



Triveni Engineering Limited

Investor/Analyst Conference Call Transcript November 23, 2010

Moderator Ladies and gentlemen good day and welcome to this Triveni Engineering Q4 and FY2010 Earnings Conference Call. As a reminder for the duration of this conference all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Rishab Barar from Citigate Dewe Rogerson. Thank you and over to you.

Rishab Barar Good day everyone and a warm welcome to all of you participating in the Q4 and FY2010 conference call of Triveni Engineering & Industries Ltd. We have with us on this call today Mr. Dhruv M. Sawhney – Chairman and Managing Director, Executive Directors, Mr. Tarun Sawhney and Mr. Nikhil Sawhney and Mr. Suresh Taneja – CFO along with other members of the senior management team. I would like to mention before we begin that some statements made in today's discussion may be forward looking in nature and the statement to that effect has been included in the conference call invite, which was mailed to everybody earlier. Also I would 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 would start this conference with opening remark from the management followed by an interactive Q&A session where you can discuss your views and key issues. I would now like to hand over to Mr. Dhruv Sawhney to share some perspectives with you with regards to the company's operations and the results for the quarter under review. Over to you Mr. Sawhney.

Dhruv Sawhney Thank you. Good morning everybody and welcome to the Q4 and our annual accounts conference call. You have the statement of accounts with you which was published as well as the breakup of our segment results. I would like to take this opportunity of going through the two sectors of our business and they are really quite different.

As you see, we have had an increase in sales of about 19%, but our profits for the year have taken a very strong hit because of our sugar operation. We will therefore just analyze both the results separately. Our engineering business is doing extremely well and we have the highest outstanding order-book of ₹ 11.67 billion. This has been an increase of 56% on year on year basis. The outstanding order-book right now is about 170% higher than what it was a year ago for the water business and about 14% higher than what it was for the turbine and gear businesses. And this has really been owing to the order intake last year. In the year '08-09 there was a recession and that is why the order intake was down a bit. But in the last year the order intake has been really tremendous.

To give you an idea of the order intake last year segment wise versus the previous year, order intake in the turbine group was higher by 43% and in the gear business

it was higher by 27% , while in water the order intake was higher by 226%. So overall in the engineering businesses order intake was higher by 86% than it was in the previous year. We expect order intake in the year '10-11 to be equally good. So we are having a very robust engineering business in all our three lines. Margins have been preserved and that has reflected in the operations of the three engineering businesses and we expect margins to also be good in the years to come.

As I said earlier, our operations have been affected by the sugar scenario. And the sugar scenario was governed by hike in prices in the year '09-10. A large increase in the levy obligation from 10 to 20% and a precipitous fall in the free sale sugar prices in the second half of FY10. Now these fundamentals were there last year and you are all very aware of them. We do not expect these fundamentals in the next year. In fact we think that there has been a turnaround now in the sugar industry's fortunes and we expect the next year to be good and positive. Our state advised cane price has been announced at ₹ 205 per quintal and crushing operations at two of our factories have started which are Deoband and Khatauli. We are getting very good recoveries at Deoband, higher than last year and recoveries at Khatauli are also higher. In fact the recovery at Deoband should cross 9% very shortly. Other units will start by the end of the month or by the first week of December. On an all India basis, we expect production to be around 25 million tonnes or may be slightly below. Our sugar cane crush for the group would be over 25% higher than what it was last year and this is in keeping with the all India increase in production and an increase in production in the State of UP. The important point is that we expect our current realizations to continue and realizations to be around ₹ 29 for the sugar that we are producing in the current year. With a SAP of ₹ 205, cost at our current projected recovery level, our PBIT cost would be around ₹ 25.20 So that is the scenario what we feel is the turnaround in the sugar industries and in Triveni Group's fortunes.

Most of you will be wondering whether there will be any possibilities of any further increases in cane prices. We really do not feel that for two reasons. One is that there are no longer expectations of any great increase in sugar price. We are well aware of government interventions and we see that this is a comfortable price for both the industry and for the government as well. Number two, diversion, which is governed by the prices of gur and khandsari is also controlled and the gur prices today are keeping up with the sugar prices and in fact what the alternate sweeteners are paying for cane is much lower today than the SAP in the state of UP. We have conservatively valued our inventories on the 30th of September 2010 and the valuations are levy at levy price and free at ₹ 26.75. This has affected in the write down of inventories which is in our results and also is good for our operations in the first quarter of FY11. I will be answering your questions on sugar but the third element of where the group is today is in our restructuring and our new businesses.

As far as the demerger is concerned – the court driven demerger, two meetings have been held under the auspices of the Chairman appointed by the High Court, one of the shareholders and one of the secured creditors, and there is a third meeting on the unsecured creditors. The resolution for the demerger has been passed unanimously at all three meetings. We will now be having hearings in the month of December so if you ask me what is our feeling as to when this demerger would take place, we think it will be sometime in January to March 2011. And that is also around the time we would be hoping for the listing of the demerged company, Triveni Turbine Ltd. Our joint venture with GE, which was signed in April, closed on the 3rd of November. It took longer than we contemplated because of the certain permission that GE had to obtain but the closing has been formally completed. The company has had share capital remitted from both Triveni and GE and has also held its first Board Meeting in the first week of November 2010. The shareholding of Triveni in the joint venture, GE Triveni Ltd. will be transferred to the de-merged company, Triveni Turbine Ltd. and because our shareholding in the joint venture is 50 plus 1 share, this joint venture company, GE Triveni Ltd. will be a

subsidiary of the de-merged company Triveni Turbine Ltd. and as such it will have the benefit of consolidation both of top line and bottom line and I think that is an extremely encouraging for shareholders. It also augers extremely well for the growth of our turbine business because the market up to 100 MW, as you know globally is some \$2 billion. Last year India itself in the captive power generation space was one of the highest markets and also for the next few years of any country. It is higher than China or Indonesia and we expect this to auger very well of both Triveni in the range of under 30 MW and for the joint venture in the range of 30 to 100 MW. It also augers very well for our business in high speed gears. Here we have retained our market share and margins and diversified operations to include refurbishment in a very strong manner and hydro gear and gear for other manufacturers. We expect this business to grow both domestically and in our neighboring countries and we are looking at strong possibilities of expanding our line of business in gears to other lines. At the moment we are in very active discussions with our partners and we expect these to be concluded in the next few months.

Our water business is in a takeoff stage as you might have heard the figures of order intake have been quite spectacular with order intake coming in at 226% higher than the year before. There were many breakthroughs in this line. One of which is the order for the municipality where the EPC is ₹ 156 crore and in O&M for ₹ 158 crore. This auger well for the future business in the municipal sector. We are looking at various other diversification lines in engineering, which will gradually come in next two to three years, so it is not just going to remain at these three lines as far as Triveni is concerned. I would like to mention in closing that in our cogeneration business, we are still fortunate in receiving carbon credits. We got them last year and in the current year we are expecting the last two years' of carbon credits to come which will be around ₹ 10 crore or so. You have heard a lot about the ethanol pricing, we will have to wait for government on this but we have tendered for about 30% of our next year's production for ethanol and we are hoping that we will get the pricing of around ₹ 27 a litre. But as you know our distillery is a producer of premium ENA and we are the key suppliers to UB and the number of other distilleries, so we command a premium for the rest of our distillery sales. So with that I would like to leave the floor for questions. Thank you.

- Moderator** Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Rajesh Kothari from Alpha Accurate Advisors, please go ahead.
- Rajesh Kothari** At what point of time you would be able to disclose net-worth of the company which will be listed separately?
- Suresh Taneja** The appointed date of the demerger is from 1st of October and as of these dates the assets and liabilities of the steam turbine business would be transferred to Triveni Turbine Ltd. and since the company is already in operation and was earlier carrying on some activities, all these figures would merge with that company and basically the balance sheet as of 31st March, 2011 would have six months operations of the turbine business.
- Rajesh Kothari** Okay, so basically what is the net worth of Triveni Turbines, for the current consolidated net worth how much net worth you would attribute to that company?
- Suresh Taneja** I think all those figures have not been worked out as of now, because you must realize that the assets and liabilities have to be transferred in accordance with the income tax law in order to have a tax neutral de-merger. So we are in the process of compiling these figures and in the due course this will be transferred to the new company.
- Rajesh Kothari** Okay and my second question is with reference to the market size and opportunity, as you rightly mentioned that in the Indian market where Triveni will have a very

strong presence and GE would have presence in the 30 MW to 100 MW. So can you tell us over the next two-three years how do you see the new entity, both from standalone perspective from the Indian perspective and from the joint venture perspective?

Dhruv Sawhney Well, you see in the new entity, GE Triveni Ltd. it will be approaching both the domestic market and the international market simultaneously. As you know in the joint venture, Triveni will be heading the joint venture in domestic marketing and the whole GE organization will be handling the international marketing. So with that we have a very good spectrum. But I would like to just caution one thing that this is a new venture, it takes time for both technology transfers to start, for operations to stabilize and for orders to come in. But we are starting very fast. We hope to start making offers in the first four-five months of 2011. That is because Triveni has already received an order for 35 MW. And the ranges that we will start with will probably be 35 to 45 MW ranges and then going up gradually up to 100 MW. So the teams of GE and Triveni are very active in the technology transfer and marketing.

Rajesh Kothari At what rate the Indian market is growing?

Dhruv Sawhney Indian market is growing at some 25% a year.

Rajesh Kothari And at what rate the world market is growing?

Dhruv Sawhney It is difficult to calculate but we are hardly in that so even if we grow 5% or 10% it is two or three times our size. So it is a huge thing to enter.

Rajesh Kothari So basically you think in FY12 from April onwards, that will be the first year where one can start seeing revenues, so do you think it can be FY13?

Dhruv Sawhney No, we are hoping for something in FY12.

Rajesh Kothari Both from the Indian as well as from the international market?

Dhruv Sawhney I cannot say that, that is difficult now to know where the success will come but we do expect some success in FY12.

Rajesh Kothari And how do you see the competitive environment in India as well as internationally from the cost perspective as GE is entering into India and I am sure the other MNC players have also tied up with a few low cost producers and very high technology innovators, so how do you see the costing environment?

Dhruv Sawhney I would like to just give a clarification; we are not a low cost producer. We are providing high value to the customer so it is not that we are selling on the basis of cost, we are selling on a value proposition to the customer which is a much better value for what customer is getting internationally. Also in this line our competition in India is with Siemens and as Siemens is already in India so we are not expecting much competition from the Chinese and certainly on a cost perspective from other MNCs in this line, as they are not here in India today. We will find them in Southeast Asia but I think our value proposition both from efficiency and from a brand point of view is quite compelling.

Rajesh Kothari And when you are looking at global markets, which are the major areas, which are the major markets which you will be focusing on?

Dhruv Sawhney We will start with Southeast Asia.

Rajesh Kothari And the biggest competitor in Southeast Asia will be?

Dhruv Sawhney The current players there.

Rajesh Kothari Can you name some players there?

Dhruv Sawhney They are Japanese and Siemens and Shin Nippon.

Rajesh Kothari No. I am just trying to figure out that from the competitive environment over next three to four years how much market share you would assume?

Dhruv Sawhney I think you would have to wait for a few more conference calls for that to happen. We are just starting; we have closed only on the 3rd of November.

Rajesh Kothari Correct but I am sure with a partner like GE you would not be entering with a very small target market share, right?

Dhruv Sawhney Well, that is true. Well that is a good perspective. Our view is to get 20%-30% market share.

Rajesh Kothari Over next four to five years.

Dhruv Sawhney Absolutely.

Rajesh Kothari And how much percent of the market will be Southeast Asia?

Dhruv Sawhney Substantial.

Rajesh Kothari About say 30-40%?

Dhruv Sawhney Substantial.

Rajesh Kothari Meaning more than 50%.

Dhruv Sawhney No, I cannot say the figures.

Rajesh Kothari Are these very highly confidential data?

Dhruv Sawhney This is data which is quite confidential in the business.

Moderator Thank you. The next question is from the line of Nirav Shah from Antique Stock Broking, please go ahead.

Nirav Shah One question is on the extraordinary income component, for the past few quarters we are having this component of profits from sale of investment. So can you just clarify what kind of investments are these and what are the pending costs and market value of these investments and what is the strategy with regards to the same?

Suresh Taneja As far as this exceptional income is concerned it is basically a profit on the sale of the investment in one of the associate companies and also there are some exceptional provisions which we have made. Now as of 30th September, 2010 everything is booked.

Nirav Shah Okay is this Triveni Retail part or is it of some other company?

Suresh Taneja It is one of the associate companies.

Nirav Shah And sir on the water division front, can you just explain the scope of the order that we have received of around ₹ 1.7 billion from JICA and what are the kind of margins one should expect from those, because it is a BOT?

Nikhil Sawhney No, it is not a BOT; it is EPC with O&M. So there is no asset on our books. The scope of the business is to recycle Yamuna water which is the river water in effect to drinking water quality. It certainly involves a process of biological treatment through MBBR and followed by a filtration process through ultrafiltration. So margin in this business is good because we have very good tight cost structures. So I think they would be better than our annual profitability numbers.

Nirav Shah Okay, so upwards of 13-14% that is we normally do?

Nikhil Sawhney That is what is estimated at the moment.

Nirav Shah And on the sugar division front what is the kind of inventory we are having as of 30th September?

Nikhil Sawhney 13 lakh bags.

Nirav Shah What is the quantum of inventory write-down that you have undertaken during the September quarter?

Suresh Taneja I think the total inventory write-down on the stocks held as on 30th September is approximately ₹ 60 crore and in September itself the quantum would be approximately about ₹ 12 crore.

Moderator The next question is from the line of Ajay Vora from Enam Asset Management, please go ahead.

Ajay Vora Just to quantify, in terms of the sugar volumes, we will be doing somewhere close to five and half lac tonnes this year?

Dhruv Sawhney Yes.

Ajay Vora And what about power and alcohol volumes?

Sameer Sinha In alcohol we expect to do about ₹ 3 crore 80 lac litres approximately going up to about ₹ 4 crore. And then in power we expect to do about 260 to 270 days at one of the plants where we have got boiler converted to use coal and the other plant would be doing about 200-220 days.

Ajay Vora So can you just translate that into number of units?

Sameer Sinha We can give you that offline.

Ajay Vora I just thought if you have it offhand, I can do that. And you said at PBT levels your costing will be somewhere close to ₹ 25.2, so these factor in everything like the transportation of the cane to the factory and everything?

Suresh Taneja All expenses add up to PBIT level.

Ajay Vora So this includes interest and depreciation to what extent?

Suresh Taneja It includes depreciation but it does not include interest.

Ajay Vora Okay, so depreciation is to the extent of how much? Is it around, 70-80 paise?

Suresh Taneja I think depreciation would be approximately about ₹ 120 per bag.

Ajay Vora And what is the gross debt on the sugar business?

Suresh Taneja Only of the sugar business?

Ajay Vora Yes, post de-merger when the entire sugar business will be listed separately what is the debt on that particular business?

Suresh Taneja I do not have the figures of the shared segments as of now. But for Company as a whole we have total debts of about ₹ 934 crore.

Dhruv Sawhney That is including our working capital.

Suresh Taneja It is about ₹ 297 crore of working capital.

Ajay Vora And cash of?

Suresh Taneja No, all cash is parked over here because our working capital utilization would have been much higher but for the surplus funds which are already there in this working capital utilization.

Moderator Thank you. The next question is from the line of Shailesh Kumar from KR Choksey. Please go ahead.

Shailesh Kumar I am the first time tracker of this company, are you talking that a 13 lac bags is your inventory. So one bag comprises of how many kgs?

Tarun Sawhney 100 kgs.

Shailesh Kumar You are talking about converting one of your cogeneration plants on coal based?

Dhruv Sawhney It is already being done.

Shailesh Kumar So which plant is it Khatauli or Deoband?

Dhruv Sawhney Khatauli, one of the co-gen plants at Khatauli.

Shailesh Kumar Around 11 MW?

Sameer Sinha It is about 20-22 MW.

Shailesh Kumar Tell us something about your water business because that seems to be a very promising space and you have registered around 70-80% CAGR for last five years. How exactly you see the business panning out over the next five years period?

Nikhil Sawhney I think the business has grown at a CAGR just below 60% over the last five years and we believe that over the next several years it should continue with that growth rate before it actually slows down to may be a more manageable 40-45% growth rate. Order intake in the space is going well and we believe that another couple of quarters will give us another boost in our order book on a significant basis to provide for at least one and half to two years of revenues. That is what our order delivery cycle is and we believe that this business will grow well at the rates which we have been growing previously. The opportunity is quite vast and I think a specific approach towards looking at this space from a technological viewpoint will allow us to attain our margin which is what we are comfortable with.

Shailesh Kumar What is the quantum of project in this space which you are in the process of bidding or already have bid for in water treatment space?

Nikhil Sawhney That bid is going to quite a lot, but you could say at any given point in time, we may have active bids of about 500 odd crore outstanding, of which we would anticipate that our run rate would be about 20%.

Shailesh Kumar What is your power sales with U.P. government, I don't have an understanding so if you could just help me out.

Sameer Sinha Yes, for the bagasse based cogeneration, we sell the entire quantity to UPPCL, based on a tariff which is determined by UPRC which is the state regulator. Now for the one unit which is converted into coal, again the tariff is determined by UPRC and 50% of the exports from this power plant would be sold to UPPCL and the rest 50% have to be sold on a merchant basis.

Shailesh Kumar Okay. What is the tariff from UPRC?

Sameer Sinha The UPRC tariff on coal was ₹ 5.02 last year and for our bagasse space is ₹ 3.89 for Deoband and about ₹ 3.95 for Khatauli for this season till March 2011.

Moderator Thank you. The next question is from the line of Varun Guntupalli from Edelweiss. Please go ahead.

Varun Guntupalli My question is with regard to the pricing, the cost of production of sugar at PBIT level is of ₹ 25.2 per kg, does that exclude the transfer pricing of the bagasse and molasses?

Suresh Taneja Yes it's net after taking into consideration income from byproduct.

Varun Guntupalli If you can give me a breakup with regard to the landed cost of cane and the cost of production and the transfer pricing which you have considered on arriving at that number?

Dhruv Sawhney We can give you these offline, if you contact our CFO.

Moderator Thank you. The next question is from the line of Deepak Khatwani from Aadhar Securities. Please go ahead.

Deepak Khatwani My question was in regards to the number of outstanding shares in Triveni Turbine after the demerger. What is the approximate number of outstanding shares?

Suresh Taneja As of now the share capital of Triveni Turbine is ₹ 10 crore and as per the scheme, this ₹ 10 crore would be restructured, so that the entire share capital is being held by Triveni and it's restructuring. This ₹ 10 crore would reduce to ₹ 7.2 crore and then as per the scheme, one share would be issued to the shareholders of Triveni, so roughly speaking the total capital would be about ₹ 7.2 plus ₹ 25.8 is ₹ 33 crore.

Deepak Khatwani What would be the percentage shareholding of GE in this demerged company?

Dhruv Sawhney No. GE will not have any shareholding in this demerged company. This demerged company would have the shareholding in GE Triveni, where GE has a 50 minus 1 share shareholding would be a subsidiary of this company.

Deepak Khatwani Okay. What would be the total capital employed in this JV?

Dhruv Sawhney We are just starting. The manufacturing is being done by Triveni, there is an agreement for Triveni, who will manufacture for the first few years for the joint venture totally.

Moderator Thank you. The next question is from the line of Sanjay Sathpathy from DSP Merrill Lynch. Please go ahead.

Sanjay Sathpathy I just wanted to find out couple of things, one on the water business, I can see that your profit margin has expanded in the current quarter. Is it because of some change in business mix within the water business to some services oriented thing or how should one look at it?

Nikhil Sawhney No, the business is lumpy in terms of execution and as we follow AS-7. What you have to look at is basically what our annual numbers are; going forward it will be around 12%-14%.

Sanjay Sathpathy Okay. And the inclusion of this operation, this maintenance contract, is that something more profitable than the typical EPC contract which you have been executing so far?

Nikhil Sawhney Yes it is, but it's difficult to forecast what role that would play in terms of impacting the bottom line, because these are ten year O&M contracts while we think that we will get more of them under our order book and they will support our margins for sure, going forward. But we will have to see the impact of it terms of its expanding margin, but it's too early to actually say that.

Sanjay Sathpathy Okay. I just wanted to understand from you, you have done really well, you have some 20% market share, it looks like in that space, so who are your technology partners here and the second thing I just wanted to know just the way we are demerging this turbines business, at what point of time one can see this water business value getting unlocked?

Dhruv Sawhney I think that is too early to say right now. When the board considers these things, we will definitely share it with all of you, but it's difficult to forecast these things at this stage right now.

Sanjay Sathpathy Yes but at least, who are your technology partners and what are the key strengths that the Triveni is carrying into this business?

Nikhil Sawhney See, there are varieties of technologies that are employed in this sector, both from process technology viewpoint as well as from product technology view point. It will be little long for me to go into the exact nature of each relationship, but to say that they may exist in excess of about 5-6 license agreements that we are currently covering both process and product technologies as well as in-built team which has had extensive experience in working with both of these products and processes in which we participate.

Sanjay Sathpathy Okay, coming back to this turbine business, we are seeing the growth rate coming up from that previous 20%-25% rate to 14%-15% rate for last couple of quarters, is it something that is seasonal and we will see the growth rate going back to 25% very soon?

Nikhil Sawhney The thing is that it was significantly impacted by the order intake in 2008-2009 which you have in the details. The order intake in the previous year has significantly been higher by over 40% and we expect order intake to be quite robust going forward, so it is difficult to say while it will be lumpy in terms of execution

getting out, on the year-on-year basis, the growth rate would be higher than what we have shown for this year.

- Dhruv Sawhney** And the other two parts in turbines under 30 megawatt which is still with Triveni is that we are going to be having much better growth rate in exports than we had before and also in the refurbishment and the services part of that business. So these are the two areas besides what Triveni will be doing for the joint venture that will be about 30 megawatts.
- Sanjay Sathpathy** My understanding is that gear business is not going to be part of this turbine business which will be demerged.
- Dhruv Sawhney** Correct.
- Sanjay Sathpathy** You said that you have not given the separate numbers for both these companies, which will be formed, anyway where I can get a sense on what is the sugar business book value?
- Suresh Taneja** We have not really segregated the two numbers as of now.
- Sanjay Sathpathy** At least one guiding principle on this thing will be done?
- Suresh Taneja** Very simple, there is an allocation of loans etc., which have to be done as per the income tax act, otherwise all assets and liabilities belonging to the demerged undertaking would be transferred to the resulting company.
- Sanjay Sathpathy** Okay. But won't it be fair that bulk of the loan would have been for the sugar business, because your turbine will be generating lot of cash?
- Dhruv Sawhney** That's right. So that will be the principle, it will be the principle of where the debt was taken, it will remain there or what for debt was taken for.
- Moderator** Thank you. The next question is from the line of Kamlesh Kotak from Asian Markets. Please go ahead.
- Kamlesh Kotak** You mentioned that our manufacturing of GE-Triveni JV will be carried out by Triveni, so what sort of arrangement are we having in terms of that business being manufactured at our existing plant?
- Dhruv Sawhney** The JV has an agreement with Triveni.
- Kamlesh Kotak** Okay, but are there any fees or any sort of income that will accrue to Triveni on account of that?
- Dhruv Sawhney** It will be billing the JV for the complete turbine.
- Kamlesh Kotak** Okay. On cost plus basis?
- Dhruv Sawhney** On a certain basis.
- Kamlesh Kotak** Secondly, what is your take on the demand outlook? From which particular segment the demand for turbines is actually coming from? Cement, sugar, any specific industries you identify?
- Dhruv Sawhney** It is good point. Steel, cement, metals, sugar of course, paper, and IPP.
- Kamlesh Kotak** And going forward, do you see any particular sector witnessing high demand?

- Dhruv Sawhney** But these are what you can estimate as an analyst from the various parts of India, you look at the steel sector and the cement sector, these are all infrastructure sectors and IPP. So actually we are in the right line, because most analysts are saying that this is the sector that has to go with India's increase in urbanization with its GDP growth forecast. It is also happening in Southeast Asia Thailand, Indonesia.
- Kamlesh Kotak** So is it worthwhile to look at the complete engineering business going into one entity or is it okay if we retain with the sugar business? As we have seen in terms of gear and water business, both remaining in this entity. So would it be any synergy?
- Nikhil Sawhney** I think we have spoken in past in terms of looking at this in a manner at a later point in time where we would be able to accrue value to our shareholders in a correct point in time. So as of now, what is currently underway is a demerger of our turbine business, and the Board will have to evaluate it at a point in time that it feels appropriate.
- Kamlesh Kotak** Okay. And lastly, what's your take on the sugar pricing and particularly with respect to the unseasonal rain that has impacted the crop, so how you see the profitability or sugar business being impacted?
- Dhruv Sawhney** Well the rain has affected production slightly, that is correct. So when we are talking about our 25% rise, that is after taking into account the cane situation and the yield situation as it exists today. But importantly, recoveries today are better. We have two units which have started. So when we have a sugar recovery that is better, that's real kicker to your cost of production and how the cost of production is affected by recovery. So that has not been affected in majority of our sugar units. Secondly, one cannot tell about what would happen in January-February, but unless if there is no frost or anything like that, we definitely expect this season to be a better season from a recovery point of view and cane crushing and yield point of view. But we are expecting a good stability in sugar pricing going forward, which is also the main driver for preserving margins.
- Moderator** Thank you. The next question is from the line of Khadija Bohra from Marwadi Shares & Finance. Please go ahead.
- Khadija Bohra** Can you provide turbine dispatches in terms of megawatt for Q4FY10 and Q4FY09?
- Nikhil Sawhney** It is 212 megawatts in Q4 2010 versus 181 megawatts same quarter last year.
- Khadija Bohra** Okay. And for FY10, is it 711 megawatts?
- Tarun Sawhney** Yes that's right.
- Khadija Bohra** Okay. So if I take out the average realization that will be a drop of 16% YoY?
- Nikhil Sawhney** Yes but that's not the way to look at it, it's not a standard product, so the scope as well as the engineering, it is part of the engineer to order segment, so both from billing as well as execution perspective, because you ask for it, we give the megawatt details. But really you cannot look at it in that regard. Especially because you will come up to an inaccurate reading if you look at it in terms of pricing per megawatt or profit per megawatt.
- Moderator** The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

- Achal Lohade** One question is on the global prices, how do we see the global prices going forward given the Brazil's crushing has going to come to an end, probably half of that has already been over, how do we see the pricing for next three-four months? What kind of measures are we expecting? Are we expecting export to happen in a big way or negligible exports?
- Tarun Sawhney** It's too early to tell the impact of the Brazilian season, actually it doesn't come to an end this time of the year, it comes to an end traditionally by the end of December. However, we have seen over the last few years that there are several manufacturers given the robust international pricing, they have crushed right through the season. We anticipate that this would be the case this year as well and we will have an early start to the Brazil crush next year. The impact of that on pricing is uncertain, simply because a large portion of volatility in sugar markets is been driven by funds flow. So it's not necessarily pricing by sugar manufacturers, but a large portion of the speculative pricing and the rise and fall in sugar prices is due to funds putting in money in commodities. Going forward it's very difficult to tell. As far as the Indian government is concerned, again the Ministry has made several clear announcements that without a clear picture of production for the coming season, it will be difficult for them to make a decision regarding export/import policy and our view is exactly the same.
- Dhruv Sawhney** But if you look at the production figures that both government and we are putting out, at consumption, we are finding that there is going to be a good stability in domestic sugar prices. Because we are certainly not in the spectrum of any more import and on export the government is looking at it, but cannot do so until it's fairly sure of the production for the current year. But we don't look at that badly; we think there will be some possibility of exports as well.
- Achal Lohade** Right, I was just wondering, hypothetically speaking, by when do you think the government will have more clarity or more certainty on the estimates to take call on the exports?
- Dhruv Sawhney** May be January, February.
- Achal Lohade** So if one looks at the global future prices, and probably the distant futures like March 2011, it's not so lucrative for the domestic sugar to be exported, if we are expecting a stable sugar realization. So how do we see that if there is a delay in the announcement by the government, do we see kind of oversupply scenario or overstocking position in India? Do we see that risk? Or we think the government will be pretty much swift enough to allow the exports?
- Tarun Sawhney** Frankly speaking, international prices do suit coastal millers; they may not suit us in Uttar Pradesh because of the variation in pricing between the south and north. But at these current prices, it still does suit southern millers. So if there is an opening up for some quantity of exports allowed by the Government of India, we do expect that it will be done by coastal millers.
- Dhruv Sawhney** And that affects the pricing in the domestic market.
- Achal Lohade** Just last question , we have talked about the estimate of about 25 million tonnes of sugar production in India, so I just wanted to get a sense as to what is the number we are building in for UP and for Maharashtra?
- Tarun Sawhney** For UP, we have a range between 6.6 and 6.8 million tonnes of sugar production. Maharashtra, will be again very difficult to predict, but it will be lower than 9 certainly, about 8.9-8.8.
- Achal Lohade** Right, in this UP's 6.6 to 6.8 million tonnes production, what is the drawl rate or diversion we assumed?

Tarun Sawhney Diversion rate again is difficult to predict because the gur prices have been fairly soft over the last month or so, but we anticipate about 30%-35% of cane will be diverted.

Achal Lohade Right and what kind of cane prices is being offered by the gur khandsari players at the moment?

Dhruv Sawhney About ₹ 180 right now.

Achal Lohade Do we imagine them to come up to SAP level and does it make profit for, leave any profit for them at the current gur prices

Dhruv Sawhney Well, they will have to pay more. as they won't get any cane at this, but right now there is no problem with the cane till the month of January because growers want to vacate their field for wheat sowing. So this diversion question comes in January, February, and March. Before that there is not much competition.

Achal Lohade One of our industry player in UP indicated that the yields particularly in western UP could be lower because of the heavy rainfall what we have seen in July and August. So just wanted to check, you have talked about the recovery rate. So are there yields also higher year-on-year or we think could be marginal decline?

Dhruv Sawhney Our three mills in western UP are fine and two of them are quite large players Khatauli and Deoband and we have not found any impact on our yields in fact in a few spot we are a little higher and we are looking at higher productions in all three units, both in terms of cane crush and recovery.

Moderator The next question is from the line of Aman Sonthalia from Suvidhi Capital Markets, Please go ahead.

Aman Sonthalia Triveni Turbine Limited will be a holding company and for the joint venture, so what are the other activities that company will have?

Dhruv Sawhney Triveni turbine is doing its own steam turbine business up to 30 megawatt.

Aman Sonthalia Okay. And for a higher version they will have the joint venture.

Dhruv Sawhney And it has an investment of 50 plus 1 share in the joint venture.

Aman Sonthalia Okay. And what are the other areas in which our engineering division is looking for?

Dhruv Sawhney These areas are synergistic with our current business. We need to explore them further before we can really go public on it.

Aman Sonthalia And how big is the 30 to 100 megawatt market? As compare to 30 megawatts?

Dhruv Sawhney I think the market for 30 to 100 megawatt is at least one and half to two times bigger.

Aman Sonthalia The margins are bigger than sub 30 megawatt?

Dhruv Sawhney Margins are similar.

Aman Sonthalia Thanks a lot. .

Moderator The last question is from the line of Kartik Subramani from Unifi Capital. Please go ahead.

Kartik Subramani There have been reports in the paper saying that farmers are demanding much higher than the SAP which has been fixed by the government. Could you elaborate a bit on that, because of the monsoon and rainfall, farmers are asking for much higher prices than ₹ 205?

Dhruv Sawhney Well, I would just say that our two largest units have started well and we are getting full supplies, so I think that's okay.

Kartik Subramani You are paying only SAP at the moment?

Dhruv Sawhney Yes.

Kartik Subramani One more thing, who would be running the turbine business. Once the demerger is completed, the Board looks similar to existing Triveni company?

Dhruv Sawhney The Board will be nominated by us, so we haven't really decided that, but it will have number of similarities to our current Board.

Moderator Thank you. Ladies and gentlemen that was the last question; I would now like to hand the floor back to Mr. Dhruv Sawhney for closing comments. Please go ahead sir.

Dhruv Sawhney Thank you very much. I think we have had a very interesting dialogue and certainly we at Triveni are looking at FY11 as an exciting year ahead, both for our sugar and our engineering businesses. Restructuring our turbine business will have been in full sway during the next year, so well our new joint venture with GE. As we have talked about our gear and water businesses are also very exciting in terms of the growth prospect and our foray into the international arena both in turbines and gears augers well because the market in Southeast Asia just like in India are growing well and are expected to grow well in the next year. Sugar as you have all seen I think is in a turnaround so hopefully the last year now is behind us and we can look back at good fortunes in this commodity as well. Thank you very much and we look forward to next quarter.

Moderator Thank you gentlemen of the management. Ladies and gentlemen on behalf of Triveni Engineering that concludes this conference call. Thank you for joining us.