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Triveni Engineering & Industries Limited

Investor/Analyst Conference Call Transcript

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Moderator: Ladies and gentlemen, good afternoon and welcome to the Triveni Engineering Q3 & Nine Months FY09 Conference Call. As a reminder for the duration of this conference, all participant lines 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. If you should need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Gavin D'sa from Citigate Dewe Rogerson. Thank you and over to you sir.

Gavin Desa: Thank you Melissa. Good day everyone and a warm welcome to all of you who are participating on this Q3 & 9-month FY09 Conference Call of Triveni Engineering & Industries Limited. We have with us on this call Mr. Dhruv Sawhney – the Chairman & Managing Director, Mr. Nikhil Sawhney – the Executive Director of the company, Mr. Suresh Taneja – the CFO and other members of the senior management team.

I would like to mention before we begin that some of the statements made in today's discussions may be forward looking and a statement to that effect has been included in the conference call invite which has been emailed to all. I would also like to emphasize that while this call is open to all invitees, it may not be broadcasted or reproduced in any form or manner.

We will start the conference call with opening remarks from the management followed by an interactive Q&A session wherein you can discuss your views and key issues. I would now like to hand it over to Mr. Sawhney.

Dhruv Sawhney: Good morning everybody. Welcome to the Q3 Conference Call. I am happy to share with you the overall performance of Triveni during the current year for the 9-month period. It has been good and it recognizes the sentiments that we had expressed earlier about the engineering businesses turning around and of course the outlook in the sugar business with increased price realization have made it quite buoyant.

We have a sales increase of 18%. Our EBITDA is good, which has gone up 45% and the EPS for the current quarter not annualized is 1.54 with PBIT increasing over 50%. This is our Q3 results and even if we look at the nine-month period where the first two quarters on engineering were not that good, sales have increased by 15% and PAT has gone up by 20%. So, we feel that we have met our budgeted targets and feel that for the rest of the year we should exceed internal projections.

To take each of the businesses at one time, I am starting with sugar. The sugar business is showing and will continue to show consistent improvements in profitability in each quarter. We expect this to continue for the next four to five quarters. Sugar production, in the current year is not expected to be more than 14.7 million tons and I think you will all have heard this figure from everyone including government. But the real question is what is our forecast for next year? It is extremely difficult to tell because and to take the key variable right now on first, which is the monsoon. It does not depend only on the amount of rain. It depends on the distribution of rain and the distribution of the timing of the rain. As Dr. Swaminathan said recently on TV whether the meteorological office talks about deficit of so much percentage as far as yields are

concerned that is not the driver. We misestimated last year because we were not able to project what the interspersed rainfall pattern would have on yields. So, what I am going to say I will necessarily have a caveat because we do not really know what is going to happen in August and first week of September, it is absolutely key.

However, on current trends which were quite good in May, though June has not been that good and Western UP has had a deficit of about 40% to 45% from last year cumulatively, but the yields are still expected to be better than last year. Our analysis of the ratoon crop, which is the crop which was planted last year and which comprises 60% of production of all sugarcane in the country, is not bad.

Now the problem is that the amount of ratoon crop is much lower than last year because planting last year was much lower than the year before. So, considering that planting in the current year was good if we take the overall cane area in UP, in Western UP, there seems to be a reduction of about 10%, in Eastern UP 10% to 15%, and in Central UP 15% to 20%. In our own area, cane planting has come down by only 5% and this is as per our preliminary surveys which were completed about two weeks ago. The final survey of course is going to be in September-October. But that is very encouraging and we believe that if we do have our projected increase in yield and better recoveries we will have a sugar production for our group 20% to 25% higher than last year.

In addition to this, we have imported 90,000 tons of raw sugar at very good realizations which will augment the sugar available for sale. Our estimates of the country's production of sugar next year is really not going to be more than 18 million tons. As you know, there is a global deficit of about 13 million tons in the current year and a projected deficit for 2009-2010 of about 6 million tons. Globally, the year runs from 1st of July to 30th of June. This is because Brazil really has not been able to increase its sugar production to match the deficit as most of the capital expenditure in the last three years was for alcohol production. It also has extreme liquidity problems in the large companies.

So India, with the deficit of 7 to 8 million tons between production and consumption in the current year and a significant deficit next year even with imports of 4 to 5 million tons of raw and white sugar, we expect the impact on sugar prices to be good. We expect sugar prices to average around Rs. 27/kg, may be slightly higher for the 2009-2010 sugar.

I think the next major factor is the sugarcane price. We expect this to go up to around Rs. 160 per quintal and this increase of Rs. 20 which will be all UP will be less for us as there was an incentive paid last year by our group of Rs. 5 or so. So, it will be about Rs. 14 to Rs. 16 increase. This will be more than made up by the extra sugar realization for 2009-2010 sugar versus 2008-2009 sugar.

The other factor that will lower the cost of production is our projection for a better recovery by at least 0.5% versus the previous year. This will also be a very important factor. But as you know, the margins on 2007-2008 sugar were the highest. They went down on 2008-2009 sugar and they will go slightly higher again on 2009-2010 sugar. At the beginning of our financial year, we start with about 2 to 3 months of production of the previous year. This is expected for 30th September of the current year and we project that also for 30th September, 2010.

With the limited sugarcane crushing, our co-generation facilities were not able to operate in the last quarter for more than a few days. Our distillery also, we did not operate it as much as we had projected and this was primarily because alcohol prices did not move in the manner that we felt and the viability versus molasses sales to alcohol production tilted more in favor for sometime in terms of sale of molasses from some of our sugar units which are further away from the distillery.

Currently there is a tendering underway for ethanol for 2009-2010 and total bids have been invited for 647 million liters. We have put in some bids and as came in the some newspapers today, prices are expected around Rs. 25. So alcohol and ENA prices for the next year are expected to be a couple of rupees higher. We continue to get one of the best realizations of alcohol in the State of UP for our ENA with our primary customer, the UB Group.

For our engineering business we are encouraged that our projections of a turnaround in the market are beginning to happen albeit a little slowly. Sales growth has been 16% during the third quarter, but more importantly our order book is 14% higher than what it was a year ago. Sequentially, if we look at the sales of the engineering group while having gone up by 16%, our PBIT has gone up by almost 22%. I think we are very encouraged that our margins in turbines especially have exceeded what was even budgeted internally and are probably one of the highest of a capital goods manufacturer not just in India but possibly globally. We were able to achieve these results even though there was a fair dip in domestic sales through

good exports which were booked in the year previously and a rapid increase in our service business of refurbishment, spares, and servicing. These initiatives taken 2-3 years ago really bore fruit in the 9-month period which we had up till now.

Going ahead, we expect sales in the year 2009-2010 on the inquiries we have on hand to be some 15% higher than what we have in the current year and this is for turbine.

For our gear unit the sales growth has been 30%. And order book is also 16% higher than what it was on the 30th of June, 2008. The growth of gears versus last year in sales has been about flat so we have not had a dip like we had in turbines and that was primarily due to a diversification of customers more on loose gears, more on hydel gears so these initiatives are moving away from the steam turbine business really helped us in the last 9 months. The growth in PBIT in gears has been 73% which is pretty substantial growth considering that the market has not been so buoyant in the capital goods sector as such.

In our water business, our orders on hand at the moment are Rs. 2.08 billion versus Rs. 1.56 billion last year, so this is extremely encouraging and we have very good enquiries both in the industrial power sector and in the municipal sector for high-end water and waste water treatment solutions. We might talk a little about that later. But our orders on hand are a 33% higher than what they were in June last year.

So all and all I think our engineering businesses have withstood the slowdown, the recession what you might feel of the first two quarters of the last year, very well. We are encouraged that the flow of inquiries is picking up and some of the orders on hand which has been in abeyance for the last nine months are also showing signs of revival. So we are encouraged that we would be getting back to a 15% growth path at least on the engineering business in the next year.

Our debt levels, as you see have come down and we expect this to keep coming down in the future along with a substantial reduction in interest cost. We are happy that ICRA has improved the rating of our short-term debt to A1+ and this happened a few weeks ago and that will also have a significant impact on the interest cost in the last quarter and next year. With the reduction of sugar inventories, interest cost will come down and with the shortage of sugar in the market in the next year, stocks will not be as high as they were in the year previously. So interest will not be as significant a factor as it had been in the past.

I think there are two other items that I would like to mention. We have taken shareholders' approval for the issue of 30 million shares. It is an enabling resolution. We do not have any definitive plans at the moment. We had this resolution earlier and it is been revived and as and when the board considers any proposals we will come back to you but there is nothing on the table right now.

The exceptional item is the cost that we have incurred to assess and validate opportunities which are synergistic to our business and I will ask Nikhil Sawhney to say a word on it a little later on but this is something that basically we are going to be considering more seriously in the next few months and as and when the board looks at a concrete proposal, we will come forward and we expect implementation of this in the next year to two years.

I would not take any more time in the opening remarks. I am sure there will be a lot of questions for which we would be happy to give you answers.

Moderator: Thank you sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Avinash Agarwal from Sundaram BNP, please go ahead.

Avinash Agarwal: Sir, could you just comment a bit in terms of any proposals on the part of the UP State government to divest cooperative sugar mills to private sector? Are there any such proposals on the cards and if so what is the model image they will be looking to do that and what is our interest in such opportunities?

Dhruv Sawhney: Well, it is an interesting question. UP government has come out with asking people for letters of interest on both the corporation factories I think they are 11 of them. We have not expressed any interest in those and for 24 co-operative, UP State sugar co-operative factories some of which are near our units and we have put in a letter of interest. We will see further details on that. They, at the moment, are asking you to take over the mills but they were guaranteeing an expanded cane area for five years. There is not too much interest at the moment in the response and we have come in just to see what is there in the offer. It has not come formally to the board and we are not at the moment envisaging anything.

Avinash Agarwal: And in terms of certain policy measures from the government in terms of improving the sugar availability in the country in the next 12 to 18 months so what further measures that one should expect from the government say early crushing incentives or such other benefits. Do you expect any proposals to come forward in the next one to two months?

Dhruv Sawhney: Yeah, I think that is a very good question. Well there are two parts to it. One is that the government can import sugar either raw or white to help availability. Now white sugar import is really quite expensive given that world prices for October-November are going as high as 19 cents. So that is not a really viable option when sugar prices are at Rs. 27-28. On raw sugar, there is a limited capacity of processing including the plants of the refineries such as Renuka and E.I.D. Parry. So there is a limited amount of sugar that can come in. The basic incentive could be to encourage factories to crush as much cane and have less diversion to gur and khandsari and that is where the incentives can come in and there are two types of incentives which we are asking for- One is there used to be an incentive where the excise duty was taken off for starting a little early to compensate for the lower recovery and because there is a diversion of cane in the month of October and November to the kolhus particularly which start earlier than sugar factories. An unusual fact today is that gur prices are very high. Normally they are much lower than sugar prices but the last few months there have been times where they are higher than sugar prices. And there was a substantial amount of diversion last year to gur in the state of U.P. We expect actually a little less diversion this year because factories will start much earlier than when they started last year but, however, this still can be increased by that incentive. The second one which is difficult to do is to control the production of the khandsari units till about the beginning of December but that has also been done in the past.

Avinash Agarwal: Thanks sir. And any updates that you may have on better prices for Cogen power, any incentives there?

Dhruv Sawhney: Well informally it still has not come out but we are looking at a price rise from Rs. 3 to Rs. 4 per unit for our sales to the UP GCL.

Avinash Agarwal: And sir, could you just give us a rough idea of at what price you may have booked your raw sugar imports?

Dhruv Sawhney: It is variable. Let me say it is at a good price. The first one was at extremely good price about 40,000 tons and the 50,000 tons also was booked a few months ago so they are all well below expected cost of production of other sugar in the next year.

Avinash Agarwal: Sir what would be the kind of alcohol sales you would have this year?

Nikhil Sawhney: It is very difficult to put a number right now because as the Chairman mentioned in the opening remark the conversion of molasses into alcohol depends upon the opportunities which we will have in terms of pricing of molasses vis-à-vis that of alcohol but having said that we believe that we will have some production and sales happening in this quarter and we will continue in the next quarter as well. And as for next year, we expect that what ever we produced last year, that is in 2007-2008, we will be targeting similar levels of production, but with a caveat that it all depends upon the opportunity cost.

Avinash Agarwal: What will be the cost of molasses right now?

Dhruv Sawhney: About 450-500 per quintal.

Avinash Agarwal: Sir one more question, I have noticed that your turbine order book per megawatt if we see the value has been going down over the last two quarters, any particular reason for it?

Dhruv Sawhney: No, we expect a slight dip in our margins in 2009-2010 because our projected margin for 2008-2009 are much higher than we expected I mean they are very unusual margins in today's market and especially booking orders in this. So it is a small dip in margins but the other major reason is a product mix. So that doesn't associate with the cost, as the cost is also much less.

Avinash Agarwal: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Nirav Vasa from Gupta Equities, please go ahead.

Nirav Vasa: Sir, I have a query regarding the import of raw sugar. Would it be possible for you to tell me how much of the sugar has already arrived in the company's factory gate?

Suresh Taneja: 40,000 tons has already arrived in India. It is in the process of being moved to the factory and we are expecting another consignment of 50,000 tons shortly.

Nirav Vasa: And sir any, say for example as you just informed that you have purchased this 90,000 tons of sugar at various prices but any average price that you can give us?

Dhruv Sawhney: I think at the moment I would rather say that it is well below our projected cost of other sugar and it is very competitive.

Nirav Vasa: And apart from that the sick unit you just informed that you have expressed interest, by what time can you expect some concrete measures from that because I believe all those factories that are sick units that exist are all non-integrated plants which would require a significant CAPEX as well.

Dhruv Sawhney: No, these people who are looking at these plants are really looking at their cane area and integrating the cane areas into their existing units not as a standalone operation.

Nirav Vasa: Sir actually you are more interested in getting the area under cane cultivation rather than the manufacture unit, would that be right sir?

Dhruv Sawhney: Correct.

Nirav Vasa: Okay sir, thank you very much.

Dhruv Sawhney: This is for enhancing capacity utilization of our current investment.

Moderator: Thank you very much Mr. Vasa. The next question is from the line of Kapil Bagaria of MF Global, please go ahead.

Kapil Bagaria: Sir, in this current scenario where you have the area under cultivation going down for sugarcane and the sugar prices that are trading firm, do you think there would be instances where you would have to pay more than the SAP this time around as well considering that in the last season in certain parts of UP, people paid at Rs. 150-160 per quintal?

Dhruv Sawhney: That is a good question. I personally do not feel and do not want to as a group start having this competition on cane price because it is non ending. The speculation on gur prices is so high that they always have a higher capacity to pay and we will be able to compete with that and I do not think the incremental cane that you get, and certainly the incremental cost of production is too high. So I think most manufacturers that we have talked to are now changing their views for trying to pay more. I think where people will concentrate is on faster payment. So you will pay the farmer twice a week or as quickly as possible and secondly I think we fortunately started with our very intensive cane development efforts for increasing the yields in our areas and they are bearing a lot of fruit. And that is why we are expecting better yields in our areas than possibly the regions where we operate.

Kapil Bagaria: Yes because there would be a definite temptation if you are talking about sugar prices of say around 26-27 then there would be a definite temptation and companies would afford in that case to pay higher prices if they want to.

Dhruv Sawhney: Yeah well, firstly there is a law that does not allow the sugar factory to take cane from other factory areas and we intend to use the local administration to enforce that very strictly. I do not expect to lose any cane to other sugar factories. You can lose cane to gur and khandsari producers, which I have already covered.

Kapil Bagaria: Okay thank you sir. Thank you.

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

Jehan Bhadha: Is there any policy governing sale of sugar that is converted from raw sugar as in regarding a time period during which you need to convert the raw sugar to white and may be the time period during which you are required to sell white sugar from the date of conversion?

Dhruv Sawhney: No, it is a good question but I would like to mention to you that the release mechanism which governs the sale of free sale sugar does not apply to the conversion of raw sugar and so you can sell it. Anyone getting raw sugar will certainly not keep it more than when he can process it. So we expect all raw sugar, certain factories in the south are able to operate in the special season, the refineries are able to operate in what is a sugar factory's off-season but a majority of sugar factories will be processing this raw sugar from October-November till March.

Jehan Bhadha: Okay so is it possible that you would be processing it but it is also possible that you can sell white sugar say in the month of September 2010 when the deficit situation will really worsen.

Dhruv Sawhney: Absolutely, it is a question of one's own evaluation of the market and interest costs etc.

Jehan Bhadha: Okay thanks a lot sir.

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

Achal Lohade: Just two questions, one on the cane price what you said, I was just wondering that last season I understand from news report that gur-khandsari have paid more than Rs. 200-250 kind of cane price and even they compete in the early season. So looking at the lower recoveries how would one look at the cane price and what is your sense on the SAP? When would that be out and what is our tentative estimate towards that?

Dhruv Sawhney: Well I covered some ideas of SAP in my opening remarks to around 155-160. Now the question that you asked is appropriate to the extent when I mentioned that normally factories start in western UP like ours in the last week of October, first week of November. Last year we started this in the third week that is why we actually lost cane to gur and khandsari because all these, a lot of farmers of ratoon cane have to clear their fields by December for wheat planting. There is a fixed amount of cane and if you do not start crushing early enough it has to go to gur and khandsari even if they are paying a lower price. So when they are paying equivalent prices that is a diversion which we looked after in the current year. If government gives some incentives then perhaps we could start even a little earlier and that will also help the sugar production.

Achal Lohade: Right, okay. And second question just on sugar year 2010-2011, I understand it is too far but just wanted to get your sense on because since Maharashtra and Karnataka have usually 18 months crop so how do you look at 2010-2011 production given the kind of cane acreage we are looking at in Maharashtra and Karnataka.

Dhruv Sawhney: No, I think actually any one who is saying that firstly not so much is more than a 15-month crop and the 15-month crops also in Karnataka, Maharashtra the percentage has gone down from what it used to be historically. Number two, the area under cane has not come out for these figures for that and I really feel it is difficult. And certainly in UP the things can vary, from 7 million we have come down to 4 million so you can go back to 8 million even. It depends very much on the planting next year. It depends on the planting from the January-February onwards in Maharashtra, Karnataka in the year 2010. I think around February is the earliest one should start hazarding a guess of 2010-2011. The potential of going for a sugar production, we produced around 28.6 so I mean you can even go to 30 but I mean it can happen in 2010-2011 or it can happen in 2011/2012.

Moderator: Thank you sir. The next question is from the line of Kumar Rahul Chauhan from DBS Cholamandalam. Please go ahead.

Rahul Chauhan: Sir, depreciation dipped down year-on-year and on sequential basis both. So did we dispose off any assets during the quarter under review?

Suresh Taneja: No, we did not dispose off any asset. It is just an adjustment of some depreciation which was over-provided in the earlier period.

Rahul Chauhan: Okay. Sir secondly you have spoken about companies are taking steps to reduce interest cost but if you see for nine months FY09 period EBIT/interest is 2.6 times which is still very low. So what steps are companies taking to improve coverage ratio?

Suresh Taneja: Are you talking about the interest coverage ratio?

Rahul Chauhan: Yes, interest coverage. EBIT/interest for nine months FY09 is only 2.6 times.

Suresh Taneja: Well, I think the first nine months which we have seen was a period of high interest cost and our interest rates will substantially come down in the last quarter and as Mr. Sawhney said in the opening remark that with an improved rating for the short term debt, I think we will be able to access funds at much-much lower rate, our interest cost would further come down in the coming quarter and it is not only applicable to the working capital funding, it is also applicable to term loans and because we are trying to rationalize the interest on all term loans, I think in the coming quarters you would find a significant reduction in the interest rates. Having said that in view of the repayments, which are constantly taking place in respect of the term loans in any case the interest cost is going to come down significantly.

Rahul Chauhan: Sir then what is the current outstanding debt for the company?

Suresh Taneja: It is Rs. 1,125 crore total as compared to Rs. 1,444 crore as of 31st March, 2009, so roughly speaking it has come down more than 300 crores in this particular quarter.

Rahul Chauhan: Okay sir. Then what is the breakup in between term loan and working capital?

Suresh Taneja: Working capital is roughly about Rs. 330 crore and term loan is about Rs. 795 crore.

Rahul Chauhan: Sir and what is the current servicing cost?

Suresh Taneja: In respect of working capital we have come down substantially to about 8.7% and term loan is about 9%. I think our average cost is approximately about 8.9%.

Rahul Chauhan: Sir one more question. The sales of our distillery division has come down by 88.8% year-on-year but if I remember during the Q2 FY09 con-call you mentioned that we had an inventory of 55 lakh litres of alcohol. Then what is the current inventory level for alcohol because despite of having high inventory if sales come down then where the inventory has gone?

Dhruv Sawhney: Now, we still have inventory we are expecting an upturn which is happening now. The alcohol prices were very depressed for the last two quarters which is quite unexpected with a shortage of sugar and alcohol production in the country and now international alcohol prices have also gone up so we expect substantial upturn in the next two to three months. So we have some alcohol stock which we did not sell in the current year.

Rahul Chauhan: Okay sir, then what is current inventory level? Can you give me some ballpark figure?

Nikhil Sawhney: It is 71 lakh litres as of now.

Rahul Chauhan: Okay sir. That is all from my side. Thank you sir.

Moderator: Thank you Mr. Chauhan. The next question is from the line of Satish Kataria from B&K Securities, please go ahead.

Satish Kataria: I just wanted to discuss about the acreage scenario as you discussed that it is down by 10-15% in different parts of UP and apart from that we are not expecting much improvement in yield and you are saying that only 50 bps growth in recovery levels can lead to 20-25% improvement in sugar production. So is it possible because we are not having any improvement in yield as that area is going down and also we are expecting improvement in sugar production?

Dhruv Sawhney: No, I think let me correct it. The first thing is I did not say we have no improvement in yields. I am saying we are projecting an improvement of 20% more in yields. Yields last year were probably the lowest for the last 10-15 years. It was a reasonably bad season in terms of sugarcane production. But I was saying as a caveat that I cannot be sure of this till I know that distribution of rainfall in August and the

amount of rainfall in August. So I cannot give you a definite thing but our projections at the moment are for 20-25% increase in yield that is on cane production. A half a percent increase in sugar recovery is quite huge for sugar production.

Satish Kataria: Okay because that will only be 5% if I take a base of 10% or if I take a base of 9% it will be around 7%.

Dhruv Sawhney: You have a 20-25% increase in yield as well.

Satish Kataria: Okay how is the standing crop means in different parts of UP because we have been hearing that there is some damage in Eastern UP because of the delayed monsoon and increasing heat.

Dhruv Sawhney: I will ask our President – Sugar, Mr. Tanwar, to apprise you of the situation.

Satish Kataria: Okay. Sir one thing more. Actually as somebody had earlier discussed about the privatization of UP based cooperatives, so as we have been seeing that in South what is happening that many companies are interested in cooperatives and they are setting up their power plants there on BOOT basis. So is that kind of model feasible in UP as well or any company like you and somebody else can go and set up a power project or distillery there on BOOT basis and operate there?

Dhruv Sawhney: Well we have not evaluated that but I will ask Mr. Tanwar to talk on the rainfall pattern.

A. K. Tanwar: Yes, with a scattered rain pattern in UP and particularly where our factories are situated, so far the crop is not in a bad shape and with a good availability of the ground water especially in our 6-7 mills area, so the crop in our area is still maintained to the level which was expected earlier. However, the rains in August will be crucial.

Satish Kataria: Okay. Thank you. Okay fine thank you sir.

Moderator: Thank you. The next question is from the line of Sandeep Somani from HSBC, please go ahead.

Sandeep Somani: Sir my question is in regard to the power division. If you look at the quantity of cane which has been crushed is close to 3.7 million tons and if you look at the bagasse availability the power exportable has been lesser than what it could have been done. So are you storing, are you keeping the bagasse to start the plant early for the refining of raw sugar or if yes what could be the quantity of bagasse you have?

Dhruv Sawhney: Now, there are two parts. One is that we do have some bagasse in store but that is not substantial and when capacity utilization comes up actually the energy consumption goes up per quintal of cane crushed. So the quantity of bagasse produced per quintal of cane crushed, when you go down in capacity utilization it is actually different and that is also been the cause of it.

Sandeep Somani: Right. So as far as bagasse quantity is concerned can you give the figure on what is the inventory you have?

A. K. Tanwar: We have close to 7000 metric ton bagasse.

Dhruv Sawhney: We still have for about couple of weeks of operations before the season.

Sandeep Somani: Okay sir. My second question in regard to the molasses, at this point of time, correct me if I am wrong, do you have molasses in store or you have alcohol in store?

Dhruv Sawhney: We have both.

Sandeep Somani: What could be the quantity of the two, if you can share?

A. K. Tanwar: Molasses is approximately 8 lac quintals as of now.

Sandeep Somani: Okay, and what is the alcohol inventory?

Dhruv Sawhney: That we told you is 71 lakh litres.

Sandeep Somani: Okay. Sir my third question is in regard to the engineering business, there has been a substantial improvement as far as gears business is concerned, just want to check is it sustainable or you expect margins to ease off what you have done say 9 month 30% sort of, so just a color on that.

Dhruv Sawhney: Margin may ease off a bit from current level, which is an exceptional margin globally. But we expect the growth to sustain because we are diversified into lines of hydel and lose gears and we are getting extremely good contract manufacturing inquiry from overseas from large MNCs. So we do expect the sales growth in 2009-2010 to be quite good.

Sandeep Somani: Right. Sir, last question is that there is a lot of debate on what kind of cane cost it would be and obviously commodity prices is difficult to judge that where it will peak and how much it will grow but I will ask question in a different way. As a sugar manufacturer if you look at from operating side or EBIT per ton basis what kind of margin can you achieve in a good year. Let us assume from a debt perspective, your cane cost can be anything or your price can go anywhere but if you look at it from a balanced approach of EBIT per ton what kind of targeted EBIT per ton a sugar company can achieve?

Dhruv Sawhney: Well we are going to be much better in 2009-2010 to 2008-2009 in terms of EBIT per ton for the reasons that I had mentioned.

Suresh Taneja: EBIT per ton is actually a function of the cane price on the sale price. The conversion cost by and large would be approximately about Rs. 3000 per ton. So it is a question of what do you presume the cane price to be and then you are able to work out your margins.

Sandeep Somani: Right, so my question was same that I know for sure that it is too early to talk on both the prices at a firm basis at what could be the prices. It would be very dynamic looking at two-three months down the line but as a manufacturer what is your target and what you sense is sustainable and achievable.

Dhruv Sawhney: I think it is difficult to make that question when we have already said that one does not know the cane price. So I think that is a question that we even to our board would really take up in November.

Sandeep Somani: Okay, thanks a lot sir.

Moderator: Thank you Mr. Somani. The next question is from the line of Sanjay Satapathy from Merrill Lynch, please go ahead.

Sanjay Satapathy: Hello sir. Sir, my question is what is the maximum quantity of raw sugar that you can process given the kind of constraint that you are operating in?

Dhruv Sawhney: About 110,000 or may be even up to 120-130000 tonnes but I think the prices have now gone a little higher.

Sanjay Satapathy: So sir if price is not a constraint then basically as you are saying that you can operate only during crushing season so then I just wanted to understand what are the dynamics that decide the maximum quantity that you can operate?

Dhruv Sawhney: This is our sugar processing capacity and the availability of local cane so the differential of that is used for processing raw sugar and the power availability from our cogen. And so with these two things over 130,000 tonne we could have done.

Sanjay Satapathy: So if you can move to dual fuel like coal and all then you can process far more than this 120,000 quantity.

Dhruv Sawhney: We find that the viability of bringing coal all the way to Western UP where we have our mix-fuel boilers and with the handling and the ash contents, it is a very dicey proposition.

Sanjay Satapathy: Okay. Sir, my last question is on this ethanol thing that you just talked about that oil marketing companies have asked for and you have quoted Rs. 25.

Dhruv Sawhney: No, I have not said we have quoted. I said, as per newspapers, the people have quoted.

Sanjay Satapathy: Okay, but will you be happy with that Rs. 25 price?

Dhruv Sawhney: I cannot say that when the tenders are under evaluation.

Sanjay Satapathy: Okay, sir can you give us some sense of what is this quantity which the oil marketing companies have asked for, is it a substantially higher quantity compared to what it was last year and what is the likelihood of this affecting the overall alcohol market in India?

Dhruv Sawhney: It is too early right now because we have not done a full assessment of it. We had no ethanol sales because we did not participate in the earlier round at Rs. 21.5 per litre, which is quite good for us in the last 8 months. As you know we were not committed to any sales. We were one of the few people who were not committed. So we will define this in our hedging strategies and what we might participate in it. It is a lower realization to our average realizations in ENA and our rectified spirit.

Sanjay Satapathy: Okay. Thanks a lot sir.

Moderator: Thank you Mr. Satapathy. The next question is from the line of Anup Ranadive from Tower Capital, please go ahead.

Anup Ranadive: Sir, you have mentioned in your opening remarks regarding the exceptional items and the company looking for new opportunities and sir you also passed the enabling resolution for issuing 30 million shares, so is the company looking at any other businesses or...

Dhruv Sawhney: As I said we will be considering these proposals and the board will be considering it very shortly in the next few months and then of course we will be informing you.

Anup Ranadive: Okay fine. Sir, any significant CAPEX plan for the next year?

Dhruv Sawhney: At the moment there is nothing on the table.

Anup Ranadive: Not even for the engineering business?

Dhruv Sawhney: No.

Anup Ranadive: Okay thank you sir.

Moderator: Thank you. The next question is from the line of Ashish Gupta from Kotak, please go ahead.

Ashish Gupta: Sir, now there are informal talks going on regarding the UP Sugar Mills about the eligibility to increase their tariff to Rs. 4. So when can we expect the formal announcement on that part?

Dhruv Sawhney: May be in a couple of months.

Ashish Gupta: Sir, but see it is a huge positive for the UP mills. What is the kind of an incremental jump in the profitability especially in the power segment because of this regulation?

Dhruv Sawhney: You can work that very quickly you know what the price was earlier.

Ashish Gupta: Yes I can understand sir but because last year because of the low crushing days and less of recovery rate in most of the UP mills' the power sales are not on a very higher side. But next year we are expecting a growth to 125-130 days of crushing days plus a recovery of more than 9.5%, what kind of power generation or what kind of unit sales are you expecting in the next year?

Dhruv Sawhney: At this moment we are really looking at the cane pricing situation to be able to know the spread of this. In western UP there is a dip in production in January and that affects the generation of bagasse. So if you are able to control that then you are able to have a much higher proportion of total bagasse availability.

Nikhil Sawhney: The power exported last year was about 12 crore units while the year before that it was about 18.5 crore units so Rs. 1 more may lead to this so the cost of production is not changing.

Dhruv Sawhney: So you are really getting all that, you are getting that as an incremental profit.

Ashish Gupta: So sir according to my calculation at least 10% to 15% on the EPS jump is expected just because of this regulation, okay your power capacity is less but I am talking about across UP sugar mills about at least 10% to 15% profitability jump is expected because of this regulation.

Dhruv Sawhney: Remember, the only thing I would say is that you have to look at the fact that the transfer price whether you take it in power or you take it in sugar, transfer pricing of bagasse between the sugar factory and the cogen unit should change because the outside price of bagasse is going to be higher next year and is much higher than it was two years ago.

Nikhil Sawhney: So from Rs. 1200 it is expected to be may be 16-17-1800.

Dhruv Sawhney: But I think as we do, we look at the integrated operations.

Ashish Gupta: Okay fair enough sir. And sir what about your stance on the increase in the prices of the levy sugar issue sir?

Dhruv Sawhney: That is subjudice.

Ashish Gupta: Okay sir. That is it from my side. Thanks a lot sir.

Moderator: Thank you Mr. Gupta. The next question is from the line of Darshan Dodhia from SBI Capital Securities, please go ahead.

Darshan Dodhia: Thank you sir. I just wanted to understand what is this exceptional item of Rs. 78 million that you have provided in this quarter?

Nikhil Sawhney: These were costs incurred including consultancy charges and other charges relating to certain business diversifications that the company is contemplating. More details of which will be provided through the board and to the exchanges at an appropriate time.

Darshan Dodhia: Okay, sir and you said that you imported 90,000 tons of sugar. At what average rate

Nikhil Sawhney: At competitive rates.

Darshan Dodhia: Okay. Now any carbon credit revenues expected in FY09 or FY10?

Suresh Taneja: Yes we are expecting approximately 80,000 carbon credits to come in Q4.

Darshan Dodhia: And for the next year FY10?

Ashish Sawhney: Approx. 140,000.

Darshan Dodhia: Sir, on a quarter-on-quarter basis if I look at your engineering order book, now it has been flattish but steam turbines are slightly showing decline, engineering and gears whereas the water has grown. So any particular reason from 5.28 billion in Q1 now the turbine order book is 4.98 billion. So any reason for this decline I mean is there.....

Dhruv Sawhney: Some of the orders that we had in Q1 have been put on hold so we have taken them out. These are what we class as active insure orders. We might have an order but the customer is not ready to go ahead, so we do not want to start calling that an order-on-hand. So we put it as an abeyance. So that is an adjustment of those figures.

Darshan Dodhia: Okay, so these figures are adjusted.

Dhruv Sawhney: And in any case the main question is that we are expecting higher sales in 2009-2010 so that is the encouraging part from our inquiries.

Nikhil Sawhney: That is not only on the product but also on the spares, services and refurbishment side.

Darshan Dodhia: Okay, and sir regarding the water business, now you have got some orders in this quarter so what is the timeline for this average order visibility if I take from the water side.

Nikhil Sawhney: The larger contracts would be between 18-24 months. The shorter contracts are between 6-12-13 months. I think on an average you can take about 14-15 months.

Darshan Dodhia: Okay, and so your order book is 2.08 so if I break it up into two segments between larger and shorter what is the breakup, approximate breakup between large contracts and smaller contracts?

Nikhil Sawhney: 60%.

Darshan Dodhia: Is larger?

Nikhil Sawhney: Yeah.

Darshan Dodhia: And 40% is shorter. Thank you sir.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Securities, please go ahead.

Sachin Kasera: Yes good afternoon sir. Just wanted to check on the molasses front, sir 8 lac quintals is the inventories as on date?

Dhruv Sawhney: Yes that is right.

Sachin Kasera: And how much was the total production in the season?

Suresh Taneja: You know roughly speaking, looking at the fact that we crushed approximately about 37, so normal generation is about 5%.

Sachin Kasera: Okay and the second question is regarding this tie-up that we have done with General Electric, any further progress there?

Dhruv Sawhney: Yes, that is a good point. We have just recently received our first order. As you know, the market was delayed a year because of the gas from the KG basin and the pipeline was getting commissioned of RIL associates and others. But we have just received our first order which is a big breakthrough in the last two months. It will be all for execution in 2009-2010. This is a developing business. It is the same key that we are there so we are not losing anything, just that the market is taking longer to develop.

Sachin Kasera: What would approximately be the size of this order that you have got?

Dhruv Sawhney: I do not have the details here but this is a small order, it is not a very substantial order.

Sachin Kasera: Okay. So any large tenders which are out as of now or is it in the next?

Dhruv Sawhney: It is a very macro situation. It all depends on a number of things including the pricing of gas, the Supreme Court case. There are a lot of issues, the government policies, everything.

Sachin Kasera: Okay and secondly sir it is regarding this tie up which you were trying to do for slightly higher range turbines, any further progress on that?

Dhruv Sawhney: We will report it as and when but it is progressing.

Sachin Kasera: Okay and sir internally I think we had developed some higher 28 megawatts turbines so I think it is supplied to a couple of customers, what is the update on that and are there substantial increase in terms of inquiries for that? What is the update on that front sir?

Dhruv Sawhney: Actually we were able to sustain these turbine sales because we anticipated the market having gone to higher ranges. Our market share in the range up to 15 MW has now actually gone up from 75% to over 82% including imports and in the 20-30 where we entered recently we have got 33% market share. So that is very substantial achievement in 1½ years.

Sachin Kasera: Okay sir, approximately what is the size of this 20-30 MW?

Dhruv Sawhney: Well it is about 700 MW. It could go from 4 to 1000 because if 30 can go to 35 and it can go from 20 to 50, it would be difficult to pin down.

Sachin Kasera: Okay and just one question regarding the finances, sir have we repaid any term loan in the current financial year?

Suresh Taneja: Yes certainly, we have certainly repaid term loan in the current financial year but simultaneously we took some fresh loans also. I think the net impact has been approximately about 50 crores.

Sachin Kasera: Okay sir, these fresh loans you are referring to working capital for increased requirements or from term loans again?

Suresh Taneja: No some term loans which we have taken earlier in December or so.

Sachin Kasera: This is for swapping the high cost debt or it is for specific project or something?

Suresh Taneja: That is right, yes it is swapping the debt.

Sachin Kasera: Okay and what is the likely payout of term loan in FY10 sir?

Suresh Taneja: I think we are looking at a figure of about 175 crore in FY10.

Sachin Kasera: Net figure?

Suresh Taneja: Yes.

Sachin Kasera: And so this increase in interest cost that we have seen in the nine months from 70 crores to 90-plus crores is mainly because of higher working capital requirements sir?

Suresh Taneja: It is one because of high working capital requirement and number two, it has got to do with the interest rates also because if you remember in Q1 and Q2 the interest rates were unprecedentedly high and now all these interest rates have started coming down.

Sachin Kasera: So sir what would have been our average interest cost in the first nine months of the current financial year vis-à-vis say FY08 approximately, what is the increase?

Suresh Taneja: I think in the first nine months our average cost was approximately about 9.5% in spite of very high interest rate in Q1 and Q2 which was almost the same level as the last year.

Sachin Kasera: Okay so this increase is mainly because of the increase in working capital, right?

Nikhil Sawhney: Well you also should remember that all cash is used to draw down on the working capital side.

Sachin Kasera: Okay, thanks a lot sir.

Moderator: Thank you Mr. Kasera. The next question is from the line of Nillai Shah from Morgan Stanley, please go ahead.

Nillai Shah: I actually had one concern and confusion on the cane pricing that you mentioned earlier in the call, you know if you assume that the SAP as per your number will come close to 155-160 and assuming again the current level of sugar prices, what is really driving incrementally the ability to pay higher or lower cane prices?

Dhruv Sawhney: I am saying 2009-2010 sugar will definitely be selling at much higher than 2008-2009 sugar.

Nillai Shah: See but I am talking about the cane prices. What is really be driving this....

Dhruv Sawhney: So if you have a Rs. 2 increase in cane price you are going to get more than a Rs. 2 increase in sugar price. The cost of production increase because of cane price which is going to be more than compensated by the sugar price.

Nillai Shah: So what drives that confidence sir?

Dhruv Sawhney: Their supply-demand situation what I was mentioning for quite some time. More importantly is the cost of imported sugar.

Nillai Shah: Okay I will just tackle it a different way...

Dhruv Sawhney: The cost of imported sugar is the only thing that can improve the supply.

Nillai Shah: Yes sure. But just driving this another way, last year when you started off the season, you were at the sugar prices of close to Rs. 17 if I am not mistaken, right.

Dhruv Sawhney: Rs. 18.

Nillai Shah: Rs. 18 fine and you agreed to pay a cane cost as per the SAP at 140. The moment we had visibility of higher sugar prices which is in the second half of the crushing season, people in UP started raising the cane prices. Obviously it had to do with a little bit of the gur-khandsari competition too. So why are you again so confident that sugar prices say touch even 30,000 and you will not be forced to pay 2000 plus for cane, I mean how is it possible.

Dhruv Sawhney: Yes it is a good question. The upturn in sugar prices was not contemplated at the early part of the season by most people. The steep rise in sugar prices that took place in December-January-February and December-January normally is a dip because a lot of gur comes into the market and a lot of sugar is into the market. But because of the supply-demand situation and if you know the production of sugar for 2008-2009 even ISMA and others were giving very high figures in November-December and every month it started coming down very substantially. Now that is a trend both in the trade and in the manufacturer. Number two, the actual pricing even what the minister has said will come by this Diwali. And Diwali being early you are really going to have what you know about the pricing of sugar in 2009-2010 available to you in November or so when you start the season so you know that.....

Nillai Shah: That will be driven by the prices of gur-khandsari which you also admit are higher than they were last year. So gur-khandsari will pay Rs. 2000 a metric ton for....

Dhruv Sawhney: Yeah but they have a limited capacity. They cannot consume all the cane. So we are taking that I mean even last year the gur did not suffer for cane.

Nillai Shah: Right you did, sugar guys did, right.

Dhruv Sawhney: Now what is happening is, in the current year you are starting earlier so you will get that much more cane.

Nikhil Sawhney: And also you should remember that the capacity utilization will be bridged by our raw sugar processing also from Triveni's viewpoint.

Nillai Shah: No, I hear that. I am not sure about margins because you said you know margins in sugar will actually go up YOY, I am just debating that.

Dhruv Sawhney: There is a simple point that you have a realization of 2008-2009 sugar, sugar realization and a projected realization of 2009-2010 sugar. If the 2009-2010 sugar realization price is governed a substantial amount by the import price. So you have some levels of what is that going to be and then you come to what the sugarcane pricing scene. Now the only question that you could be saying is that will you not increase your cane price to get more cane?

Nillai Shah: Absolutely.

Dhruv Sawhney: I am saying no because you cannot keep competing with the gur person.

Nillai Shah: And what about competing sugar mills? Will that not be a problem?

Dhruv Sawhney: There is a law and they cannot do it. And there is enough policing for that. We were able to police it last year and we are very confident that we will be able to do it this year.

Nillai Shah: And one last question on this, if the government were to subsidize sugar in some form or the other which I believe they will have to at some point in time I do not know when but at some point in time, how do you think this will happen?

Dhruv Sawhney: That is the conjecture really. That you have to get into fiscal deficit and whether it is actually sugar, 60% of sugar is with bulk consumers and biscuit makers, so are they going to subsidize then?

Nillai Shah: Right, so any views on that?

Dhruv Sawhney: I think the only subsidized sugar that will be there is the levy sugar.

Nillai Shah: Okay and sugar theoretically can go to any levels that....

Dhruv Sawhney: Not any levels, the levels which we were talking about. These things we are talking about Rs. 30 and all is not correct. I do not think those are the levels because you have imports and you have certain amount of increase in production next year anyway. So when you talk about Rs. 27-28 I think that is a fair level to take and which will be there in November-December. So I do not think there will be that expectation of a further jump in sugar prices that will start people running for paying high cane prices.

Nillai Shah: Thank you so much sir.

Moderator: Thank you Mr. Shah. The next question is from the line of Sageraj Bariya from Angel Broking, please go ahead.

Sageraj Bariya: Yes sir, just wanted to know this UP thing that has been come up for a sale, I mean how much does UP as a state total contribution to the country's sugar production?

Dhruv Sawhney: Very low.

Sageraj Bariya: Okay and any kind of number that you can share that how much these 29 mills would be having capacity wise?

Dhruv Sawhney: You know their capacity is on paper and it is really not....

Sageraj Bariya: I know I mean they are not being utilized in everything.

Dhruv Sawhney: No, you do not even know if it is there.

Sageraj Bariya: Okay out of these 11 are cooperative mills, right sir?

Dhruv Sawhney: There are 24 cooperative mills and there are 11 corporation mills.

Sageraj Bariya: Sir and our other income has seen a huge increase from almost Rs. 1.3 million to Rs. 9.3 million, any reason behind it sir?

Suresh Taneja: If you look into last year we had a total other income of, I am not talking about the operating income, I am talking about other income so we had about 4.30 crore, nine months is 4.30 crores and if you take the corresponding nine months that is 3.96 pretty much in line actually.

Dhruv Sawhney: You know one thing that I thought I might mentioned is that levy price case is subjudice, but the court has given an indication that the SAP which was mandated by the Supreme Court is also a price. So the government reply on this still has to come. So you can make your own conjectures as an analyst.

Sageraj Bariya: Okay, fair enough sir. I am done. Thanks.

Moderator: Thank you Mr. Bariya. The next question is from the line of Nadeep Parker from Dolat Capital, please go ahead.

Nadeep Parker: Yeah, good afternoon. You said tendering of 647 million litres of ethanol is on process, can you give me the increase compared to last year?

Dhruv Sawhney: No, we did not participate in the one last year. You can contact our people. They will be able to find it out for you.

Nadeep Parker: Alright thanks a lot sir.

Moderator: Thank you Mr. Parker. Mr. Sawhney would you like to add any closing comments?

Nikhil Sawhney: Thank you very much for participating on the call. We are very optimistic about the coming quarters as well as the next financial year both from the engineering as well as the sugar businesses and I look forward to speaking with you again in several months now after our full year. I leave it to Mr. Sawhney to give his final words.

Dhruv Sawhney: Thank you all for coming. I think there were very interesting questions. It is encouraging that we are in both lines which are seeing an upturn looking at the global situation even some dire prospects in India on many sectors so we are fortunate. We are in the power and water sectors which are both growth sectors in engineering and sugar realizations are set to take a little further upturn and sugar production also going up with our share is increasing more than proportionately so I see a good year for 2009-2010 and in any case 2009 is expected to be a record year for the company. Thank you.

Moderator: Thank you gentlemen of the management. Thank you Mr. Desa. Ladies and gentlemen, on behalf of Triveni Engineering that concludes this conference call. Thank you for joining us and you may now disconnect your lines.