

## Triveni Engineering & Industries Limited

### Investor/Analyst Conference Call Transcript

#### January 22, 2009

---

**Moderator:** Ladies and gentlemen afternoon and welcome to the Q1 FY09 results conference call of Triveni Engineering & Industries Ltd. As a reminder all participants will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should anyone need assistance during this conference call, please signal an operator by pressing \* and then 0 on your touch-tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Nitin of Citigate Dewe Rogerson, thank you and over to you Nitin.

**Mr. Nitin:** Thank you Rochelle, Good afternoon everyone and a warm welcome to all of you participating in the Q1 FY09 conference call of Triveni Engineering & Industries Ltd. We have with us on this call Mr. Tarun Sawhney and Mr. Nikhil Sawhney, Executive Directors of the Company, along with Mr. Suresh Taneja, CFO, and other members of the senior management team of the company. I would like to mention before we begin that some of the statements in today's discussion maybe forward-looking and that a statement to that effect has been included in the conference call invite, which has been emailed to everybody earlier. We will start the conference call with opening remarks from the management followed by an interactive Q&A session, where you can discuss your views and key issues. So, now I would like to request Mr. Nikhil Sawhney to share some perspectives with you, with regards to the company's operations and the results for Q1 FY09, over to you Nikhil.

**Nikhil Sawhney:** Thank you Nitin. Welcome everyone to the Q1 FY09 results conference call for Triveni Engineering & Industries Ltd. Our net sales increased by 5% to Rs.3.65 billion for the quarter, EBITDA increased by 18% to Rs. 843 million and margins increased by 260 basis points. Profit before interest and tax increased by 25% to Rs.625 million, while PBT was higher by 11% to Rs. 343 million. PAT was lower by 6.6% at Rs.240 million, primarily on account of an increased tax provision, which was higher by 100%.

We will give you a little bit overview on various business units of our businesses. On our sugar business, our sales went up by 36% at Rs.246 Crores. This is driven by 14% increase in sugar sold to 126,000 odd tons of sugar as compared to about 111,000 odd tons of sugar sold in the corresponding quarter of the preceding year. Average free sugar sale realization went up by 27% to 17,700 per ton and average realization was 5.7% higher than the preceding quarter, which is Q4 2008. We are in a time where sugar production is estimated to be considerably lower in the country. I will touch upon that through the course of the conversation where we will give you a little bit on insight into our views on sugar production both in the country as well as in UP.

Estimation in terms of sugar production has been lowered by 20% to 25%. This is because of two factors; one is a decline in yield in both in the ratoon crop as well as anticipated plant crop and primarily due to a decline in recovery over by about 1%. This has impacted ability to meet our stated crush targets and sugar production.

As far as our cogeneration, distillery businesses go, they are performing very satisfactorily, we anticipate that due to a lower crush we may have a marginally shorter cogeneration season, but all in all still very satisfactory! Our distillery business will continue to perform very well, given the high prices of ENA, industrial alcohol and rectified spirit, which is prevalent in the market currently.

On our engineering businesses, we have seen our turbine business record a decline in sales by about 27%, though we have seen an increase in our order book from Rs.515 Crores to Rs.528 Crores. The order intake during the quarter was strong at about 90 Crores and exports have shown significant rise as a percentage of sales to 27%. Export as a percentage of our order book, also stands at 17% currently. We expect the volumes of dispatches during the subsequent quarters to improve substantially to our stated expectation on turnover as liquidity positions improve with our customers. As you would understand Triveni follows a very conservative policy on recognition of revenue and on a commercial basis, we would only record sales once payment has been received. Therefore, our turbines actually gets dispatched is only when we actually record the revenues and therefore the liquidity positions of our customers who were severally impacted during the proceeding quarters for reasons that you would know. We believe that the liquidity position has improved substantially and our conversations with our customers lead us to believe that our projections for dispatches in the subsequent quarters would be able to meet our stated projections. Our R&D initiatives in this business are proceeding very well and we have received orders for high pressure turbines, which is a breakthrough for us.

On our gears business we have seen a similar decline in turnover as our turbine business primarily driven by lower off take on OEM's because of the reasons that I explained for our turbine business. Though, we have seen an increase in the percentage of spares and servicing and retrofitting by over 20%. PBT margins have reflected this fact. The outstanding order book in this business has gone up to 65 Crores versus 53 Crores in the preceding quarter. Again, in this business we anticipate dispatches to improve over the subsequent quarters. In our water business our order book has gone up from 142 Crores to 177 Crores and we believe that this business has very lumpy sales and the subsequent quarters would reflect the increase in sales, which would coincide with the execution of project. As far as our balance sheet is concerned, we currently have long-term debt of 859 Crores and a total debt of 1253 Crores with the long-term debt to equity ratio of 1.1 and a total debt to equity of 1.6. With that I would like to pass it back to the conference for any questions that you may have.

**Moderator:** Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. At this time, if you would like to ask a question please press \* and then 1 on your touch-tone phone. The first question is from the line of Vivek Kumar of Anand Rathi, please go ahead.

**Vivek Kumar:** Hello sir! Congratulations for the good numbers! My first question would be on how is the crushing going on in UP, what is the cane availability and what is the recovery currently in the plantation crop?

**Nikhil Sawhney:** Well, we have not started the plant crop, the plant crop will start in February, we are still in the ratoon crop and this is end of the ratoon crop we find that there is a lower availability at this point in time; usually historically because of farmers evacuating their fields for wheat sowing. Our crush in the first quarter was 1.8 million tons of sugarcane crush as oppose to 1.56 million tons in the quarter in the preceding year. The anticipation is that the yields which were significantly lower than our expectations for the ratoon crop, we have seen yields as low as 380 quintals per hectare, should improve in the plant crop. Recovery has been impacted very severely due to number of factors; one is because of frost in the preceding year's plant crop as well as use of certain pesticides, which has stunted sucrose recovery. And there is also the second factor of RDF, which is differential in day and night temperature, which has led to low sucrose formation. In all you can take, if you are leading to a question in terms of what is our expectation on the production in UP, we anticipate it to be significantly lower due to these two factors.

**Vivek Kumar:** So, what would be the quantum, what is the percentage by which it would be lower in terms of the total availability for the season?

**Nikhil Sawhney:** It is a decline in the range of around 30% to 35% in UP.

**Vivek Kumar:** So your anticipation was around 10% to 15%?

**Nikhil Sawhney:** Exactly, so because coupled with the recovery and yield factors that this has been, but at the same time for us we are only anticipating between 20%, 25% decrease in sugar produced.

**Vivek Kumar:** And how do you see the domestic as well as international scenario for sugar this year?

**Nikhil Sawhney:** Okay, I am just going to ask Tarun to take that question.

**Tarun Sawhney:** Both domestically and internationally sugar pricing seems fairly robust. We have seen an upward trend over the last few months as far as domestic sugar pricing is concerned. Several factors have contributed towards this. First and foremost is the current year's balance sheet, which seems to be reducing as the months keep going by. Our estimate for all India production remains between 17 and 18 million tons of sugar. Consequently, this has been lowered from 22 million tons to 20 and now to 17 to 18 that is one of the reasons why we have seen a significant increase in sugar pricing. Having said that releases from the government have been healthy, they have been higher, significantly higher than the corresponding periods in the previous years. As such, we have seen a tempered increase in pricing which as a company, we are very much in favor of rather than any accelerated increase in pricing. In addition to that on the international sugar front, we have seen some very interesting development. It is our understanding that for the last year's crop in Brazil we have seen a diversion, a split between sugarcane for ethanol and sugarcane for sugar split at 58% to 42%. Our projections for the next Brazilian crop are that this could change as much as 52% for ethanol and 48% for sugar. Now, given the fact that a large stockpile of sugar from the Indian perspective will not meet and India will not be exporting sugar going forward; there is certainly a considerable hope for the forward-looking contract. Our view is that Brazil, which is also been impacted severely due to a liquidity crisis will have to sell sugar at some point and therefore we will see fairly vacillating international sugar pricing.

**Vivek Kumar:** So, what is a sense of domestic pricing as well as the international pricing and how the parity would work out if imports are allowed?

**Tarun Sawhney:** Our current realizations which are higher than what one would say; our overall domestic realizations for Triveni are in excess of Rs.20 ex-factory not including duties. Consequently, on the global market, last nights close; it was approximately 12.6 cents for the March contract, thank you.

**Vivek Kumar:** Thanks sir.

**Moderator:** Thank you Mr. Kumar. Our next question is from the line of Grishma Shah of HDFC Securities, please go ahead.

**Grishma Shah:** I want to know, why the tax rate has gone up this quarter?

**Suresh Taneja:** The tax is actually depended on various things. If you look at the previous period we were getting the benefit of whatever depreciation differences were there during the tax holiday period and that is one of the reasons. And as this is getting exhausted the tax rate is going up; having said that from next year onwards, again we are entitled for 80-IA benefits, which would again reduce the tax rates.

**Grishma Shah:** Would next year mean FY09 or FY10?

**Suresh Taneja:** No, I am talking about the tax year starting from 1<sup>st</sup> of April 2009.

**Grishma Shah:** Okay, from April 2009!

**Suresh Taneja:** That is right.

**Grishma Shah:** Okay, so what are these benefits, for what do you get these benefits?

**Suresh Taneja:** In respect to the various cogeneration plants, which we have set up, the income is exempted from income tax for a period of 10 years in a block of 15 years. So, that actually starts from next year onwards.

**Grishma Shah:** Okay, fine sir, if I have questions I will come back, thank you.

**Moderator:** Thank you Ms. Shah. Our next question is from the line of Arya Sen of Credit Suisse, please go ahead.

**Arya Sen:** Good afternoon sir! My first question is regarding imports, what is the landed cost of imports and what could be the impact of imported sugar on domestic prices?

**Tarun Sawhney:** Excellent question, firstly there has certainly been a lot of press reports on whether sugar should be imported and if it is going to be imported or not. Our position is that we are uncertain of when and if this sugar import policy will change or not. As far as import pricing is concerned for whites at zero import duty, the cost of landed white is approximately Rs.19,110 at the port per ton of sugar. This is based upon the spot prices, the moment India announces import, international prices are bound to go up. So, even with the spot prices, the landed cost at the port is more than 19,000. So, you take into consideration the port expenses, warehousing, freight, transportation, and the profit element it is very unlikely that the sugar would be sold for less than RS.22-23.

**Arya Sen:** Right, okay my second question is, did you sell molasses in the last quarter?

**Tarun Sawhney:** We have not sold any molasses in the last quarter.

**Arya Sen:** In any case, would you have an idea what the prevailing prices of molasses were in the last quarter?

**Tarun Sawhney:** On the prevailing prices of molasses, what I will give you is a blended price, because as you know 25% is reserved for country liquor and the rest can be sold on free sale. One can safely assume a blended price of Rs.3,500 per ton.

**Arya Sen:** Okay, thanks a lot sir.

**Moderator:** Thank you. Our next question is from the line of Nirav Shah of PINC Research, please go ahead.

**Nirav Shah:** Yeah good afternoon sir, I have few questions. The first is could you share the average tax rate for FY09, the year ending September '09?

**Suresh Taneja:** You mean for the complete year?

**Nirav Shah:** Yes for the full year sir.

**Suresh Taneja:** We do not have it available as of now, perhaps we can talk offline.

**Nirav Shah:** Okay sir, no issues. Just one thing regarding our turbines business, now that some people as you may know, instead of buying new turbines may start refurbishing old turbines or the share of refurbishments can increase. So, what is the target for FY09, last year I believe it was around 12% and our target for this year was around 15%, so will it increase this year?

**Nikhil Sawhney:** It will be around that range, if not little higher.

**Nirav Shah:** Okay and could you share the current prices of rectified spirit, ENA, industrial alcohol?

**Nikhil Sawhney:** Approximately, Rs.26 for ENA and you can take Rs.2 to Rs.3 discount for rectified spirit and industrial alcohol.

**Nirav Shah:** Okay and on the recent talks that the UP Cogen Association has requested the UP Electricity Regulatory Commission for an open-access system, what is the update on that, how far has it progressed?

**Nikhil Sawhney:** I think we have been pushing for this, for a while, it is still under consideration. There is no movement that we could actually comment on as of now.

**Nirav Shah:** Okay and final question would be considering that Bagasse prices have now increased or almost doubled on a year-on-year basis; do we plan to sell more Bagasse at our two units at Khatauli and Deoband instead of going for power?

**Nikhil Sawhney:** Well you see the fact is that West UP has always had very lucrative alternate users for Bagasse, so the price of bagasse in West UP has always been considerably higher than most other parts of UP if not the country. As of now, we have seen a marginal increase in that rate not as substantial in other places, but we believe that as far as our own opportunity cost of bagasse goes that we would be utilizing in our cogeneration for those two units.

**Nirav Shah:** Okay could you also share the Bagasse prices for Western UP units, Eastern UP and Central UP, what kind of differences are you witnessing in Bagasse prices?

**Nikhil Sawhney:** I think it is about Rs.300 to Rs.400 difference per ton.

**Nirav Shah:** And Western UP would be around Rs.1500, Rs.1600?

**Nikhil Sawhney:** Yes. Landed cost!

**Nirav Shah:** Okay thanks a lot sir.

**Moderator:** Thank you Mr. Shah. Our next question is from the line of Sanjay Satpathy of Merrill Lynch, please go ahead.

**Sanjay Satpathy:** Yes sir, could you give us some idea about the total cost of production of sugar considering the current recovery rate?

**Suresh Taneja:** I think very roughly speaking, taking into consideration what we have experienced and what is our forecast for this financial year; our total cost of production at PBIT level is going to be about Rs.1850.

**Sanjay Satpathy:** This has improved, I mean are you averaging it out over the stocks or you are talking about just the fresh crops that you are crushing?

**Suresh Taneja:** No, I am talking about the new crop and the earlier crop which is available as an opening inventory at a much lower cost of around Rs.1435. It is at the PBIT level.

**Sanjay Satpathy:** Okay, just one question which is not on these results but on the balance sheet that you have just reported, your receivable amount was significantly higher at the end of FY08 compared to that of FY07, could I.....

**Suresh Taneja:** What is higher?

**Sanjay Satpathy:** Sundry debtors!

**Suresh Taneja:** Yes, you must have realized increased activity and as always you know there are some month end sales as a result of which it was outstanding and it has been liquidated to a large extent, I think it has come down to much lower levels.

**Sanjay Satpathy:** Okay and I want to take you back to the current apprehension that is on going, what is the total amount of sugarcane that you are going to crush and what is the kind of sugar production? Could you give us some specific numbers on that?

**Nikhil Sawhney:** We have indicated that we anticipate our sugar production to be lower by around 20% to 25%, a hit from our previous year, which was 578,000 ton.

**Sanjay Satpathy:** And the average recovery rate would be?

**Nikhil Sawhney:** It will be lower than last year but I've already considered that into factor while giving you a sugar production figure.

**Sanjay Satpathy:** Okay and sir, lastly about your ethanol business, the ENA, rectified spirits, and all that what is the demand scenario right now, are you seeing the prices stabilizing at the current level or how about the trend that you are expecting right now?

**Nikhil Sawhney:** Yeah, the current ENA prices are still robust and we expect that in the short-term it will be in the range of 26-27 and it may go up in the long-term. Similarly, the prices of SDS and industrial alcohol will also be higher in the next quarter.

**Sanjay Satpathy:** Okay, but what we have heard is that there has been a significant decline in the demand for industrial alcohol and even the portable liquor, so you are saying that the supply has gone down faster than that of demand destruction?

**Nikhil Sawhney:** Yeah, you are right.

**Tarun Sawhney:** You are absolutely right.

**Sanjay Satpathy:** Okay, thanks a lot sir.

**Moderator:** Thank you Mr. Satpathy. The next question is from the line of Achal Lohade of JM Financial, please go ahead.

**Achal Lohade:** Yeah hi, I've a couple of questions. Basically, first I just wanted to know your view on Brazil's sugar production going forward. I understand, you indicated that you estimate Brazil to split sugarcane by 52 to 48 for ethanol and sugar respectively. I was just wondering like let us say, that if state owned oil companies reduce their gasoline prices, so as to impact the demand for ethanol; so can the diversion towards sugar be more than 48. And what is the freight rate for white sugar as of now from Brazil to India?

**Tarun Sawhney:** Okay good question. At the moment I can give you break bulk rates, the range between \$25 to \$32 per metric ton from Brazil to India right now, they are the lowest that we have seen in a long, long time and going forward these rates will only increase. To address your question about Brazil, there are few important factors that one has to keep in mind. Firstly, let me talk about the last few months, the liquidity crisis that has been faced and reported by the news, by the sugar industry in Brazil has been very severe. The pricing opportunities that have existed for Brazilian millers for the last few months, while they have been significant, if you remember raw sugar was at 15 cents only few months ago. Yet, due to liquidity constraints, due to lack of limits being granted to the sugar industry, a large amount of sugar was unable to be priced. Therefore, our position is for the upcoming crop, a fair amount of sugar, in excess of 50% remains un-priced at this time. Now, given the liquidity crisis, several millers are going through the season, usually at this point in time, the crop certainly sent us out and in the North is pretty much over. Yet, we are seeing that a few millers are crushing all the way through the off season in Brazil that reduces somewhat

marginal amount of sugarcane availability for the following year as well. The reason for this is actually just to meet the liquidity constraints. Now, to address the total diversion between ethanol and the pricing of ethanol, it is important to remember that when oil prices went up to \$150 ethanol prices did not jump. Similarly, on the way down there was no change in ethanol pricing for the automobile industry, while the automobile industry has been affected in Brazil still, sales of new cars 90% of which are for blended vehicles i.e., flexi-fuel vehicles. Now, the projection clearly is a 6 percentage point swing towards sugarcane and that is, it is fairly significant; could that be 7%, possibly; could that be 8% probably unlikely. There issues are of capacity; in the last two and half years the most significant capacity there has been established has been for ethanol and therefore in our opinion Brazil cannot reduce below 50% for sugar and ethanol. And in our view, because of their robust blending program and flexi-fuel program our estimates are of 52% towards ethanol and the balance towards sugar.

**Achal Lohade:** Right, just to add to that, 15 cents was when the Brazilian Real was at 1.5 - 1.6 to Dollar, now it has depreciated against Dollar to 2.3 Real, so going forward, there would be capacity constraints as you mentioned. I was just wondering do we have any number on the capacity as such, what is the additional amount that they can produce?

**Tarun Sawhney:** Yes for every one percentage point change in Brazilian production, I can give you a broad estimate, it will equate to about 600,000 tons of sugar for every one percentage point changed between ethanol towards sugar it is about 600,000 tons of sugar that is produced. You are right, your comment on the Real is a fair point and that is probably the reason why the international market, the London and New York contracts have not explored it, it is because of the strong US Dollar. Going forward a dollar will play a very important role, but the important point to realize is the lack of flexibility in terms of entering into forward pricing contract that the Brazilian millers face. The other point of course is that India will see a significant shortfall in terms of its production. We have all recognized that the data figures out, we commented saying that 17 to 18 million tons would be produced. Now, even with the 6 percentage point change in Brazil that does not take into account, the entire fall in India and one has to remember that India exported almost 5 million tons, last year.

**Achal Lohade:** Right, and the other thing is that considering that the sugar prices are already about Rs.20, do we see government allowing imports not on the raw sugar but duty free white sugar, which they did in June 2006. Do we see that kind of situation occurring going forward?

**Tarun Sawhney:** Our view is that white sugar will not be imported and as far as raw sugar is concerned, I think we all read the papers, so your information is as good as ours.

**Achal Lohade:** So, effectively we do not expect the government to allow duty free white sugar imports?

**Tarun Sawhney:** That is correct.

**Achal Lohade:** Okay that is it thanks so much.

**Tarun Sawhney:** Thank you.

**Moderator:** Thank you Mr. Lohade. Our next question is from the line of Nirav Vasa of Gupta Equities Private Limited, please go ahead.

**Nirav Vasa:** Could you throw some light at what rate the debt of Rs.1253 Crore would be serviced?

**Suresh Taneja:** Very roughly speaking you can take a ballpark figure of approximately about 9.5%.

**Nirav Vasa:** So, considering that government has taken several initiatives for the free flow of money in the economy; do you think you can reduce these interest rates by certain basis points going forward?

**Suresh Taneja:** I think definitely, but the only thing is that I am basically replying to your question based upon the situation today. And we are fairly confident that going forward the PLRs are going to come down

and in the last two or three months they were hardly any arbitrage opportunities available in the market, in addition things are becoming normal, the liquidity is becoming comfortable, call rates have come down. I think all this is going to contribute to the lower cost of funds. But you know as of today without its actually happening it is difficult to put your finger on.

**Nirav Vasa:** Sir, I have a query regarding your engineering division; are you facing any significant delays from your customers for the dispatch of orders which were scheduled earlier and are there any issues regarding the payment for the same?

**Nikhil Sawhney:** We did see it last quarter, but we see it easing considerably in our discussions with our customers over the previous couple of weeks. We believe it should normalise over the next couple of quarters.

**Nirav Vasa:** So, payment delays if any are not expected to significantly impact the working capital cycle of the company?

**Nikhil Sawhney:** No. You know in the case of turbine unit we follow a policy that the full delivery of the turbine is given only after receiving the payment. That is one policy we follow, it could be on a piece meal basis, but the full delivery is given only on receiving the payment.

**Nirav Vasa:** Okay sir thank you very much.

**Moderator:** Thank you Mr. Vasa. Our next question is from the line of Nirmal Shah of Alchemy Shares, please go ahead.

**Nirmal Shah:** Good afternoon sir, I wanted to know in this quarter you sold 1,26,000 tons of sugar, out of this how much was it from the inventory?

**Nikhil Sawhney:** Everything was from the inventory.

**Tarun Sawhney:** So, we currently have over 130,000 tons of last year's inventories, you would see that our sales have been conservative and we followed our release mechanism to that.

**Nirmal Shah:** Okay and what is the lowest recovery rate that you have seen until now across your plants?

**Nikhil Sawhney:** The lowest recovery that we have seen has been in the range of about 8.6!

**Nirmal Shah:** Okay sir thank you.

**Nikhil Sawhney:** Thank you.

**Moderator:** Thank you Mr. Shah. Our next question is from the line of Grishma Shah of HDFC Securities, please go ahead.

**Grishma Shah:** Sir, I have more question, with sugar production of 1,60,000 tons and dispatches of 1,26,000 that means that you still have 34,000 is still with you and of that 4000 is coming from your previous inventory?

**Nikhil Sawhney:** No that is not correct, the whole of 126,000 tons were sold from the previous year's inventory. Our opening was approximately 260,000 tons out of which we have sold 126000 in this quarter, so balance is the production that has taken place which is still with us.

**Grishma Shah:** Okay fine, I got that. And one more thing, in your water business, can you give us your client profile in terms of what are the verticals they belong to?

**Nikhil Sawhney:** They are primarily split between the municipal and industrial sectors. In the municipal sector there would be either EPC companies or direct water bodies and the industrial side it would encompass a large industrial clients who prefer technology as a product, which would include sectors such as power, other industries where water has a significant use, such as cement, steel etc.

**Grishma Shah:** Okay any particular reason why our margins are really higher than what Hindustan Dorr-Oliver would be in this segment?

**Nikhil Sawhney:** Sorry, we cannot comment about them, but we think that our margins reflect our focus on technology.

**Grishma Shah:** Okay thanks.

**Moderator:** Thank you Ms. Shah. Our next question is from the line of Pranika Jain of HDFC Securities, please go ahead.

**Pranika Jain:** Yeah sir, in this quarter your interest has gone up significantly, could you throw some light on the reason for that and could you give me a breakup for the debt on your books; between the secured and unsecured?

**Suresh Taneja:** Yeah in the case of the interest cost, it has gone up because of high inventories and the inventory valuation we have this quarter, as compared to the earlier quarter. And also because of the fact that last year the interest cost was netted off by buffer stock subsidies of about 3.5 Crores, which was not present in this quarter and as far as the break up of the debt is concern, we have term loans of about 850 Crores and working capital funding of about 400 Crores, the total is about 1250 Crores.

**Pranika Jain:** And what sort of debt we are looking at that close of year, I mean what kind of debt we are planning to pay off? Could you give us a rough estimate?

**Suresh Taneja:** Very roughly it would be about Rs.125 Crore of Rs.850 Crore would be repaid during the year and the working capital of about Rs.400 Crore would come to about Rs.300 Crore.

**Pranika Jain:** Okay fair enough. Sir, my next question would be what is the landed cost of cane we are taking into account now after the transport rebate the Allahabad Court has increased from the state; per ton to around 105.7?

**Tarun Sawhney:** The landed cost of gate cane is Rs.140 per quintal and at our out centers we are deducting Rs.5.75 as a transport deduction, therefore we are paying 134.25.

**Pranika Jain:** But there are some other purchase tax or society taxes that you have to pay.

**Tarun Sawhney:** You know taking into consideration all of these taxes and the freight aspects the total cost works out to be about 148.

**Pranika Jain:** Okay thank you.

**Moderator:** Thank you Ms. Jain. Our next question is from the line of Mr. Shekar Singh of Goldman Sachs, please go ahead.

**Shekar Singh:** Hello sir! What I want to understand is that the landed price is Rs.19,110 per ton what is its equivalent to the dollar price per ton?

**Tarun Sawhney:** Last price closing of \$360 and this is for white sugar. On the flipside, if you look at raw imports it will be obviously little lower.

**Shekar Singh:** Sure, secondly is this Bagasse cost of Rs.1500 to Rs.1600 per ton that you mentioned is in Western UP or in Central UP?

**Tarun Sawhney:** Western UP! We do not really have factories in heart of Central UP, so we cannot comment on that.

**Shekar Singh:** So, Western UP prices will be Rs.1500 to Rs.1600 and in other parts of UP the prices will be lower by 300 to 400?

**Nikhil Sawhney:** Exactly, it depends on alternate users and how developed the area is. So, if you look at certain districts which are more developed, the Bagasse prices will be higher there, they are more remote and rural, they would probably have lower bagasse prices there.

**Shekar Singh:** Sure thanks a lot sir.

**Moderator:** Thank you Mr. Singh. The next question is from the line of Mr. Kaushik Poddar of KB Capital Markets, please go ahead.

**Kaushik Poddar:** You just talked about your cost price for sugar production being around Rs.1850 per kg on the PBIT level and on top of that your sugar production will be 20% less. So, at the PBT level what will your break even be at?

**Suresh Taneja:** As I said, 1850 is the cost price at PBIT level taking into consideration all these factors. And that is only applicable to the sugar produced in 2008-2009, whereas during this year we would be also selling old sugar, which is at a much lower cost.

**Kaushik Poddar:** This 1850 takes into consideration the 20% less of sugar production?

**Suresh Taneja:** Absolutely yeah!

**Kaushik Poddar:** Okay.

**Suresh Taneja:** You take into consideration, lower crush and recoveries.

**Kaushik Poddar:** And what is the carry forward of stocks that you had from last year?

**Suresh Taneja:** At the beginning of the quarter we had 259,000 odd tons.

**Kaushik Poddar:** Okay. May I have the figure once again please?

**Tarun Sawhney:** 259, 000 tons on the 1<sup>st</sup> of October!

**Kaushik Poddar:** Okay and as of 1<sup>st</sup> of January how much do you have?

**Nikhil Sawhney:** 130, 000 of old sugar!

**Kaushik Poddar:** Okay what was the carrying cost?

**Suresh Taneja:** That was about 1435.

**Kaushik Poddar:** Okay thank you.

**Moderator:** Thank you Mr. Poddar. Our next question is from the line of Ashish Gupta of Kotak Securities PMS, please go ahead.

**Ashish Gupta:** Congratulations on the very good set of numbers. Sir, I would like to know more about your ethanol scenario in Brazil. Now, we have seen that the crude oil prices are hovering around \$35 to \$40 and then in your view point how will things shape up in the month of March and April?

**Tarun Sawhney:** You know Brazilian sugar production only starts towards the middle to end of April and it depends on the rains in the Central South area in Brazil. So your question on what will happen in March and April? Nothing is going to change from today, because it is an off season.

**Ashish Gupta:** Yeah I can understand it, but how will things shape up on the ethanol front, because we have seen that the significant part of the ethanol production goes towards exports to the US market, but due to that the US auto sectors have already slowed down and the volumes are going to be impacted significantly. So, do you think sir that the domestic demand of Brazil will be sufficient enough to absorb this volume?

**Tarun Sawhney:** A majority of Brazilian Ethanol is consumed domestically that is why under depreciation the Real plays a big role in terms of that decision between how much sugar and Ethanol to manufacture.

**Ashish Gupta:** Okay, so but do you have the figure of how much ethanol they produced last year and how much ethanol they exported to the US market.

**Tarun Sawhney:** No, I am sure you would be able to get that, it's publicly available.

**Ashish Gupta:** Okay fine sir. That should be all from my side.

**Moderator:** Thank you Mr. Gupta. Our next question is from the line of Jehan Bhadha of Darashaw & Company, please go ahead.

**Jehan Bhadha:** Good afternoon! Large quantities of exports are expected from Haldia, West Bengal which will increase supply in the north eastern region. So will this put an upside cap on prices whereby you know we won't see increases say beyond a rupee from current realization levels.

**Tarun Sawhney:** At this time the policy that is in place is a grain for grain policy; so any refinery importing raw sugar into the country will have to export that very same sugar. And therefore any sugar currently imported does not add to the domestic balance sheet. It does not enter into the domestic market and therefore does not have an influence on domestic pricing.

**Jehan Bhadha:** Right, but this being an election year say the government might tinker with that law and if they suppose allow a ton by ton policy then things might turn bad; prices might not increase as you anticipated now.

**Tarun Sawhney:** Your question was regarding the northeast market. The northeast market is actually a very significant market and whether one refinery can meet the demands of the entire northeast market is highly unlikely. The market will still exist for other sellers into that particular market and whether the government does decide to change policy or not we have commented on earlier in any case.

**Jehan Bhadha:** Okay thanks.

**Tarun Sawhney:** Thank you.

**Moderator:** Thank you Mr. Bhadha. Our next question is from the line of Sanjay Satpathy of Merrill Lynch, please go ahead.

**Sanjay Satpathy:** Firstly, again I just wanted to clarify over the outlook for FY10. Is it possible to give some color on the production of sugar in India right now?

**Nikhil Sawhney:** It is very difficult to say right now. I think we should get through the planting season and give you a comment in the next call.

**Sanjay Satpathy:** I just wanted to understand; are the farmers feeling encouraged to plant more cane right now considering the prices of the -

**Nikhil Sawhney:** Yes, they are.

**Sanjay Satpathy:** Okay! And lastly as far as this year is concerned, at the net levels, is the sugar division going to make profit?

**Nikhil Sawhney:** Yes.

**Sanjay Satpathy:** After paying the interest

**Nikhil Sawhney:** You know in the quarter it is already in positive and the only variable basically is the sugar prices. Now if the sugar prices are where we are all expecting, it is expected to be in profit.

**Sanjay Satpathy:** Okay. Thanks.

**Moderator:** Thank you Mr. Satpathy. Our next question is from the line of Kapil Bagaria of MF Global, please go ahead.

**Kapil Bagaria:** I understand that there were delays in the engineering segment, were there any cancellations by any chance or to what magnitude in any of the three segments?

**Nikhil Sawhney:** You know cancellations, the thing is that at the point of when we recognize an order, we take an advance which is nonrefundable.

**Kapil Bagaria:** Okay, so we have not seen any cancellations in any of the segments?

**Nikhil Sawhney:** No.

**Kapil Bagaria:** Okay, thank you sir.

**Moderator:** Thank you Mr. Bagaria. Our next question is from the line of Bimal Sampath of Radha Sons International, please go ahead.

**Bimal Sampath:** Good afternoon, first question is on the incentive scheme which is in court. What is the position on that?

**Tarun Sawhney:** At the moment, the matter is subjudice; we have no official comment on the incentive case.

**Bimal Sampath:** So when do you expect it or is there no certainty?

**Tarun Sawhney:** I am afraid; it is very difficult for us to give you any kind of guidance on that.

**Bimal Sampath:** Okay, so our next question is what would be our inventory level in September '09?

**Tarun Sawhney:** Again an impossible question! It is determined by how much the central government releases through its release mechanism. It is very difficult to tell because it is guided on factors such as sugar pricing, sugar releases, etc. It will also depend on the total production in the country and so for at this point to give you a closing balance for this year is very difficult.

**Bimal Sampath:** Roughly, is that not possible?

**Tarun Sawhney:** Very difficult!

**Bimal Sampath:** Okay and our realization for the December quarter were around 17.50 rupees.

**Tarun Sawhney:** 17.70!

**Bimal Sampath:** Yeah and currently you said you are realizing over 20,000 rupees ex mill.

**Tarun Sawhney:** That's right.

**Bimal Sampath:** So you think it should continue for this quarter at least.

**Tarun Sawhney:** Our expectation is that it should continue; given the status quo.

**Bimal Sampath:** It should continue! And will we be selling mostly the old inventory?

**Tarun Sawhney:** The likelihood is that we will be selling our old inventory.

**Bimal Sampath:** Okay, thank you.

**Moderator:** Thank you Mr. Sampath. Our next question is from the line of Rajesh Prabhudesai of Dipen Mehta Stock Broker, please go ahead.

**Rajesh Prabhudesai:** Yeah, good afternoon sir! My questions have mostly been answered, but I will repeat them once more. What is the pricing outlook for industrial chemicals and more particularly what is helping to hold up this prices breaking from current general weak economy?

**Nikhil Sawhney:** the deficit production of molasses and sugarcane.

**Rajesh Prabhudesai:** So you expect the prices to be maintained on the current level?

**Nikhil Sawhney:** Yes. I mean it is a fact also that also you have to recognize that we do get a premium because we are perceived to be an A-quality supplier. This is not representative of the market in general.

**Rajesh Prabhudesai:** Okay sir, thank you very much.

**Moderator:** Thank you Mr. Prabhudesai. Our next question is from the line of Nilesh Dhanaskar from Enam Securities Direct, please go ahead.

**Nilesh Dhanaskar:** Hello, good afternoon sir! I wanted to get a sense of what would be the feasibility of importing raw sugar, converting it, and then processing it into refined sugar and selling it within India if the government tinkers around with the existing law? I mean from say the existing price as on NYBOT, after that what are the costs involved and could you give us a breakup of those?

**Tarun Sawhney:** It depends, look at the price of sugar that we have already set for conversion of white which ended up at 19,110 and you add tolling charges. The tolling would be approximately \$60 to \$70 which would then be converted into a rupee equivalent; you will be able to come up with the landed price.

**Nilesh Dhanaskar:** So you mean that 3 or 3.50 rupees per ton is the conversion cost for this \$70.

**Tarun Sawhney:** Yeah, \$70 is the premium odd.

**Nilesh Dhanaskar:** Okay and apart from the freight does any other component need to be added?

**Tarun Sawhney:** Labor then transportation depending on whether this is at port, where you are going to load it, or offload it and then where you are going to supply us.

**Nilesh Dhanaskar:** Okay, so do you have a sense at what levels would import be feasible?

**Tarun Sawhney:** It depends on the profit margins people want to follow, but I am sure that we have given you some basic calculations which you would be able to play on to.

**Nilesh Dhanaskar:** Fair enough. Yeah, thanks.

**Moderator:** Thank you Mr. Dhanaskar. Our next question is from the line of Rajat Chandak from ICICI Prudential AMC, please go ahead.

**Nikhil Sawhney:** Hello, good afternoon!

**Rajat Chandak:** Yeah, good afternoon sir! Just a very basic query if now the government of India allows import of raw sugar. It could take 40 to 50 days at least to arrive from Brazil. Is it like that, the mills which would be shut cannot do the refining work or can only the refineries do it? Could normal sugar mills also refine that?

**Nikhil Sawhney:** Normal sugar mills can toll the sugar provided they are crushing sugarcane. To run your boilers with leftover bagasse or any other fuel will be prohibitively expensive. Therefore, any tolling to be done will probably be done only by refineries.

**Rajat Chandak:** Okay sir, thank you.

**Moderator:** Thank you Mr. Chandak. Our next question is from the line of Mr. Raunak Nagda of Value Quest Research, please go ahead.

**Raunak Nagda:** Good afternoon sir, you mentioned your inventory level of last year and I missed the figure, could you repeat it again?

**Nikhil Sawhney:** At the beginning, as of the 1<sup>st</sup> of October we had 257,000 tons of sugar.

**Raunak Nagda:** And sir how much cash level do you have?

**Suresh Taneja:** Whatever surplus cash we have, we use it to draw down our working capital requirements, so in a sense that is a flexible number.

**Raunak Nagda:** Okay, thank you sir.

**Moderator:** Thank you Mr. Nagda. Our next question is from the line of Parshuram Prasad of Globe Capital, please go ahead.

**Parshuram Prasad:** Good afternoon! Could you tell me why company is so leveraged?

**Suresh Taneja:** You know just to give you some ratios in terms of long term debts we have 1.1 in terms of total debts we are about 1.55. So it is not very leveraged at all.

**Parshuram Prasad:** Okay, thank you!

**Moderator:** Thank you Mr. Prasad. Our next question is from the line of Arya Sen of Credit Suisse, please go ahead.

**Arya Sen:** Hi, good afternoon sir, just a couple of follow-up questions! I wanted to understand the grain for grain import policy that you talked about, is there a lag between when you need to re-export it? There is a time lag, right?

**Tarun Sawhney:** Yes clearly there is a time lag.

**Arya Sen:** What is that allowed time lag? What is the maximum time within which you need to re-export it?

**Tarun Sawhney:** 24 months.

**Arya Sen:** The next question is regarding recoveries in different parts of UP, do you see a difference between east and west? Are the recoveries relatively better in western parts?

**Nikhil Sawhney:** The recoveries are a little bit higher in extreme West UP and in certain pockets of Central UP. But by and large the recoveries are down significantly.

**Arya Sen:** And what about cane sourcing? Is it equally bad everywhere is there a difference between different parts of UP?

**Nikhil Sawhney:** Again there is a difference. West UP is relatively better off, the extreme East UP is also okay, but Central UP seems to be suffering.

**Arya Sen:** Thanks a lot sir.

**Moderator:** Thank you. Our next question is from the line of Ankit Jain of Mata Securities, please go ahead.

**Ankit Jain:** Good afternoon sir! I just wanted to know your view on liquidity of the company of Triveni because a significant amount must have been blocked in the products which have not been delivered and over the year FY '09 how much growth do you see in the engineering segment?

**Suresh Taneja:** I think as far as today is concerned we are perfectly liquid. There is absolutely no problem. We follow a very conservative policy and to a large extent we have curtailed our program of the capital expenditure and we do not expect any liquidity problem whatsoever.

**Ankit Jain:** So how much of growth you are expecting over the whole year SY09 in the engineering business?

**Nikhil Sawhney:** The engineering business will record growth of about 10% odd. You know it's a little early at this stage to say that let's look at this quarter, how things pans out then one would be very clear.

**Ankit Jain:** Yeah you were down by 27% in this quarter so a significant inventory must have been built up. But then how much of advance payment do you receive from the customers for this?

**Nikhil Sawhney:** I think it is very substantial. It is of the usual level because you know advance payment is in excess of 100 Crores.

**Ankit Jain:** Okay and sir one more question, on the taxation front you said after April '09 you would be getting additional benefits so taxation would come down. I didn't understand because cogeneration plants have already been used from last year, no new capacities have been added. So how would this benefit come?

**Suresh Taneja:** You know the 80-IA benefit under Income Tax Act is available for a period of 10 years out of a block of 15 years. So you can choose any 10 consecutive years. Actually we would be picking up 10 years starting from next year.

**Ankit Jain:** Okay, it will start from next year.

**Suresh Taneja:** Yes.

**Ankit Jain:** And sir is there any taxation benefit on turbine business or the engineering business as a whole?

**Suresh Taneja:** No.

**Ankit Jain:** And sir one more question on the country front, sir was there any exports during the first quarter from India?

**Nikhil Sawhney:** Very marginal.

**Ankit Jain:** So how much do you see the deficit for the current year seeing that no imports have been done?

**Nikhil Sawhney:** I think it's very difficult to project because you have the bulk of the year still ahead of us. It depends on government policy, it depends on total production etc.

**Ankit Jain:** Okay sir, seeing the current market economics we don't see further exports from the country, right.

**Nikhil Sawhney:** We don't see further exports from the country, no.

**Ankit Jain:** Okay sir, thanks a lot.

**Nikhil Sawhney:** Thank you.

**Moderator:** Thank you Mr. Jain. Our next question is from the line of Shekar Singh of Goldman Sachs, please go ahead.

**Shekar Singh:** Hello sir, just taking on that question of conversion from raw to refined sugar, you mentioned that if we use leftover bagasse then it will be prohibitively costly. Could you talk in terms of what are the key components of the cost in difference like electricity and state chemicals etc, what will be required?

**Tarun Sawhney:** Broadly speaking you can look at it as a bucket so when you have your ocean freight costs, then you have your port handling costs, then you have your port bagging costs, you have your transportation to factory costs and then you have your conversion costs. Within the conversion costs you have the cost of steam; you have the cost of chemicals, the cost of power and the cost of bags and also financial cost and labor!

**Shekar Singh:** So if you put together power and steam together

**Tarun Sawhney:** In addition one must remember that you cannot recover a 100% of raw sugar and a few percentage points is lost in molasses and unallocable areas.

**Shekar Singh :** So if we take say 105% of raw sugar will result in 100% of say loss of around 5%. Would that be a good enough number?

**Tarun Sawhney:** That's conservative, yeah, that's fine.

**Shekar Singh** And secondly in terms of total power consumption how much will that be per ton of raw sugar.

**Tarun Sawhney:** You know we could take that offline I don't have that number for you at this time.

**Shekar Singh** Sure! Secondly, so I just wanted to know in the current environment does it make any sense to convert molasses into ethanol or you can just say the ethanol prices are fixed so to that extent ethanol economics are not looking very good.

**Nikhil Sawhney:** You are talking about fuel ethanol?

**Shekar Singh:** Yeah fuel ethanol.

**Nikhil Sawhney:** I think people who've got into contracts have to comment themselves as far as our own status goes we are not fixed in any government ethanol contract and so we sell primarily ENA, industrial alcohol, and rectified spirit in fact if you can just see that most of the people, the ethanol suppliers they have not fulfilled their committed quantities. That clearly indicates that the ethanol pricing of 21.5 is not at a viable level as of now.

**Shekar Singh:** Great sir; thanks a lot.

**Nikhil Sawhney:** Thank you.

**Moderator:** Thank you Mr. Singh. The next question is from the line of Avinash Agarwal of Sundaram BNP Paribas, please go ahead.

**Avinash Agarwal:** Good afternoon sir! This question is regarding the engineering division. You have spoken about a good export order, I would like to know from which country did you get the order and how do you see the stickiness of orders coming from those countries?

**Nikhil Sawhney:** They are not sticky to a country. They are stickier to customers and industries. We have customers that are still placing orders with us in places as far as Brazil to Iran to Indonesia. They would be in industry that varies from chemical carbon black to sugar and even biomass based IPPs.

**Avinash Agarwal:** Okay. And so you just mentioned that ethanol at 21.5 does not seem very viable. So do you plan to bid for the upcoming ethanol that would be for the next three years?

**Suresh Taneja:** We will have to wait and see once that tender is announced. We are uncertain as to when it will be announced. Clearly a lot of it depends on the timing, on the pricing and on the terms and conditions.

**Nikhil Sawhney:** See but for ethanol the viability is dependent on what are prevailing molasses prices and molasses prices are also varying through the country.

**Avinash Agarwal:** Okay, and so what is the realization from power division for co-generation? How do you cater to the UP Government's?

**Nikhil Sawhney:** About Rs. 3 is our PPA.

**Suresh Taneja:** Rs. 2.97! It varies from Rs. 2.91 to Rs. 3.01.

**Avinash Agarwal:** Okay fine. And sir is it true that when the recovery for sugar goes down, the recovery of molasses increases? Is that true sir?

**Suresh Taneja:** No, that's not necessary.

**Avinash Agarwal:** Okay sir thanks a lot.

**Moderator:** Thank you Mr. Agarwal. The next question is from the line of Ajay Nandanwar of India Capital, please go ahead.

**Ajay Nandanwar:** Good afternoon sir. I have a question on your turbine business, what are the different industrial verticals that contribute to your order book and power, cement, steel order, what's their percentage contribution approximately?

**Tarun Sawhney:** The verticals have not necessarily changed. They include broadly speaking independent power plants, process cogeneration, sugar cogeneration, standard sugar, the navy, exports and steel. We do not subdivide our order book in terms of industry or market segment.

**Nikhil Sawhney:** you have to understand from the perspective of our industrial users, the cost of power that they face is very high and for them to set up their own captive power plant is always going to be viable on a Brownfield capacity expansion basis. It would differ from Greenfield capacity expansion or Greenfield set house because that would depend on the viability of the whole plant itself.

**Ajay Nandanwar:** I know I am just taking it a bit further, off the order book what part is you know goes toward the Greenfield plants at industrial plant setup and how much is Brownfield expansion?

**Nikhil Sawhney:** I don't have that figure with me right now but –

**Ajay Nandanwar:** Rough numbers?

**Nikhil Sawhney:** It would be primarily driven towards by Brownfield expansion apart from Biomass IPPs which are always Greenfield.

**Ajay Nandanwar:** And the last quarter you said that the order execution was slow because of condition we all understand very well. You know we are almost towards the end of January, have you seen any changes at this point?

**Nikhil Sawhney:** In our order book?

**Ajay Nandanwar:** Change in terms of order intake as well as order execution?

**Nikhil Sawhney:** Yes, on both fronts. We have had very good success in selling our high pressure turbines into certain sectors and deliveries have also improved.

**Ajay Nandanwar:** Sure and these high pressure turbines are roughly within what capacity range?

**Nikhil Sawhney:** They are within our existing capacity range but it's just a newer product that we have introduced.

**Ajay Nandanwar:** Okay and is there higher efficiency?

**Nikhil Sawhney:** Essentially that's what it leads to yes.

**Ajay Nandanwar:** Got it, great. And water you said part of it is industrial related but even in water your sort of off-take has been lower last quarter. Could you shed some light on that?

**Nikhil Sawhney:** It's dependent on project execution and it's a little lumpy in that regard so you will see a build up in the revenue of this business through the subsequent quarters.

**Ajay Nandanwar:** Okay, and in your turbine business what is the mix of replacement demand where people had ordered a plant and/or replaced the turbine or versus a new turbine versus a new plant?

**Nikhil Sawhney:** It's very difficult to give that for the reason that it's a mixture of a multiple variables. Some people maybe replacing one, some people maybe actually expanding their capacities and therefore they need a new turbine to get through that capacity as opposed to replacing it. So to distinguish it, it's not we don't segment it precisely in that manner.

**Ajay Nandanwar:** Okay. I think capital employed in engineering has gone up as compared to last year; well could you shed some light on that?

**Nikhil Sawhney:** I think it is almost the same level as on 30<sup>th</sup> September, '08. There hasn't been any appreciable difference at all.

**Ajay Nandanwar:** And what about the capital employed in sugar and what is the working capital contribution there?

**Nikhil Sawhney:** Well out of the cost capital deployed in sugar, very difficult to answer this question as of now but I think offline we can talk about it.

**Ajay Nandanwar:** Okay thanks so much.

**Moderator:** Thank you Mr. Nandanwar. We have a follow-up question from the line of Satish Kumar of B&K Securities, please go ahead.

**Satish Kumar:** Hello! Good afternoon sir! I have a follow-up question regarding raw sugar imports, as we have seen the government may allow raw sugar imports and assuming that as the case it appears that the raw sugar imports are allowed on tonnage to tonnage basis. What is your view that how much quantity a country can refine in that case? How much raw sugar can be imported to refine and sell in the domestic market?

**Nikhil Sawhney:** For the current sugar year which coincides with our fiscal year; very difficult to comment on that because we don't know the timing of the government's decision.

**Satish Kumar:** Okay however what's your view on that?

**Tarun Sawhney:** Our view is to wait and watch and to wait for the government decision and not preempt anything.

**Satish Kumar:** Sure! Thank you sir!

**Nikhil Sawhney:** Thank you very much.

**Moderator:** Thank you Mr. Kumar. That was the last question. I would now like to hand the conference over to the management and Mr. Nikhil Sawhney for closing comments.

**Nikhil Sawhney:** Thank you very much everyone for participating in our conference call. We have shown impressive results the previous quarter despite adverse market situations. We believe that the subsequent quarters will show further improvements and good performance. And I will look forward to speaking to you in our subsequent quarters. Thank you very much. Good bye.

**Moderator:** Thank you Mr. Sawhney. Ladies and gentlemen on behalf of Triveni Engineering and Industries Ltd. that concludes this afternoon's conference call. Thank you for joining us and you may now disconnect your lines. Thank you.

***Note:*** *Certain statements in this document may be forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties like government actions, local political or economic developments, technological risks, and many other factors that could cause our actual results to differ materially from those contemplated by the relevant forward looking statements. Triveni Engineering & Industries Ltd. will not be in any way responsible for any action taken based on such statements and undertakes no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances.*