

## Transcript

### Conference Call of Triveni Engineering & Industries Limited

19th October 2006, 4:00 PM IST

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**Moderator:**

Good evening ladies and gentlemen. I'm Johnson, moderator for this conference. Welcome to the Triveni Engineering & Industries Limited conference call. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press \* and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Abhinandan Singh of Citigate Dewe Rogerson

**Abhinandan Singh**

Thank you and welcome everyone to the Q2 and H1 FY2007 conference call of Triveni Engineering & Industries Limited. We have present with us today Mr. Dhruv M. Sawhney, Chairman and Managing Director, Mr. Suresh Taneja, Chief Financial Officer, and other members of the senior management team of the company. We will initiate this conference call with brief opening remarks from Mr. Dhruv M. Sawhney after which the floor will be open for questions and answers. I would now invite Mr. Sawhney to initiate the conference call.

**Dhruv Sawhney**

Thank you very much. Good afternoon and welcome all participants to our Q2H1 FY07 conference call. We have published our results and sent you a short note. I think you will note that we've had a very encouraging first half in the Engineering sector. We had seen an exceptional growth last year, but even that has been surpassed in the first half, and we expect this to continue in the second half, if not get better it. The company really has made a switch and I think we can call the first half a watershed in so far as the Triveni Engineering and Industries Limited is now truly an engineering and sugar company, and not just a sugar company with some engineering. The ratio of our engineering to sugar sales is now roughly about 30:70, but the profit figures are almost equal, in fact they are slightly higher for engineering. As far as our profitability in '07-'08 we expect to be a 40:60 company, with engineering contributing 40% and sugar 60%. This takes into account that we are still on call for doubling our sugar production capacity, and this will start in the current year.

I'd like to just take you through the various sections and then make some thoughts on the future of sugar productions and engineering.

Our production capacities are on stream to be commissioned in November and December. The Ramkola modernization will be completed before the factory starts around the 3<sup>rd</sup> week of November. The boiler for the Khatauli Cogen project has been hydraulically tested and will be on stream when the factory starts probably around the 1<sup>st</sup> of November. The Chandanpur boilers have also been hydraulically tested and that project will be on stream about the last week of

November. The Rani Nagal Sugar factory will be ready in early to mid December, and the last project the Milik Narayanpur Sugar plant will be ready around the 1<sup>st</sup> or 2<sup>nd</sup> week of January as on schedule. Our distillery project will be ready by January end to early February. The starting of our factories is on schedule and the encouraging news is that we have received our cane reservation orders for all the factories except for Ramkola, for which it is expected in the next few days. Our capacities have all been accepted by the cane commissioner and cane allocation has taken place as per these accepted capacities on a pro rata basis. We do not foresee any problems in cane availability in the forthcoming sugar season. As far as the cane price is concerned, we could expect an increase in the State Advisory Price (SAP) with elections in February of next year, but the important point to note is that we do not foresee any payment of cane incentives this year because the competition from gur and khandsari is not there, and there have been better plantings of cane all around. So whatever increase in cane price over the SAP of last year takes place in UP, the impact on the P&L will be much less for factories in west UP such as ours in Khatauli, Deoband, and Sabitgarh than it will be for factories in central and east UP which didn't pay any cane incentives last year.

As far as sugar prices are concerned, our current realizations, up to the end of September are Rs. 1860. Currently they are running at over Rs. 1800, and we expect that to continue in November. For the end of the year we expect the yearly average to be over Rs.1800. Production for the country in the next crushing season, which is about to start now, is expected to be about 23.5 million tons. But we expect exports to start from December and around 2 million tons can easily be exported before the end of the current sugar season and almost 3 million tons if you take the whole of calendar year '07. As such we don't expect sugar prices in western UP, where our production facilities are predominantly located, and central UP to be as greatly affected as maybe in the southern and western India. A Rs.50 drop over the average realization of the current year is all that we are thinking about for 2007-08. Our realization right now are at the premium to east UP and substantially higher than realizations in south India and western India.

We have a very encouraging scenario as far as our engineering orders on hand are concerned. In the turbine division, our orders on hand right now are more than our turnover forecast for the current year. This is also the situation in the water group where orders on hand are more than the turnover for the last year. You might note that we expect a sales growth in turbines for the current year to be over 70% of last year's, and a 3 digits increase in profits over last year. The situation in the water business group is similar. In gears, where the lead time is lower, we have orders on hand for 2/3<sup>rd</sup> of the current turnover, and are projecting an increase of about 80% in our profit from this division for the current year. The expansion of the turbine division is on course, and we have ordered the best machine tools available in the world today for rotor machining and casing. These are in fact better than the machines of our competitors like Siemens of Germany, and will be delivered in the third quarter of '07-'08. With the high speed vacuum balancing tunnels which we expect to be commissioned in January of '07, our production facilities in Bangalore will be second to none in the field of turbines. We are in

active discussions with a number of technology partners to expand our range to up to 50 megawatt, and expect it to conclude fairly shortly. Our de-merger is still under consideration and I have nothing further to report on this at the moment, the status remains the same. We believe that the company as a whole is well diversified both in the sugar and the engineering businesses. With projects in cogeneration, the phase II in Khatauli, and its new distillery capacity, the sugar division will see almost 20 to 25% of the profit forecast coming out of non sugar business, i.e. the sale of power and ethanol, and a further diversification of 1/3<sup>rd</sup> of sales. At least 40% of profits for the company will come in from the engineering business. As such we have an adequate protection against the dip in the commodities cycle in sugar whether it is in the global sphere or in the domestic environment.

I'll be happy to take questions.

### **Question and Answer Session**

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**Moderator:**

Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press \* and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

Our first question comes from Mr. Anand Shah of ICICI Securities.

**Anand Shah:**

Good afternoon Mr. Sawhney. Sir congratulations on excellent set of performance in the engineering business.

**Dhruv Sawhney:**

Thank you.

**Anand Shah**

Sir I have three questions. Sir firstly while you did mention something about your de-merger and plans, if you can throw more light on the restructuring plans? Secondly, what is the quantum of cane the company is expecting to crush in the coming season? And third is, maybe at a time when the industry seems to be entering into prolonged surplus production situation, from your experience what do you think will be the prognosis for the industry over the next 3 years in terms of profitability?

**Dhruv Sawhney**

Thank you Anand. As I mentioned in my opening remarks the de-merger is still under consideration. I do not have any thing further to report as yet; the Board has not considered anything further at the moment.

We are expecting to crush over 6.2 million tons, which is about almost 70% more than last year which stood at 3.8 million tons. So we have a very substantial increase in sugar production forecast for the '06-'07 season. And in '07-'08 we expect it to go over 8.2 - 8.3 million tons.

The last question was about the 3 year prognosis. Actually if you look at the global scenario, I think it's very evident that the driver today is the crude oil price. A number of people have done sensitivity analysis and in fact I just recently had a presentation from LMC International

that with a crude prices of around 60 dollars, Brazilian raw sugar is around 10 to 12 cents a pound and there is about a 50-50 ethanol-sugar switch. If the crude price goes to 70 then you get the price of Brazilian raw sugar going as high as 14 to 16 cents a pound and you will also have the switch back to ethanol accentuated. So we can have a substantial increase in the global sugar price after about 9 months or so. Lastly, a lot of planned expansion programs globally are not taking place now; they've been shelved in both Brazil and countries in Africa, and China, and Indonesia. Domestically I think that the production of 23.5 million tons this year and the forecast for next year are again assuming that we are going to have super monsoons all the way through. We must remember that in many parts of the country, especially in Maharashtra, Karnataka, and Tamilnadu, sugarcane production is still very dependent on the monsoons. And the drop in sugar production in India can be extremely steep. So I would say that to think that we're going to have super monsoons for so long is not very likely. And by '09-'10 definitely we will have an upturn coming back to what we experienced earlier.

**Anand Shah**

Okay thanks a lot sir.

**Dhruv Sawhney:**

Thank you.

**Moderator:**

Thank you sir. Our next question comes from Mr. Vivek Mavani of Dawaney Day.

**Vivek Mavani:**

Yeah, good afternoon gentlemen, and everybody on the call. My question relates to cane availability. Although in your opening remarks you mentioned that this year you don't foresee the kind of cane competition that was witnessed last year and hence higher price being paid to the farmer. My question relates to the kind of capacities going on stream in the coming season. Is the cane production likely to be also growing by that same proportion? I have some estimates that UP capacity growth is roughly going to be about 50 60%, but is the cane production going to keep in line. Since we have almost just a few weeks getting into the season, what is the feedback you are getting at grass root level in terms of cane production?

**Dhruv Sawhney**

Let me give you an example of one of my factories. I would share with you some figures, more as an explanation than the figures itself. Kathauli crushed 187 lakhs quintals last year. The cane commissioner has assessed our requirement at 251, and he has already issued the reservation order. When I say reservation order, no factory is allowed to buy cane from my area, and I cannot buy cane from anyone else's area. The cane poaching, or whatever happened last year did not happen from the private sector. Secondly, we are having much less competition from gur and khandsari for a very simple reason, the cane price is higher and the sugar price is lower. So the viability of gur and khandsari is very low and that can be seen by the enormous stock of gur that is present in the Muzzaffarnagar mandi, which is 40% higher than what it was last year. Now the cane allocation that the cane commissioner has done after giving us a cane requirement of 251 is after considering the capacity enhancement in all the factories in the western UP zone, in our case the Saharanpur zone, in which some new units are coming up. I'm talking about, for example there is a new unit of Bajaj that has come up in Saharanpur zone, and there are two

units of Uttam Sugar that has come up and expansions in the Mawana Sugar's Titawi unit. So after taking these into consideration the cane was allocated. Now the yields that have been taken are also conservative, and lastly our cane samplings are on and our recoveries at the moment are 0.5 better than last year's. So in western UP we expect a substantial change in our recoveries for the current year, which will really add to the viability and reduce the cost of production very substantially. So western UP is looking much better than it was last year for the cane sampling which is on now, The Modinagar sugar factory has already started sampling and if you look at their recoveries today, they're substantially higher than last year.

**Vivek Mavani:**

Okay, and unlike last year when the crushing season started by the end of October, this year most people are talking of mid to end November as the start of the crushing season. Any particular reason why there has been sort of a delay or was last year more of an aberration in terms of early start of the season?

**Dhruv Sawhney:**

No, let me tell you, western UP will start crushing in early November. As I said we are starting Deoband by 27<sup>th</sup>-28<sup>th</sup> of October, and we will start Kathauli on the 1<sup>st</sup> of November, the mid November date is for central UP.

Last year because of the competition from gur and khandsari people started early, so that cane didn't get diverted to gur and khandsari. Today if you look at the cane prices, gur and khandsari are not viable. So the competition from alternate sweeteners for the cane to be diverted is not a driver for factories to start early.

**Vivek Mavani:**

Okay.

**Dhruv Sawhney:**

Thank you.

**Vivek Mavani**

Yeah and I just wish everybody a Happy Diwali and a happy New Year.

**Dhruv Sawhney:**

Thank you.

**Moderator:**

Our next question comes from Nichal of Edelweiss Capital.

**Nichal:**

I have a couple of questions. The first question is with respect to your production numbers for the entire year. Obviously, for the first 2 quarters the numbers have been significantly down, so in terms of what you expect internally, where are you, how much do you guys have to do to kind of get to the internal target? And the second question has to do with this new cane area. Your new sugar plants are coming in areas where cane hasn't been planted in the past. So what kind of steps are being done to ensure that those areas will have a recovery or yield of anywhere, I don't know what the standard is, around 9.5 or 10.5, and if you've done that what is that number coming out to be?

**Dhruv Sawhney:**

Okay, as far as production in the first 2 quarters is concerned, there was very little production in these 2 quarters because we only crush for a few days in April. This is the off season and there is no cane crushing during the months of May to October.

**Nichal:** I'm sorry, I meant sales, I meant sale of, I used the wrong word, I meant sale of sugar.

**Dhruv Sawhney:** Our sales in the 1<sup>st</sup> and 2<sup>nd</sup> quarter was conditioned by our opening stock in the financial year '06-'07, which was much lower than it was in the year '05-'06, and that is why the quantity of sugar sold has been less, and also even though the price was higher, the margin has been less. About production, as I mentioned earlier, we're expecting a 65% increase in production in this season as compared to last year, and a substantial amount of this sugar will be sold from November to March, which is how the production for sugar in the whole financial year will come to almost last year's level.

**Nichal:** And sorry, what is the number for last year in terms of sales, how much did you sell last year?

**Dhruv Sawhney:** We sold...

**Suresh Taneja:** 46 lakhs quintals.

**Dhruv Sawhney:** We sold 46 lakhs quintals.

**Nichal:** And you're saying you expect that number to be flat from last year?

**Dhruv Sawhney:** We expect that, in quantity terms, to be around 45.

**Nichal:** So slightly down from last year.

**Dhruv Sawhney:** Well it could be higher, it could be less. This depends on the release mechanism of the Sugar Directorate. So it's not possible to forecast that right now. And as far as new cane areas are concerned, we have got the reservation orders for our 3 new plants. They came last week. Now the reservation order is on cane areas that have been already surveyed, that mean the joint survey by the department on cane areas. The cane area that we've got for Chandanpur is over 17000 hectares, the cane area for Rani Nagal is around 16000 something hectares, and over 15000 for Milik Narayanpur. So with these cane areas we really see no problem in cane availability for these factories for the coming season. I already mentioned when I expect these projects to be on stream. So we don't find that in this year we will have a cane availability problem.

**Nichal:** No, my question was more specifically with respect to the yield.

**Dhruv Sawhney:** The yield actually is better than last year. They would have been about 15% higher than last year. In early September, they were expected to be 15% higher than last year. Now they're expected to be about 5% to 6% higher only because of the fact that it hadn't rained in the last 6 weeks. But otherwise yields are better than last year, and so as far as cane crushing is concerned that is much better. But on the other hand, because of the lack of rainfall over the last month, the sugar content has gone up. So we are going to be compensated for a much better recovery and we are expecting an average recovery for the company at around 9.9% to 10%, which is about 0.4 more than last year.



- Nichal:** Thank you.
- Dhruv Sawhney:** Thank you.
- Moderator:** Our next question comes from Ms. Pallavi of Amit Nalin Securities.
- Amit Dalal:** Hello, this is Amit Dalal here. Congratulations on the execution on all your projects and developments which you just spoke of. Sir, I wanted to know, you said you're going to have the same number of metric ton sales of sugar this year as last year.
- Dhruv Sawhney:** Yes.
- Amit Dalal:** And the first half accounted for how many lakh quintals?
- Dhruv Sawhney:** 17.35 versus 22.85, so the gap will be closed in the second half.
- Amit Dalal:** The gap will be closed in the second half. And in the engineering side, what was the guidance that you've given for the whole year in terms of revenue?
- Dhruv Sawhney:** I don't give guidance, but I had said that we are going to have a triple digit growth in the engineering business in PBT and in PBIT.
- Amit Dalal:** Because on quarter on quarter also there have been remarkable revenue growth do you expect this quarter on quarter growth to give us some indication of the 2<sup>nd</sup> half?
- Dhruv Sawhney:** Maybe you'll be little better surprised.
- Amit Dalal:** I see. So given that sir, what are the capacity constraints that you see in engineering going forward in '07-'08?
- Dhruv Sawhney:** As we said that we have again doubled our capacity. So, in fact in '07-'08, if we get a revenue growth of around 25% to 30% in the turbines business, we will be able to shorten our delivery time. As we want to now start coming into the export field in a very big way (which we haven't been able to do in the last 2 3 years because of the incredible domestic demand), and as you know in exports you have to meet a very tight delivery schedule we could benefit from the shorter delivery time. I would also like to mention for the benefit of the participants that we have had an incredible breakthrough in the last month. We received a 16-megawatt order in Italy. Now this one is for a higher megawatt turbine and it is for the EU and the owner is in North America, Cabot Corporation. So I think that now we are going to push very hard in '07-'08 and '08-'09 to increase our exports to at least 20% of sales. And we have enough capacity for that increase as well as for our diversification into the higher megawatt ranges for which we are looking for technology.
- Amit Dalal:** And would you say that the export realization is higher per unit for turbines?
- Dhruv Sawhney:** Yes.

- Amit Dalal:** By about?
- Dhruv Sawhney:** Well it's higher.
- Amit Dalal:** It's higher.
- Dhruv Sawhney:** Yeah. At the moment we are getting exceptionally high realizations domestically also.
- Amit Dalal:** And lastly sir, in the sugar division, this year what do you expect the sales breakup between sugar and by product to be? That is power and whatever else put together.
- Dhruv Sawhney:** The percentage breakup will be, I'll just get our CFO to give that figure. The turnover breakup if I can give you will be about 60% sugar, about 6% cogen and ethanol, and the balance 34% engineering.
- Amit Dalal:** I see, okay, I got it. 10% will be cogen, okay.
- Dhruv Sawhney:** You can take that ratio then.
- Amit Dalal:** I got it, okay. Thank you very much sir.
- Dhruv Sawhney:** Thank you.
- Moderator:** Our next question comes from Mr. Kaushik Poddar of KB Capital Market.
- Kaushik Poddar:** Mr. Sawhney, in the annual report you have said that UP government has devised some guidelines, some incentives for the sugar mills, especially big sugar mills like you. Can you please elaborate what are the kinds of benefits that will accrue to you in future, and secondly, once you get into this 50 megawatt turbine manufacturing will your ratio of 40:60 be further hiked in favor of engineering?
- Dhruv Sawhney:** Good point thank you. I actually missed both of these in my opening remarks, so I must thank you for these two questions. We are the 2<sup>nd</sup> person to have applied to the UP government; our application has already gone in for the incentives. The first was Bajaj Hindustan. And so we expect that to be processed shortly. We made our applications, which is that we've a 1000 people and have spent more than 350 crores, and the preliminary screening has been done, which is a major milestone. The benefits are 10% capital subsidy, and about Rs.1.4 a kg of sugar.
- Kaushik Poddar:** What is this 1.4 thing, can you please repeat?
- Dhruv Sawhney:** Rs.1.4 per kg of sugar, so if you're looking at 17.50 or Rs.18 sugar price, then you can see the sort of benefit. But I think that's all on the bottom line.
- Suresh Taneja:** This is applicable on the incremental production.



- Dhruv Sawhney:** It's applicable on the incremental production. If you project what we are saying in '07-'08, and where we are saying we expect to crush more than 8.2 million tons, about 3.8 would have been the earlier crush. So the incremental sugar production will all be coming for the incentive.
- Kaushik Poddar:** So you are talking about the equivalent sugar production on incremental 4.4 million ton.
- Dhruv Sawhney:** In '07-'08 and this year it will be less.
- Kaushik Poddar:** So 4.4 million \* 1400 will be the incentive is it?
- Dhruv Sawhney:** Yeah, besides the capital subsidy, which is a one time payment.
- Kaushik Poddar:** Now this will be given in the form of cash or how is it to be given?
- Dhruv Sawhney:** It is given in two ways. Partly cash and partly you don't have to pay for certain costs i.e. you don't have to incur them.
- Kaushik Poddar:** Okay, and this will be for one year or it will continue?
- Dhruv Sawhney:** No it's for 10 years.
- Kaushik Poddar:** So every year you will be getting a benefit on this 4.4 million ton, is it?
- Dhruv Sawhney:** No it depends on how much you crush. The more I crush the more I will get on the increment for the plants that are qualified.
- Kaushik Poddar:** Okay so every year at the rate of 1.4 rupees you will be getting for the next 10 years, is it?
- Dhruv Sawhney:** Up to the amount that we have spent on our capital expenditure, which in our case is around 900 crores.
- Kaushik Poddar:** Okay.
- Dhruv Sawhney:** So the benefit goes up to 900 crores.
- Kaushik Poddar:** Okay so this year you will be getting some benefit and for next year you will be getting a bigger one, is it?
- Dhruv Sawhney:** Correct, absolutely correct. Your second question was on the 50 megawatts; definitely the ratio will get affected. We have not started making any projections because we haven't really nailed down the technology in that range as yet. But the short answer to your question is most definitely yes the ratio will change in favor of engineering and this despite the increase in '07-'08 and '08-'09 in sugar. The engineering increase will be there because of this diversification. But we can't put any quantum numbers to it at the moment.
- Kaushik Poddar:** Will you go for an equity tie up for this kind of higher capacity?
- Dhruv Sawhney:** At the moment everything is on the table.
- Kaushik Poddar:** Okay, thank you, thanks a lot.

- Dhruv Sawhney:** Thank you.
- Moderator:** Our next question comes from Mr. Nirav Shah of Pioneer Intermediary.
- Nirav Shah:** Good afternoon sir. Sir I have a few questions, initially sir I would like to have the opening stock figures for the quarter and as well as for the second quarter of '06.
- Suresh Taneja:** As of 30<sup>th</sup> of June we had a stock of about 11.3 lakhs.
- Nirav Shah:** Sir against?
- Suresh Taneja:** Against means?
- Nirav Shah:** Means against the corresponding quarter of the previous sir?
- Suresh Taneja:** You mean as of 30<sup>th</sup> of June 2005?
- Nirav Shah:** Yeah.
- Suresh Taneja:** No it will be definitely lower than the earlier quarter because we had large opening inventories in the previous year as compared to this year.
- Nirav Shah:** Sir and can I have the breakup between free sale and levy sale of sugar for these 2 quarters?
- Suresh Taneja:** That is in respect of what we have sold this time?
- Nirav Shah:** Yeah in this current quarter, what is the breakup between free sale and levy sales?
- Suresh Taneja:** During Q2 we have sold 0.59 lakhs of levy sugar and 7.56 lakhs of free sugar and whereas in Q1 we sold 0.97 lakhs of levy sugar.
- Nirav Shah:** Okay I can calculate on the free sugars sir and in respect to the engineering division, has the sales figure in terms of megawatts and in terms of numbers for the turbines for Q2 FY07 and Q2 FY06?
- Dhruv Sawhney:** We did about 190 megawatts in the second quarter so we actually sold about 325 megawatts in the first half. The whole of last year we had only sold 425 megawatts of turbine. And in the first half we sold 325 megawatts in this year. And last year in the first half we had sold 222 megawatts.
- Nirav Shah:** 222 megawatts?
- Dhruv Sawhney:** Versus 325 this year. Number of turbines is not really relevant because they vary; it's not standardized.
- Nirav Shah:** Okay sir the reason why I asked the number of turbines in terms of numbers was that because looking at your presentation, which was posted in your site in the month of July that your average turbine capacity was around 5.8 megawatts in Q1 07 and in Q1 06 was 4.3

megawatts. Now considering that you are now foraying into higher megawatt turbines, and when you start deliveries for higher megawatts in Q1 FY08 and Q2 FY08, is there any scope for marginal improvement from there?

**Dhruv Sawhney:**

The margins that we are receiving in our current range are quite exceptional looking globally. Globally we are at a very high bench mark. If you look at BHEL and our margins and make a comparison we are probably getting a better margin than BHEL.

**Nirav Shah:**

Okay, sir and relating to the turbine revenues can I have the breakup between domestic markets, exports market and servicing, how much percentage came from the domestic markets, exports and from refurbishment?

**Dhruv Sawhney:**

Approximately our exports are about 10% and servicing is quite small right now. About 6% will be refurbishment in spares. With our new vacuum tunnel operating we expect this to go up.

**Nirav Shah:**

Okay, sir, and what is....

**Dhruv Sawhney:**

And another thing by the way, with the rapid increase in turnover and megawatts of sales in the last few years, the servicing really starts kicking in after 3 to 4 years because our turbines are such that you don't open them for the first couple of years. There is very little servicing, and no spares requirement for 2 years. They really start coming in after that. The life of these turbines is 15 years to 35 years.

**Nirav Shah:**

Okay. And sir what is our execution period for our order book of turbines and gears, I mean what is the delivery time?

**Dhruv Sawhney:**

As I mentioned at the moment our deliveries are 10 to 12 months, by '07-'08 we will be bringing them down to 9 to 10 months. In gears our deliveries are 6 to 7 months.

**Nirav Shah:**

Okay and what is the execution period for our order book which is of about 5.1 billion?

**Dhruv Sawhney:**

Yeah that's about 10 months, 10 to 11 months.

**Nirav Shah:**

Okay and sir, one question regarding our MOU with Fincantieri for some Defence orders. Sir we were waiting for Indian Navy approval. Sir have we received that approval?

**Dhruv Sawhney:**

Yeah the navy has conducted 3 visits; the navy procedures are a little time consuming.

**Nirav Shah:**

Okay thank you sir.

**Dhruv Sawhney:**

Thank you.

**Moderator:**

Our next question comes from Mr. Nichal of Edelweiss Capital.

**Nichal:**

I just have a question on the technology partners, could you set some more light in terms of what are they going to be bringing on the table and in what way are they going to participate in the company?

- Dhruv Sawhney:** Because these discussions are confidential in nature right now, the technology transfer is going to be complete but the form in which it is going to take place and who the parties are right now is something that the management is really keeping confidential. We've signed the agreements and they've signed with us.
- Nichal:** But just in terms of negotiations, I mean have you short listed out of the 3, I mean are you just going ahead with one or are you still in the phase where.....
- Dhruv Sawhney:** May be one or two others have come in also. But we are very far advanced and our own R&D program has also brought about a new turbine. We have got another order for 20 megawatts on our own in India beside the 27 megawatt which I mentioned in the last conference call. So I think at the moment we have gained a tremendous amount of knowledge and interplay but almost everyone who is anyone is talking with us.
- Nichal:** And these are primarily European players you are talking to?
- Dhruv Sawhney:** All global.
- Nichal:** Okay, thanks.
- Dhruv Sawhney:** Thank you.
- Moderator:** Our next question comes from Achin Baradwaj of ChrysCapital.
- Achin Baradwaj:** Yeah hi Mr. Sawhney.
- Dhruv Sawhney:** Good afternoon.
- Achin Baradwaj:** A couple of questions basically. One is related to the competition in the steam turbine segment. I understand that the company today enjoys a predominant share in the 1 to 18 megawatt range but who are your, some of the worthy competitors who are giving you tough competition of late, besides from the likes of BHEL or Alstom?
- Dhruv Sawhney:** In the under 20 megawatts there is no competition from BHEL. In the under 10-12 megawatts we have 85% market share and for the 20 megawatts, we have about 70% market share. Alstom as you know they have sold the power business to Siemens. So Baroda is handled by Siemens. I think they have got only one order. They are also going to the higher than 40 megawatt range. We have Bellis here, we have some small players like Kessels and in the single stage market we don't want to participate because it has low margin and technology has not got a premium there. So some part of this market where we used to be there 3-4 years ago we are concentrating less, we are now concentrating more on the higher value and the more technology subservient models. So basically the competition isn't there. There is a little bit of import from China and there is some import from API turbines from Europe and the United States. But those are niche markets where we are not concentrating because the cost of addressing those markets is not worth the results.

- Achin Baradwaj:** Okay and globally in the co generation small turbines who all are the big players?
- Dhruv Sawhney:** Well now I think this year we would have dispatched over a 100 turbines. And we are talking with all these technology partners; they have told us that we definitely are one of the 3 largest global players now. Even though our export business is only 10 to 12%, we are one of the 3 largest that is if you exclude China because nobody knows who is producing them in China. Globally they would be Dresser, who is not present here, except in the API field. They are mainly in the United States. I think 60% or 70% of their sales are in the United States. There is a manufacturer in Brazil. I think we are larger than Siemens in this range right now. I think we are over selling Siemens globally right now. I don't know the figures and there are no published figures on this and it is very difficult to get data.
- Achin Baradwaj:** Okay and what is your CAPEX plan for the next 3 to 4 years in aggregate?
- Dhruv Sawhney:** At the moment we don't have any ambitious plans, we are just digesting our CAPEX of 1000 crore that we have spent. Some of this CAPEX is spilling over to next year in engineering and in sugar. So at the moment we don't have any ambitious plans made out. What might happen after a year or so in sugar or once we have signed our technology tie up, I can't foresee right now.
- Achin Baradwaj:** Okay and just one last question, in terms of the tax rate basically as I understand you enjoy certain tax benefits, because of which the tax rate comes out to be much lower. Over what period do you expect those benefits to last?
- Suresh Taneja:** I think most of the benefits would last during this year and the next year.
- Achin Baradwaj:** Okay, so can I say that from FY08 you will be on a normal tax rate?
- Dhruv Sawhney:** No, the profit from cogeneration is tax free for 10 years, so that proportion of that is the benefit.
- Achin Baradwaj:** I see and the rest of it would be taxable?
- Suresh Taneja:** Yeah after '07-'08.
- Achin Baradwaj:** Okay, thanks a lot.
- Moderator:** Thank you sir. Our next question comes from Ms. Preeti Priyamvada of Quantum Securities.
- Preeti Priyamvada:** Good evening sir.
- Suresh Taneja:** Good evening.
- Preeti Priyamvada:** Sir I wanted to know something on the CAPEX plan for '07. From Investor brief I could gather that you are planning to spend around rupees 752 crores overall in FY07 on the CAPEX. Of this I believe

sugar would be 497 crores or something. Sir how do you plan to fund this, how much would be the loans and other proportions of it?

**Dhruv Sawhney:**

Okay I will just ask our CFO to answer you.

**Suresh Taneja:**

You know the total project cost for the year '06-'07 would be approximately about 700 to 725 crores and it will be primarily funded by long-term loans of about 475 crores, which would comprise of a very substantial chunk from sugar development fund as well.

**Preeti Priyamvada:**

How much sir of the sugar development fund?

**Suresh Taneja:**

I think we are expecting about 75 to 80 crores to come in from Sugar Development Fund. And the balance would be done from the internal accrual.

**Preeti Priyamvada:**

Sir, if you see the internal accruals part, I believe the cash position as on '06 somewhere around 26 crores only. So how do you see the internal accrual to fund the expansion plan, I believe, because everything needs to be done before the end of '07 itself.

**Suresh Taneja:**

Yeah I think you must realize that apart from the profitability, in the last year the complete project was basically funded from the IPO. So, we had the funds of the last year as well as the accruals of this year and on top of it we also have the capital subsidy coming in, in respect of these projects.

**Preeti Priyamvada:**

That's 100 crores capital subsidy which you will be getting.

**Suresh Taneja:**

Absolutely.

**Preeti Priyamvada:**

Okay, so that will also be used in the funding.

**Suresh Taneja:**

Yeah.

**Preeti Priyamvada:**

Okay sir, and sir if you could give me the bifurcation if possible on the debt part, in the sense that you're planning to spend around 475 crores as debt, so how much of it would go into sugar business, and how much of it would go into engineering business? Is that possible to be given?

**Suresh Taneja:**

Very roughly speaking, most of it will go into the sugar business itself. When I say sugar business, I include cogeneration as well as distillery. And as far as the engineering is concerned, it will be roughly in the region of about 30 to 35 crores.

**Preeti Priyamvada:**

30 to 35 crores only in engineering. Sir I believe sugar business would be having more pressure on the margin side also, in the terms of net margins overall for the coming year?

**Suresh Taneja:**

You must realize that our production is also going up by about 55%, to that extent we have the benefit of economies of scale as well and also all these incentives, apart from the capital subsidy which is one time, would also start kicking off this year.

**Preeti Priyamvada:**

From all segments?



- Suresh Taneja:** Yeah, which will have an impact on our margins as well.
- Dhruv Sawhney:** Also that the expenditures in cogen and distilleries will be helping the overall margins.
- Preeti Priyamvada:** Okay fine, thank you sir. Sir one more thing, in the interest part, there's been no change in the quarter over quarter interest payment. It has been at the same levels, and also in the first quarter that is of June 06 if you see the interest payment have gone down. But I believe that the CAPEX plan going ahead, do you see a substantial increase in the next half of the year in the interest payment, or would it be at the same level?
- Suresh Taneja:** Not in financial year '07, because basically to the extent of 2 or 3 months of interests will be expensed, balance will be all a part of the pre operative expenses and would be capitalized.
- Preeti Priyamvada:** Okay fine. So the major interest payment would come in '08 itself.
- Suresh Taneja:** But then it will be balanced with the increased sales as well.
- Preeti Priyamvada:** Yeah that would be there, but I believe with the huge amount of loan the company is raising there, and the rate of 8% and the SDF rate is also around 4%, the interest payment is likely to go up in the next year or so.
- Dhruv Sawhney:** Yeah, interest payment will go up, but the interest payment per bag is what we are looking at. Because we are really looking at 6.2 million this year, and 8.2 the year after, so that is what is going to compensate for that, the interest payment will be a total sum and divided by a much larger proportion.
- Preeti Priyamvada:** Okay, sir in your current quarter results, there was one item in the expenditure by off season expenses, and amount capitalized. What is this of nature, I mean, what exactly is the nature of this particular item?
- Suresh Taneja:** Yeah, it is basically the accounting practice, if you go through our annual report, you'll be able to find this. Off season expenses are basically deferred and it is allocated once the production starts during the season. And the second element is that whatever are the supplies which we have made and which were capitalized within the sugar unit, to that extent is the amount capitalized.
- Preeti Priyamvada:** Okay, so whatever expenditure the company does in the off season, that you distribute it among the cost of production whenever the season starts.
- Suresh Taneja:** No, not all, some of it.
- Preeti Priyamvada:** Some of it? Okay thank you sir.
- Suresh Taneja:** Thank you.

- Preeti Priyamvada:** And there was one more question sir, sorry. Sir there has been lot of equity dilutions, if you see, the equity capital of the company has really risen a lot. So, will this be having an effect on the EPS and on the net worth of the shareholders? Any comments on this particular thing?
- Dhruv Sawhney:** No, our equity capital actually hasn't gone up. If you see, we had a 3:2 bonus issue. So that's not really an equity infusion, and the only equity infusion we had was the IPO where from 20.79 it went to 25.79.
- Preeti Priyamvada:** There was a 50-million shares IPO.
- Dhruv Sawhney:** Yeah, so its only 5 crores really. But basic thing was the 3:2 bonus issues.
- Preeti Priyamvada:** Okay, and sir one more thing on the EBITDA margins, I would want to know if possible. Can I get the segment-wise EBITDA margin figures and the EBITDA figures for different segments - in the sense sugar, steam, power, and cogen?
- Suresh Taneja:** For what?
- Preeti Priyamvada:** For this particular quarter and the previous quarter and the half year if possible.
- Dhruv Sawhney:** Let me give you the half year then.
- Preeti Priyamvada:** Okay fine sir.
- Dhruv Sawhney:** We have an EBITDA margin of about 15% in sugar
- Preeti Priyamvada:** Sugar was 15%, in this particular half year is it?
- Dhruv Sawhney:** 21% in turbines, and the EBITDA in gears and water together is about 25%.
- Preeti Priyamvada:** Okay and how much was it in the previous half in '06?
- Dhruv Sawhney:** In '06 in gears and water it was 13%, and in turbines it was 13.2%, and in sugar it was 23.5%.
- Preeti Priyamvada:** And are there EBITDA figures also if possible sir?
- Dhruv Sawhney:** That I think you can just work it out from that? These are the margin on sales.
- Preeti Priyamvada:** Yeah, I have the segment-wise revenue figures.
- Suresh Taneja:** In any case if you require the information, one can always talk later and get these figures, it's not a problem.
- Preeti Priyamvada:** Okay, thank you sir.
- Moderator:** Our next question comes from Mr. Ashwin Sharma of Indsec Securities.

- Ashwin Sharma:** Sir my question is from engineering segment. Sir, what was the net order addition during this Q2 2006.
- Dhruv Sawhney:** Sorry, net order addition?
- Ashwin Sharma:** Addition. Because in the last Q1 2006, we have around 500-crore order book. So today we have around 570 odd crores. So what was the net order addition?
- Dhruv Sawhney:** This is a very technical business. The main order comes in the first quarter and the last quarter of the year. The net order on hand are Rs. 568 crore as on 1<sup>st</sup> of October.
- Ashwin Sharma:** Okay and what was the amount of execution order during the quarter?
- Dhruv Sawhney:** That you get from the turnover of engineering. The sales of engineering in the quarter were...
- Suresh Taneja:** 275 crores.
- Ashwin Sharma:** 275 was the?
- Suresh Taneja:** Was the execution during the half year.
- Ashwin Sharma:** Execution?
- Dhruv Sawhney:** Yeah, these are the orders on hand, we can mail you the orders that we've fixed up during this quarter. I am sorry, the opening was 450.
- Ashwin Sharma:** Sorry, pardon me?
- Dhruv Sawhney:** The opening was 450.
- Ashwin Sharma:** Okay, Sir one more question. What is the sustainability of these orders going ahead?
- Dhruv Sawhney:** That's why we are projecting an increase in turnover in '07-'08. And I'm not even looking at the export area, I just mentioned about our recent order to Italy. As you know the world market for our range is about 7 to 8 times more than what we are selling domestically.
- Ashwin Sharma:** Yes, okay thank you.
- Dhruv Sawhney:** Thank you.
- Moderator:** Our next question comes from Mr. Nirmal Shah of Alchemy.
- Nirmal Shah:** Sir I just wanted to know when is the SAP expected to be announced?
- Dhruv Sawhney:** That's a million dollar question! Right now there is a gag on the UP government because of some district elections, so the election code is on. So they can't announce it, but you see the factories are going to start anyway, so they will announce it by the end of the month, or early November.

- Nirmal Shah:** Okay sir and any initial guidance regarding the recovery rate. What you have seen in this crushing season, do you expect any percentage increase over that?
- Dhruv Sawhney:** Yeah I said we expect the recovery to increase by 0.4%.
- Nirmal Shah:** 0.4%?
- Dhruv Sawhney:** Overall for the sugar group.
- Nirmal Shah:** Okay sir.
- Moderator:** There is a follow up question from Mr. Nirav Shah of Pioneer Intermediary.
- Nirav Shah:** Sir, when is our additional turbines capacity going on stream? It was written in the release that it will be in Q4, but can I have the month?
- Dhruv Sawhney:** No, you see the capacity for an engineering business is a very difficult thing to say. It's not like a sugar plant where you just start. By Q4, the sheds will all be up, so will the assembly base. Some of the machine tools are coming next year in the 2<sup>nd</sup> half, but before that we'll be subcontracting. So technically our capacity is going to be up if we subcontract even by the end of the financial year. But for us to get our maximum efficiencies in terms of delivery, we will be doing that by 2<sup>nd</sup> half of next year.
- Nirav Shah:** Okay, and sir in the release it was mentioned that our new cogen unit would operate only during the season, and not during the off season. Any particular reason for that?
- Dhruv Sawhney:** Yeah, because we've cut the cost down here. Our first cogen unit we wanted to operate for 300 to 330 days. So, it's much more economical to have this back pressure turbine, rather than having a pass out condensing turbine. Generally when people go for high capacities, they have one pass out condensing turbine, and then you save the bagasse with the other one, so that you operate the whole plant for a better capacity utilization.
- Nirav Shah:** Okay sir, on an average for the cogen unit, how many days of operations do you target in this season?
- Dhruv Sawhney:** About 270 to 300.
- Nirav Shah:** Okay sir. Thanks a lot sir, thank you very much.
- Dhruv Sawhney:** Thank you. I haven't mentioned in my opening remarks about our agri centers, which is in a separate company; I just wanted to briefly give you those highlights. That's also seen exceptional growth. By the first of April '07, we expect to have 70 centers. We have over a lakh square feet of retail space now, and by 1<sup>st</sup> of April 07 we expect to have 2.7 lakhs square feet of space and we're covering the areas of west and central UP and Uttaranchal. We have a total of 480 partnerships right now, and we're going to be moving into Haryana, east UP, and Rajasthan very soon. We're going into B class towns, and growing focus on FMCG. The sale of food items is directly from

the source. Grocery is also keeping pace with the sale of other items for farmers such as fertilizer, pesticides, and our services, which is insurance and credit.

**Nirav Shah:** And sir, how many centers did you mention by April '07?

**Dhruv Sawhney:** 70.

**Nirav Shah:** 70? But initial target was 45.

**Dhruv Sawhney:** Correct.

**Nirav Shah:** Okay and how much revenues did you contribute in this current quarter?

**Suresh Taneja:** See it's a standalone financial which we have published.

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

**Moderator:** Thank you sir. There are no further questions. Now I hand over the floor to Mr. Dhruv M. Sawhney, Chairman and Managing Director of Triveni Engineering and Industries Limited for closing comments.

**Dhruv Sawhney:** Thank you to all participants for this call. I would like to wish all of you, on behalf of myself and the Triveni Management, a very Happy Diwali. We did enjoy your questions, and we look forward to your participation in our growth and in the company, and also talking with you again after the 3<sup>rd</sup> quarter. In the meantime if you have any queries, you could please contact Mr. Narayananan or Nikhil Sawhney, or our CFO Mr. Suresh Taneja. Thank you very much.

**Moderator:** Ladies and gentlemen this concludes the conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

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