

Suresh Taneja

No, no, I think this is a part season I think it is highly misleading.

Ghanshyam

Okay, okay then.

Suresh Taneja

The total cost of the production for the complete year, will ultimately determine what the profitability would be.

Ghanshyam

Okay, okay thank you sir.

Dhruv Sawhney

Thank you.

Moderator

Thank you very much sir. At this moment I would like to hand over the floor back to Mr. Anand Shah of ICICI Securities for final remarks.

Anand Shah

Thanks Monali. On behalf of ICICI Securities we would like to thank the management Triveni Engineering and all the participants in this conference. Thanks.

Dhruv Sawhney

Thank you.

Suresh Taneja

Thank you.

Moderator

Ladies and gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.

NOTE: