



## Triveni Engineering & Industries Limited

### Q4 FY 16 Conference Call Transcript

May 17, 2016

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**Moderator** Good Day, Ladies and Gentlemen, and Welcome to the Q4 FY 16 Earnings Conference Call for Triveni Engineering. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

**Gavin Desa** Thank you. Good day, everyone, and warm welcome to all of you participating on Triveni Engineering & Industries Q4 and Full Year 2016 Earnings Call. We have with us today on the call Mr. Tarun Sawhney – Vice Chairman & Managing Director, Mr. Suresh Taneja – the Group CFO and Mr. Sameer Sinha – President (Sugar) and other members of the Senior Management Team.

Before we begin, I would like to mention that some statements made in today's discussion may be forward-looking in nature and a statement to this effect has been included in the invite which was emailed to you earlier. I would also emphasize that while this call is opened to all invitees; it may be not be broadcast or reproduced in any form or manner. We would like to start this call with the opening remarks from the Management followed by an interactive Q&A session wherein you can discuss your views and key issues. I now invite Mr. Tarun Sawhney to commence the call. Over to you, Tarun.

**Tarun Sawhney** Thank you. Good afternoon, everybody, and welcome to the Q4 and Financial Year 2016 Results for Triveni Engineering & Industries Limited. I would like to take this opportunity to cover some of our financial highlights followed by our business highlights, the industry scenario and then just a few brief comments on the outlook for the Company.

Q4 FY 16 ended with net sales of approximately ₹ 468.1 crore and a profit after tax of ₹ 44.1 crore which was a stark difference to the corresponding quarter in the previous year. Consequently, for the entire fiscal year while our net sales were marginally lower at ₹ 1,915 crore from fiscal 2015, our profit after tax was ₹ (-9.8) which is a stark difference to the year that we had in fiscal 2015. The improved performance in the fourth quarter was primarily due to the improvement in sugar operations, Higher recovery and improved sugar prices had ensured profitable operations. The losses for the full year are attributed to a low average of sugar prices for the entire year.

The performance of both the Co-generation business and the Distillery business have been satisfactory and according to our budget. The performance of the Engineering business on the other hand was marginally subdued. Although, the

order booking particularly in water business was very healthy in the year and points towards a renewed focus in this business and as I had mentioned in our interactions over the last few quarters that we were expecting and we are certainly seeing that this market is picking up and I will talk more about that later on in the call. Our outstanding order book for Engineering stood at ₹ 647 crore which was a year-on-year growth of 29%, a very large growth indeed.

Lastly, the overall debt of the Company on the 31st of March stood at ₹ 1,700-odd crore which was higher by 16% compared to the same time in the previous year. This was primarily on account of the higher utilization of cash credit due to accelerated and timely cane payments. I would like to mention over here that our term debt as on the 31<sup>st</sup> of March, 2016, was ₹ 544 crore, the same amount for term debt as on the 31<sup>st</sup> March, 2015, was ₹ 548 crore, so just marginally higher. The average borrowing for the entire year stood at approximately ₹ 1,200 crore.

Looking at the Sugar business, for the season 2015-16 the total amount of sugar produced was broadly the same when compared to the preceding year for the sugar season 2014-15. Having said that, the recovery increased, the crush was down appreciably but the recovery increase was a staggering 123 basis points. The overall recovery in 2015-16 stood at 10.8% whereas in 2014-15 it was a mere 9.57%. This is a direct result of the very good work that we have done in cane development which gave us a significant improvement over the average increase in recovery across UP, which was approximately about 100 basis points. Going forward I believe that this increase, delta rather, will be larger in the years to come and again due to the good work that we are doing in the field with our farmers. Our sugar dispatches stood at approximately 78,745 tonnes and our average realization for Q4 was approximately ₹ 31.3 per kilo. This of course was much higher than the corresponding quarter in the previous fiscal year and contributed to a PBIT in our sugar business of ₹ 23.6 crore, again a big difference from the preceding quarter. Even though the sugar cane crush was lower by 12%, as I mentioned, the improved recovering of 1.23% was the saving factor in terms of ensuring that the quantum of sugar production remains the same and this is very important because total amount of sugar is in our stocks also as of the 1st of April remains fairly high in my opinion and I think we are very well placed in terms of delivering good financial results with that sugar in stock over the course of this current fiscal year.

During the previous year the Company received a subsidy of ₹ 28.6 per quintal on account of the sugarcane crush for the previous sugar season. The sugar price for 2015-16 has been considered in our accounts at ₹ 280 per quintal. I should point out that current prices at this point in time are over ₹ 33.5 per kilo for plantation white sugar and over ₹ 34 per kilo for refined sugar. And you would remember that Triveni produces well over 40% of its total sugar production as refined sugar from our two plants in Western Uttar Pradesh at Khatauli and in Sabitgarh. The export of power from our incidental Co-generation units that we had invested in over the last three seasons at Chandanpur, Milak Narayanpur and Sabitgarh have resulted in a revenue of over ₹ 11 crore for the quarter ended March 2016 and ₹ 15 crore for fiscal 2016. The sugar inventory as of 31st March, 2016, was 41.44 lakh quintals valued at just a shade over ₹ 29 per kilo.

There are a few major factors including the policies of the government which have been the game changers not just over the last quarter but over the last several quarters. Firstly, the decline in production in the country was about 11%. Second, the significant cane price subsidy announced for UP Government for 2014-15 which came into our accounts last year. Third, the mandatory export announced by the Central Government which has had its desired impact and I will comment on

that a little bit later. And lastly, the record high recoveries in Uttar Pradesh which has really leveled the playing field of Uttar Pradesh millers with the Rest of India and that is a very important point given that in Uttar Pradesh one pays a SAP which is higher in average than the FRP paid by other states. Having said that, this increase in recoveries has to a very-very large part evened the average cost of production between northern millers and central and southern millers.

As far as our Co-generation business is concerned, over the quarter we generated 130 million units which was slightly higher than 129 million units in the preceding quarter of the fiscal 2015. The PBIT stood at ₹ 44.5 crore for the quarter versus ₹ 39.5 crore in the preceding quarter for the previous year. Similarly, in our Distillery business, our average realization for Q4 2016 was ₹ 44.05 per liter which was a stark difference to the figure for Q4 2015 at ₹ 38.23 per liter, resulting in a higher PBIT year-on-year. While the sales during fiscal 2016 was more or less at the same level as of previous year, the realization increase of about 9% resulted in higher turnover to the extent of approximately 9%.

The share of ethanol sales in fiscal 2016 stood at 87% of the total sales volume versus 45% in fiscal 2015, it is important to take a note of that. The government's proposal for increasing mandatory ethanol blending with petrol to 10% is expected to help the Company produce more and supply more ethanol which will lead to higher general profitability for the distillery going forward. I should mention that the Country has already surpassed 5% EBP and that is a landmark that we have crossed and an important parameter for the continued success of this program.

Very quickly, with reference to our Engineering business, I will take the Gears business first and then the successes of the Water business. Gears business had a large sale in the quarter of ₹ 46.1 crore versus net sales of ₹ 41.9 crore in Q4 2015. Consequently, the PBIT for the quarter stood at ₹ 15.9 crore versus ₹ 12.4 crore for the preceding quarter in the previous year. The turnover for fiscal 2016 has been marginally higher due to the higher turnover in the last quarter. It is important to mention that there has been an increase in off take by OEMs of about 30% and there was a decline in the aftermarket of almost the same amount with respect to our, service and repair business. This is very much in line with a return to a positive CAPEX cycle when we see the focus on new equipment return versus a focus on repair and refurbishment of old equipment, and I think this augurs well for the future. And this is certainly in the market that we address which is not just the Indian subcontinent, Southeast Asia but the entire region of Asia. Having said that, across the world over fiscal 2016 we have seen global oil prices decline very substantially and companies have grappled to cope with these lower prices. Consequently, we have had a negative impact in our business with our supply chain agreement with GE Lufkin, but we are confident that this business will materialize into the future and the relationship is extremely strong and one that will deliver great value to our gears business. The order intake of ₹116 crore for fiscal 2016 was 6% higher than the previous year and we have ended the year with an order book in excess of ₹ 52 crore.

Looking at our Water business, the net sales stood at ₹ 46.3 crore with a PBIT loss of ₹ 9.7 crore. The turnover, this is for the Q4 fiscal 2016, the turnover during the year suffered due to significantly varying order intakes with respect to the previous years. The late completion of some projects was also some of the problems resulting in the loss the business has hit. Having said that, our water business group has received orders for ₹ 363.6 crore which includes an O&M portion of ₹ 77.4 crore. This is a very large order intake and an intake that is serving us extremely well. As you will recollect from my previous calls, it does take about, since these projects, anywhere between 12 to 24 months in duration, more towards the latter, it takes time for these projects to enter the system and for them to result

in revenues and profitability and certainly hope to see that going forward. The outstanding order book as of 31st of March, 2016, stood at just under ₹ 600 crore which was significantly higher than the ₹ 445 crore of order booking on the 31st of March, 2015.

Looking at the industry scenario I would like to first take up Sugar where up to the 30th of April the all India sugar production has been lower at approximately 11%, 24.6 million tonnes, this is a big difference compared to 27.6 million tonnes produced up to the same period last year. Triveni estimates that this production for the year will be no higher than 25.15 million tonnes as a total, no higher than that, this will include the special season in Tamil Nadu which will be in September of this calendar year. Sugar production in UP has been lower at 6.8 million tonnes on the 30th of April compared to 7.04 million tonnes in the previous year. On the other hand, Maharashtra has been significantly lower at 8.38 million tonnes on the 30th of April compared to 10.3 million tonnes produced in the corresponding period of last year. Karnataka has been lower at 4.04 million tonnes compared to 4.8 million tonnes. And in comparison with last year most of the sugar producing states have produced slightly lower except for Tamil Nadu, Punjab. And this frankly speaking supports my perspective even on the following year and the sugar production there where I expect that the states of Punjab and Tamil Nadu and Uttar Pradesh, as a matter of fact, will compensate for the dramatic decline in production in Karnataka and Maharashtra. It is estimated by us that 7 million tonnes will be the carry over stock for next year and if we consider the total availability of sugar for sugar season 2016-17 would be approximately 31 million tonnes which means a country wide production of approximately 24 million tonnes, there is no need for the Government of India to import any sugar, we have ample balance. And even if one takes a very highly aggressive pickup of consumption and pipeline stock at 26 million tonnes which is the highest number than what seems thus far, we still have a very healthy closing balance for the sugar season 2016-17 and therefore again supporting my perspective that no imports are required for the country and for the consumer.

Several important things have happened and that require deliberation. The Central Government has notified stock limits of 500 tonnes and has somewhat halted the sugar price increase. I had given you an idea what the prevailing prices are, those are very healthy prices I might add. There is scope for these prices to increase and one would hope from Triveni's perspective that prices ex-mill in Uttar Pradesh for our factories rise to approximately ₹ 36 per kilo ex-mill, ex-duty, and thereby the consumer price would be approximately ₹ 42 per kilo giving an average country wide consumer price of approximately ₹ 40.5 per kilo which is very much in line with what the Central Government is willing to accept at this point in time.

Various industry estimates also indicate a global sugar production deficit of approximately 6 million tonnes to 7 million tonnes in 2015-16 and this is owing to a lower sugar production in Northeast Brazil, Thailand, India, China. The positive aspect of this is that there has been a return of the funds to the global markets. We have seen lower sugar prices which have suddenly risen, about 10 months ago they were languishing at about 10 cents per pound and now they are substantially higher at around 17 cents, there is further scope, market pundits are very clear that there is tremendous potential, the forward markets look very buoyant as well and we are also seeing a fairly substantial white premium at this point in time which is encouraging for white sugar and crystal sugar manufacturers.

With respect to the outlook for Engineering businesses – I think we will need to wait for a full revival of the CAPEX cycle which will probably happen in the latter part of fiscal 2017, I think with some degree of confidence, cautious optimism we can certainly say that we are expecting that to happen at some point at the end of this year and therefore we are expecting orders to come in from our sourcing initiatives,

from major OEMs including GE Lufkin, oil and gas segment, GE Oil and Gas and a large list of our OEMs in our gears business. The Company is also exploring new products in our gearing business and new geographies to expand to improve its turnover and profitability. The focus, I have to mention, is in two critical areas – the first being marine where there has been a tremendous amount of work done over the last two years in terms of getting qualified and in terms of being able to quote. You can appreciate these are long processes and I have not spoken this to you, we are now in the position of being able to compete and compete aggressively and competitively on all large tenders not just for the navy and coast guard but also for merchant marine vessel as well. The second area is really looking at low speed specialized gearing. We have done certain amount of research and development in this area, that has been kicked up a notch in terms of product rollout looking primarily at high value, high technology orders therefore preserving margins and ensuring that we can broaden our overall addressable market as well and we see that these two new growth areas will certainly feature in fiscal 2017.

As far as the Water business is concerned, the turnover should show a very good robust growth going forward on the execution of the order book. The Company has participated in a large number of tenders which are now, at various stages of finalization and it is felt by the management that we are extremely well-poised. The orders that we have won recently are very much in line with our strategy of participating in the next growth spurt in the water business, not just domestically but also now internationally.

Lastly, I will give an update on the scheme of arrangement. The Company has submitted a new scheme of arrangement with an objective to segregate Sugar and Engineering businesses from the appointed date of the 1<sup>st</sup> of April, 2016 keeping in view the current sugar scenario to optimize the benefits and provide all these benefits to all concern stakeholders.

Thank you. I would like to take questions now, please.

**Moderator**

Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of HR Gala from Panav Advisors. Please go ahead.

**HR Gala**

It is really heartening to see the smart recovery that we have made in the quarter four. Sir, going ahead what kind of cane crush do we have planned for the next financial year?

**Tarun Sawhney**

It is a very good question, now when we look at the next financial year of course we have some portion, the closing end of this sugar season as well which went into the month of April in Uttar Pradesh at our factories, but that is a marginal amount, for the fiscal year it will primarily be the next year's production. So let me tell you the factors that will govern the total quantum. Number one, the monsoons and the preservation of health of our crops, the former, we have very little control over because the vagaries of the monsoon are not dependent on us but luckily most of our factories, I would say 90% of our area is covered by canal irrigation in Uttar Pradesh and therefore we are fairly insulated with respect to the impact of a poor monsoon. Number two, with respect to crop health our increase in the recoveries are very much a sign of how we are tackling cane development and working with our farmers in order to preserve cane health. I think on both those fronts we are doing quite well. Now in terms of planting which is almost over, it will be over by the end of this month and the great heat wave that is sweeping across north India is actually a very positive factor in terms of this planting process, it really does help facilitate good and positive germination of seeds. So, on that front we are certainly seeing some amount of increase in terms of area and more importantly what we

are seeing is a great acceptance of high sugar varieties which are part of the reason for this increase in average recoveries for the state of Uttar Pradesh. Now these specific varieties also are the higher yielding varieties and they have as much as 30%, 40%, 50% higher yields compared to the normal varieties listed earlier. So what we are going to see especially for Triveni with our position of where our factories are, with the work that our staff is doing with the farmers in the field and coupled with the planting that we are having in our areas I think we are very well positioned and we are looking certainly at an increase in production for the next year. This is also very much in line with what I mentioned in my opening comments where I do foresee that Uttar Pradesh and Tamil Nadu and Punjab will have a higher production, Uttar Pradesh being the largest producer amongst the three, in the next sugar growth and will compensate somewhat for the decline in production in Maharashtra and Karnataka.

- HR Gala** So, do you expect around 5 million tonnes to 6 million tonnes of cane to be crushed next financial year?
- Tarun Sawhney** 5 million tonnes to 6 million tonnes?
- HR Gala** Yes, like in 2015-16 we have done 4.52 million tonnes
- Tarun Sawhney** It is very difficult to anticipate, very honestly speaking I think we are trying our level best to make sure that we are somewhere within that range.
- HR Gala** And sir our sugar factories are in the Western, Central and Eastern UP, I mean throughout the UP, so how does that augur for our overall sugar production, yield, etc?
- Tarun Sawhney** Well, our factories are primarily in west or central west and we have one factory in the east, only one out of the seven. With respect to sugar production, There are multiple ways of looking at this, I will be very candid with you in terms of the advantages and disadvantages. In West UP the challenge that we have is that the farmer for many generations has done a massive overdosing of urea, that overdosing of urea has impacted the soil health which has consequently led to a much greater amount of work that is required and partnership that is required between factory and farmer in terms of improving the recoveries. Having said that, our farmer in Western Uttar Pradesh is a sugarcane farmer. The cane intensity in parts of Western Uttar Pradesh is as high as 80%, 85% which means the farmer does not waver regardless of what is happening from the crop. So in a year of shortage it is that very farmer that will benefit you the most. So the confidence that I have in terms of Triveni for next year is primarily due to our farmers.
- HR Gala** Sir another factor, in the table which you have given the sugar dispatches, realization on value, if you actually arithmetically calculate the per ton realization does not come to 26,657, it comes to something like 30,610. So what are the other things included in the net sales of ₹ 1,551 crore?
- Suresh Taneja** There will be lot of other products such as molasses, bagasse, etc that also forms a part of it. I think particularly you cannot derive at the realization price
- HR Gala** By providing sugar dispatches?
- Suresh Taneja** Yes.
- HR Gala** So how much was sugar sales only, per say?

- Tarun Sawhney** Sugar dispatches are given at 506,000 tonnes.
- HR Gala** I am taking about the sales value, this ₹ 1,551 crore as you said will include bagasse, molasses and other things, so how much would be sugar per say?
- Suresh Taneja** We do not have that information available, I think we will be able to pass it on this information if you so require.
- HR Gala** And last question from my side, do we have any capacity expansion plan in sugar business?
- Tarun Sawhney** At this point in time we are looking at some marginal balancing of plant at some of our Western UP factories.
- HR Gala** No major?
- Tarun Sawhney** Nothing significant, but what it will allow us to do is to crush the maximum amount at the highest recovery point.
- HR Gala** How much is our total TCD?
- Tarun Sawhney** 61,000.
- HR Gala** All seven units put together?
- Tarun Sawhney** That is installed capacity, the operating levels of course are not to say.
- Moderator** Thank you. Our next question is from the line of Arun Malhotra from Santalum Capital. Please go ahead.
- Arun Malhotra** Wanted to understand first the change in the scheme of arrangement, what was the thought process behind it changing it at the last moment?
- Suresh Taneja** If you remember the earlier scheme was approved in the month of July, the scenario prevailing at that time was very different and obviously the sugar prices were at all time low, so basically the kind of a scheme which we had made at that particular point of time it wanted to capture certain benefits, but in view of changed outlook in the case of sugar which took place in a dramatic manner I think the scheme was a little less efficient and there was a possibility to increase the extent of efficiency. This is the reason to withdraw the scheme and approve a different scheme, the objective however has been the same to segregate Sugar and Engineering businesses. It is more a question of mechanics.
- Arun Malhotra** Can you also elaborate on the efficiency, you mentioned the earlier scheme was less efficient than the current scheme, what are you referring to, what is the differentiating factor?
- Suresh Taneja** The kind of a structure we were trying to make which is a two company structure, one through slump sale and one through demerger did not give the perceived benefits. So therefore we said why not have a simple structure of a demerger only which is totally tax neutral structure and do it in that manner.
- Arun Malhotra** Secondly on the sugar division performance, are we in line with the peers because prima facie my understanding is that we have underperformed with our peers.

- Tarun Sawhney** At the end of the day what you have to look at is the total inventory as a percentage of production and I do not know which players, because I do not think we really necessarily compare ourselves or have had time at this point to compare ourselves with our peers. But from the perspective that one is coming at we had a very well thought out sugar sales strategy because that is where the bulk of realizations come from and our sales strategy was fairly simple that one needs to be able to capitalize on sales over the first six months of this fiscal year. And I think we are very much in a position to be able to do that going forward. Now in terms of the sugar recovery or the performance of sugar factories year-on-year, we have closed the gap between our peers in terms of the districts where we are present because you have to look at the sub-division who are your neighbors, I think all of our factories are by far the number one position factories and in one case it is number two, but they are clearly right up there in terms of delivering the best performance in their specified districts. Now yes, there are other districts and factories in those districts that have given very different recoveries but we are not present there.
- Arun Malhotra** And lastly on the Water business, Tarun you have been mentioning in the last concalls that probably we are near the end of losses in the water segment but this quarter also we have again shown a loss at the EBIT level, when will we be putting an end to this loss?
- Tarun Sawhney** To be perfectly candid with you we did not have a full recovery of our fixed cost, there was lower turnover which resulted in the loss in this quarter. I think you have asked a very pertinent question and I tried to address it head-on in my opening remarks by saying that our order book is 33% higher as of the 31<sup>st</sup> March, 2016, compared to 12 months before that which is ₹ 600 crore versus ₹ 450-odd crore. Now the execution of that is happening as we speak, the accounting of that will happen also subsequently and I am very confident that what we are going to see over the course of this fiscal year, is a return to renewed profitable growth in our Water business.
- Arun Malhotra** What is our internal benchmark rate when we bid for these water projects, what is our IRR for these projects?
- Tarun Sawhney** I am sorry that is competitive information, I would be unwilling to share that.
- Arun Malhotra** Will it be in the ballpark of other companies?
- Tarun Sawhney** I do not know what other companies are doing, we try and get all the projects
- Arun Malhotra** Will it recover the cost of capital which we are putting in?
- Tarun Sawhney** Of course, the intent is to be able to do that, clearly.
- Moderator** Thank you. Our next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.
- Manish Ostwal** My question first on, what is your update on this cane subsidy linking to the product prices, so what is the industry status on that?
- Tarun Sawhney** Well, in terms of what was offered to the industry for sugar season 2015-16 by the Uttar Pradesh Government, the remissions of taxes and duties and society commission and purchase tax, that has already been given to the industry. However, any further subsidy will only be contemplated by a committee set up by the Chief Secretary by the end of this month or early next month and one of the

factors that he will evaluate or the committee will evaluate is the average sugar pricing compared to recoveries up to the 31<sup>st</sup> of May, 2016, starting from the 1<sup>st</sup> of October, 2015. Now those average sugar realizations for the state would probably be to the tune of just under ₹ 31 per kilo of sugar which is very much in line with what the state government has to offer. So I am not holding on with waited breath in terms of any further subsidy coming from the Uttar Pradesh Government, but there is an important meeting that will happen and whatever the outcome of that meeting will have a strong and important impact for this year and also for the following year in terms of what is the thinking of the government.

**Manish Ostwal** And secondly on excise duty benefit on ethanol production, so what is the benefit we are right now getting on excise duty front?

**Suresh Taneja** Ours is a basically standalone distillery, we are unable to capture the full benefit because though the excise duty on molasses is available as CENVAT balance and because of the fact that we do not make any other excisable product we are unable to use it. So therefore as against the full benefit of ₹ 5 per liter we get a benefit of about ₹ 2 per liter.

**Manish Ostwal** And we reached or achieved our export quota during this year?

**Tarun Sawhney** That is right.

**Manish Ostwal** And what is the realization difference between export and domestic on per quintal basis?

**Tarun Sawhney** At this point in time?

**Manish Ostwal** Yes.

**Tarun Sawhney** At this point in time it is far greater, the bulk of exports that were done were in the range of approximately at a loss of about ₹ 3 to ₹ 3.50 for the industry as a whole, at this point in time for white sugar exports it will probably be about ₹ 4 ballpark, my view is that there are no further exports that are envisaged. I think we will touch a total of about 1.5 million tonnes of sugar exports versus 3.2 million tonnes that was initially targeted by the Central Government. However to the best of my knowledge we as Triveni are certainly very happy with touching a 1.5 million tonnes and I think the Central Government itself is quite content with that amount having gone and no further quantity being exported.

**Manish Ostwal** And this ₹ 3.5 is on raw sugar, right?

**Tarun Sawhney** No, it was any sugar and it was only white sugar that was exported and it was 3.2 million tonnes that was the target.

**Manish Ostwal** No, the loss on export

**Tarun Sawhney** That is white sugar.

**Manish Ostwal** And the ₹ 3.5 is your raw sugar loss?

**Tarun Sawhney** No, I gave you a range of only white sugar exports.

**Manish Ostwal** And lastly, for setting up of a 30,000 TCD integrated sugar plant what is the capital cost currently?

- Tarun Sawhney** I am sorry I do not have that number readily available.
- Manish Ostwal** And input output ratio for Co-generation power, I mean 30 kg of bagasse how much units generated in power?
- Sameer Sinha** I think you are being very specific, if you contact us offline our technical people will give you those answers.
- Moderator** Thank you. Our next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.
- Dikshit Mittal** Sir, what was the inventory gain during this quarter?
- Tarun Sawhney** There is no inventory gain, everything is at cost.
- Dikshit Mittal** So you have not marked your inventory up to the current levels?
- Tarun Sawhney** No, we have not marked. 85% of our current year's production is in inventory as on 1st of April, and that is at cost.
- Dikshit Mittal** And if I see your sale dispatches in relation to your capacity the dispatches seem to be on the lower side if I compare to some of your peers, so is it a conscious strategy by the management?
- Tarun Sawhney** It is.
- Dikshit Mittal** So do you expect the prices to rise further during next year?
- Tarun Sawhney** I think the average prices of Q4 of last year rose very steadily, at this point in time we are well above the average pricing over the course of Q4 of last year, that means Q1 of fiscal 2017. Going forward, yes there is some scope for a little bit of increase, maybe 5% - 7% odd and I think that that will certainly happen over the course by the end of the summer or before we get to the holiday period. But beyond that I think the industry, we ourselves are very comfortable with that price, I have mentioned earlier and I will repeat again that for Uttar Pradesh millers to be able to get an ex-factory realization of ₹ 36 per kilo ex-mill ex-duty is a very reasonable price, the current price right now is about ₹ 34 for plantation white sugar as a comparison, and that is why I mentioned 5% to 7% higher.
- Dikshit Mittal** So expectation is we may realize around ₹ 36 average for the next year?
- Sameer Sinha** No, I said that might be the peak, it would not be the average.
- Dikshit Mittal** And sir in case the monsoons pan out on a normal side so will there be any sentimental impact on the sugar prices, what is your sense in that? Because I know in terms of production it will impact next year's production but do you see any impact on the domestic sugar prices?
- Tarun Sawhney** I think there will be a very positive impact if we have a normal monsoon and the reason for that is very simple, with a normal monsoon any desire to import sugar into the country will go away. I have given just a few minutes ago my rendition of the country's balance sheet going forward and if we have a normal monsoon then two years from now sugar season 2017-18 will have a bumper crop and therefore there is absolutely no desire for anybody to import any sugar at any point in time and that has a very stabilizing impact on the market. As a sugar miller, my personal

expectation is not to expect massive spikes and momentary spikes in the sugar market but to have stability and I think that stability augurs well not just for millers but for farmers, consumers and every single participant in the sugar industry.

- Dikshit Mittal** If I look at your closing inventory of around 41 lakh quintals and if I take current prices, so that means around ₹ 200 to ₹ 250 crore kind of inventory gains are possible in terms of PBIT is possible next year right from the sugar side?
- Tarun Sawhney** You are assuming some kind of a sale value and until we realize it I cannot really comment on that.
- Dikshit Mittal** Like if the prices stabilize at around ₹ 34 to ₹ 35 so I think you would be relying ₹ 6 per kg, right?
- Tarun Sawhney** I think we will find out when it happens, these are arithmetic calculations frankly speaking.
- Dikshit Mittal** And sir finally on the Water side, out of ₹ 600 crore how much is the legacy orders that are a negative margins currently?
- Tarun Sawhney** We do not take orders on any negative margins at all, at any point in time. I think this question has been asked in previous calls also and I want to reassure everybody that at no point do we ever accept any negative margin orders. The losses are on account of revenue realizations and basically lumpiness because you have fixed costs that are constant month on month, quarter-on-quarter whereas revenue recognition sometimes varies quarter-on-quarter. Going forward, I anticipate that the execution of this very healthy order book is going to ensure that this business returns to profitable growth for the next fiscal year.
- Dikshit Mittal** And sir any guidance on the execution of the ₹ 600 crore, how much we will be executing next year or what is the execution cycle for this order book?
- Tarun Sawhney** We do not really give any guidance in terms of how much or what our revenue targets for the next year will be, I will just leave it to say that most of our orders we will take up for execution anywhere between 12, 18, 24 months, that kind of cycle.
- Dikshit Mittal** And sir you said because of higher fixed cost we are incurring losses, so what is the level of revenues at which we breakeven?
- Tarun Sawhney** It is a very good question actually, ₹ 200 crore to ₹ 225 crore is the magic number.
- Dikshit Mittal** And sir what is the timeline for demerger, by when do you expect this to go through and the two companies get separately listed?
- Suresh Taneja** As of now, the application is before stock exchange and SEBI and hopefully in the next two to three weeks we should be able to get the clearance and then we file an application in the High Court.
- Dikshit Mittal** So it will take around six months from now?
- Suresh Taneja** Yes, this is what it looks so.
- Moderator** Thank you. Our next question is from the line of Rajendra Mishra from IDFC. Please go ahead.

- Rajendra Mishra** Just two queries, one is on the distillery side, are you looking at any CAPEX next year?
- Tarun Sawhney** No, we are not looking at any capital expenditure, we have incurred some capital expenditure in terms of compliance with environmental norms but any further CAPEX is not being envisaged at this point in time.
- Rajendra Mishra** But is there any incentive given by government for that?
- Tarun Sawhney** At this time besides your regular SDF loans there is not any special incentive that has come.
- Rajendra Mishra** And secondly, so I could not get completely with respect to that change in scheme of arrangement, so if you could just explain it again for me.
- Suresh Taneja** What exactly is your question for the scheme of arrangement?
- Rajendra Mishra** You said earlier scheme has been withdrawn, so this has been withdrawn in this board meeting?
- Suresh Taneja** Yes, it was announced in the month of March, the decision was taken to withdraw the old scheme and we came out with a new scheme which is lying with the stock exchange and SEBI as of now.
- Rajendra Mishra** So Board has approved it?
- Suresh Taneja** Yes.
- Rajendra Mishra** So how will the time lines show from here?
- Suresh Taneja** The timelines are that after getting the clearance from the stock exchange and SEBI which is expected in the next two to three weeks we will file an application in the High Court and it should take approximately about six months.
- Rajendra Mishra** I think you said something like 1<sup>st</sup> April or something.
- Suresh Taneja** No, 1<sup>st</sup> April is going to be the appointed date for the scheme of arrangement.
- Moderator** Thank you. Our next question is from the line of Afsha Sayyed from Dolat Capital. Please go ahead.
- Afsha Sayyed** Sir, just wanted to know that we have done an average recovery of around 10.8% in 2015-16 season, so what would be the normalized recovery going forward?
- Tarun Sawhney** There is no way of actually predicting that, I think the point to look at is in terms of where we are in comparison to our neighbors, neighboring mills and also how we improve our own varietal balance and plant health to ensure that increase year-on-year is positive. And I think what we are doing is we are ensuring that we replace all the general varieties with high sugared varieties and so our planting for next year, I would say 90% of it is with high sugared varieties and that is a very positive development that we have been able to ensure over the planting season which will be ending in the next 10 to 15 days.
- Afsha Sayyed** So this 10.8% would be considered as a one-off and will be coming sliding down to around 10.2% to 10.4%, would that be a fair assumption to make?

- Tarun Sawhney** No, I think that is anybody's guess, I mean one does not have a way of predicting what will happen next year, I think that if we have a reasonable and well timed monsoon, well timed reasonable meaning that the quantum of water is reasonable which means that the overall amount of water is as per long-term averages. Short duration, meaning we do not have rainfall in the month of October, early November, end of September, that point in time which actually prevents the sucrose formation in the sugarcane, untimely rainfall in the month of January of 2017, all those things would not happen and the incidence of pest and disease which at this point is at a record low I have to point out. We are taking full benefit of this massive dry and very hot weather in Uttar Pradesh because what it also does in terms of assisting germination is it also prevents any pests in the field. So these are all very positive things, so right now we are on track in terms of a very good delivery of results in terms of recoveries for next year, but a lot depends on rainfall to be perfectly honest, how much happens and when it happens and there is no way of judging that.
- Afsha Sayyed** And secondly sir, I just wanted to know the landed sugarcane cost per quintal for FY 16.
- Suresh Taneja** I think roughly speaking it is approximately, as against the price of ₹ 280 it is about ₹ 290 - ₹ 291.
- Afsha Sayyed** This is taking the subsidy?
- Suresh Taneja** This is not taking the subsidy but this accounts for remission of purchase tax and society commission which is about ₹ 8.9.
- Afsha Sayyed** So if you take the subsidy of ₹ 28 that will be lower again, right?
- Suresh Taneja** Absolutely.
- Tarun Sawhney** Let me assure you that there is nobody in the industry that is expecting any additional subsidy from the Uttar Pradesh Government for the sugar season that has just ended.
- Afsha Sayyed** No, I was talking about the FY 16 landed cost.
- Suresh Taneja** Even in FY 16 we are not expecting any subsidy to come in.
- Afsha Sayyed** And sir, what was your per unit Co-generation realization for 2016?
- Suresh Taneja** It is approximately about 4.57.
- Afsha Sayyed** And lastly sir, do you see any signs of sugar export repercussion order for the next sugar season happening, is there any likelihood?
- Tarun Sawhney** Sugar export...?
- Afsha Sayyed** Revocation, there has been a news that currently we have around 4 million tonnes of export quota in which we have to export around 80%, so is there any likelihood that next year it will be revoked considering the demand and supply situation in the country as of now?
- Tarun Sawhney** So the scheme that the Central Government came up with was only for the sugar year 2015-16 which means the scheme automatically expires as of 30th of

September, 2016, there is no scheme for the next year. It is a one time scheme and honestly against the 3.2 million tonnes which was targeted by the Central Government 1.5 million tonnes has broadly been done until now and I do not foresee that any more sugar will get exported.

- Afsha Sayyed** So for the next sugar season it will be decided next year itself?
- Sameer Sinha** I do not anticipate another export scheme next year.
- Afsha Sayyed** And sir considering the UP elections next year, so is there any likelihood of the revision in the SAP?
- Tarun Sawhney** Again, this is a subject that one will have to ask the state government, it is impossible as a miller to be able to forecast.
- Afsha Sayyed** Just an indication or what are your views on that, just wanted to know.
- Tarun Sawhney** It is very tough to tell, I think a lot of factors will have a play, one will be realizations at the point in time of start of next sugar season, the second will be overall availability of sugarcane in the state and a whole host of other factors. So 280 has been maintained for some time as the per quintal price of sugarcane, I think the announcement of FRT for next year by the Central Government will also be one determining factor, so we will have to wait and see, I think there are many things and quite a lot of time before that decision gets taken.
- Moderator** Thank you. Our next question is from the line of NK Arora an Individual Investor. Please go ahead.
- NK Arora:** Sir, first question is regarding gear segment, under the strategic supply agreement we have not received any significant order, sir can you just elaborate a bit more what is the reason for that?
- Tarun Sawhney** I think global oil prices have fallen and therefore orders from OEMs in the oil and gas sector have been subdued, they have curtailed their expansion plans of further capital expenditure and I think once we have oil prices that stabilize and hopefully stabilize within the \$40 to \$50 bandwidth, we will see a written to orders and the CAPEX cycle in that particular industry and associated industries. Global markets themselves have been slightly turbulent in towards the latter half of fiscal 2016 and that too has added to a little bit of the concern. But again I think we are looking at adding new products under this supply chain agreement, we are looking at new opportunities, etc and I am confident that even within this current fiscal year we will see a substantial improvement in the relationship with GE Lufkin under the supply chain agreement.
- NK Arora:** Secondly sir, in the distillery segment, have we completed the installation of incinerator?
- Tarun Sawhney** Absolutely, we are not looking at incinerator but we are looking at evaporator, multi-effect evaporator and it has been installed.
- NK Arora:** And now we can run our distillery for higher number of days?
- Tarun Sawhney** Actually that is something that is still with the authorities, at the moment the permission is only for the same number of days that we have.

- NK Arora:** Thirdly sir, in the water segment we have said that we want to explore the export opportunities, so I have two questions. What are the export opportunities available and secondly, are we going alone or we are looking with some partners?
- Tarun Sawhney** At this point in time we are evaluating opportunities, it is premature to be able to answer your question.
- Moderator** Thank you. Our next question is from the line of Rajeev Agarwal from SMS Holdings. Please go ahead.
- Rajeev Agarwal** Mr. Sawhney, a question, what is the ethanol inventory and what is the target for the current year sale of ethanol?
- Sameer Sinha** We are continuing to target 85% to 87% of all our product mix as ethanol sales, that is number one. And the rest we can manufacture up to 4.32 crore liters and we will be around there.
- Rajeev Agarwal** And what could be the average realization?
- Sameer Sinha** The average realization so far under the 3.75 crore liters of ethanol that we were contracted for has been at around ₹ 44, ₹ 45 for us and this will continue till the current tenders end in November. Beyond that, whether the excise duty comes in, that waiver remains or not that would be decision of the Government
- Rajeev Agarwal** And secondly, as one Mr. Arun had put up a question, if we compare our results with peer group, like specifically if I talk about our Dhampur and Upper Ganges, our inventory proportionately is very low, number one. Number two, I saw interview yesterday in CNBC of CFO of Oudh, the average inventory which we are carrying over is proportionately very high, number one. Number two, the average rate of inventory he was quoting was about 2640 where as I think we are quoting I think 2920. Can you just guide us what could be the reason?
- Tarun Sawhney** I think I have not looked at their results, the two companies that you have mentioned but I would imagine that we are holding a higher inventory than those companies.
- Rajeev Agarwal** No, that is why because this question is very pertinent, if you see their crushing capacity is about 28,000 - 29,000 and ours is 61,000 if I am right.
- Tarun Sawhney** As a percentage of total sugar produced is what you should look at, so I think you are looking at it from a different perspective. What you need to look at is how much sugar was produced in the preceding sugar season based on the amount of sugar produced what is the inventory level that is still with the company and that is a number to be looked at in terms of determining future profitability. Now the second part of your question with respect to the average cost of production, only Upper Ganges had a higher recovery than Triveni and therefore consequently they were having lower cost of production and sugar, so that is an indisputable fact. To the best of my knowledge I think that the other company had a lower recovery than ours and therefore that is not possible that we would have a lower cost of production.
- Rajeev Agarwal** Let me analyze all the figures of the company and then maybe I will send it to you and if you could see where is the anomaly.
- Moderator** Thank you. Our next question is from the line of Nidhi Goyal from COFCO Agri. Please go ahead.

- Nidhi Goyal** Sir, this is pertaining to the recovery, just now you have commented that if the rainfall happens at a reasonable number and if it does not rain in October and November then we can expect a good recovery, and also you have added that 90% of varietal shift has been done this year pertaining to your region. Sir I have one question that has any study been done that how this new variety behaves when there is excess rainfall because last year we had seen that given the temperature, given the rainfall everything was perfect as far as recovery is concerned but we do not know how it will behave in the coming season when there is going to be excess rainfall.
- Tarun Sawhney** Well, you are assuming that there is going to be excess rainfall, I do not know what is going to happen, but to answer your question very directly, there is great documentation in terms of how sugarcane as a plant behaves with respect to excess rainfall. The varietal change should not have any unique impact in terms of untimely or timely rainfall, there is no difference between the change in variety and what will happen with respect to rainfall, nothing special let me put it that way. So therefore it is well documented what will happen, if there is excess rainfall and if there is untimely rainfall.
- Nidhi Goyal** Sir one more question, how do you see the sugar price going forward, as far as I know 7 million tonnes will start this season and the production of say 23 million tonnes, so how do you see the price going forward?
- Tarun Sawhney** So my numbers are slightly different to yours, I see this year ending at 7 million tonnes closing balance, the opening balance in next year is 7 million tonnes, so therefore any production of approximately 24 million tonnes which will mean a total sugar availability of approximately 31 million tonnes which is far exceeding the 26 million tonnes of consumption for the next sugar year.
- Nidhi Goyal** And sir in this 24 million tonnes what is your number for Uttar Pradesh?
- Tarun Sawhney** I think it is challenging, from this year I would anticipate that we could have anywhere between a 5% to 7%, possibly even 10% increase in terms of total sugar production.
- Nidhi Goyal** So if I put it it will be 7.5% to 7.6% you are saying
- Moderator** Thank you. Ladies and Gentlemen, this was the last question. I would now like to hand over the floor to the management for their closing comments. Over to you, sir.
- Tarun Sawhney** Thank you very much for joining us for the Q4 and fiscal 2016 earnings conference call for Triveni Engineering and Industries Limited. I look forward to speaking to you all approximately three months with even better news and even better numbers, I think we are all excited about the return to profitability. We certainly as a management are looking forward to putting forward an aggressive and positive numbers not just for the next quarter but in the subsequent quarters going forward and I look forward to sharing those numbers and analyzing that with you in the future. Good afternoon.
- Moderator** Thank you very much, sir. 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.