



## Triveni Engineering & Industries Limited Q4 & FY 19 Earnings Conference Call May 22, 2019

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**Moderator:** Ladies and gentlemen, good day and welcome to the Triveni Engineering & Industries Limited Q4 & FY 19 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing \* then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you, sir.

**Rishab Barar:** Thank you. Good day everyone and a warm welcome to all of you participating in the Triveni Engineering & Industries Limited's Q4 & FY 19 earnings call. We have with us today Mr. Tarun Sawhney - Vice Chairman & Managing Director; Mr. Suresh Taneja – Group CFO and Mr. Sameer Sinha – President, Sugar as well as 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 sent to your earlier.

I would like to emphasize that while this call is open to all invitees it may not be broadcasted or reproduced in any manner. We will start this conference call with opening remarks from the management followed by an interactive question-and-answer session. I would now like to invite Mr. Tarun Sawhney to open the call. Over to you, Mr. Sawhney.

**Tarun Sawhney:** Thank you. Good morning, everybody and welcome to the fiscal 19 consolidated results of Triveni Engineering & Industries Limited. Our gross revenue for the company for the year under review stood at ` 3,151.74 crore with a profit after tax of ` 216.28 crore. The Sugar business recorded its highest historical recovery for the company, a new distillery of 160 KLPD was commissioned just after the financial close of the year. We have availed a soft loan of ` 310 crore under the central government scheme with the interest subvention at 7% for a period of one year, this is a cane loan. With Engineering businesses record turnovers and profitability and the Water business turnaround that I have spoken about in previous calls has certainly happened and the trend is expected to continue, I would speak about that when I review that business.

The outstanding order book as on 1st of April stood at just shade under ` 1,500 crore which is an increase of about 110% from the previous year. In other matters, an intimation has been sent to the exchanges informing that a meeting of the board



of directors of the company will be held on Monday, June 3, 2019 to consider a proposal for buyback of equity shares of the company.

For the quarter under review, Q4, gross revenues were ` 854 crore at an EBITDA margin of 14% equating to a PAT shade under ` 80 crore. The EBITDA margin for the year stood at 12% and it was an improvement from the previous year where the margin was 9%.

You would all remember that as a result of change of accounting treatment of off-season expenses which was carried out in Q2 of the year under review, the profitability for the current quarter is higher by ` 75 crore than the corresponding quarter of the previous year; however, the aforesaid change in the accounting treatment does not have any impact on the annual financial results which are completely comparable.

The results for the year ending March 31st 2019 includes subsidies of ` 51.6 crore which were received from the Central Government and the UP State Government in respect to the '17-18 sugar season.

During this quarter we have also accounted for export losses of ` 81.2 crore towards expenses incurred and contracted on inventory write down of sugar produced to be exported. Furthermore, the benefit from subsidies which were amounted to approximately ` 102 crore have not been recognized in view of the present level of uncertainty and pending fulfillment of the prescribed substantial conditions and this is directly as on the 31st March 2019. There has been some movement after that in the month of April and early May and I will again talk about that when we come to the discussions on the sugar business.

The total debt of the company on the 31st March 2019 is ` 1,725.9 crore which is 39% higher than the corresponding time in the previous year. The working capital borrowings are higher by 17% due to higher sugar inventories of 27% and the long-term debt is higher and stands at ` 490 crore mainly due to us availing a concessional interest loans or soft loans with interest subvention which aggregate to ` 454 crore out of ` 490 crore. The substantial portion of our long-term debt is at concessional rates of interest.

Now when I turn to Sugar business, the performance of the company has been in line with the management expectations. Historically, we have achieved the highest recovery for the units in the company. Our units have achieved recovery up to 20th May of 11.84% which is 45 basis points higher than the recoveries achieved during the previous season, and in fact our one factory as of today is still in operation at Ramkola in Eastern Uttar Pradesh. Even though the company is expected to crush lower sugarcane as compared to last year and this is a direct result of low yields with record recoveries the sugar production is estimated to be broadly similar to the level of last season.

The prevailing sugar price at this point in time is averaging around ` 33.25/Kg to ` 33.5/Kg, this is a blended price for Triveni which includes the portion of refined sugar and plantation white sugars. As on the 20th May, the cane dues of the company stood at approximately ` 290 crore and therefore the cane price payment that has been made is around about 90%.

During the quarter under review, the realization price of sugar was ` 3170 per quintal of sugar and this is broadly the number that we have for the full fiscal year

at ₹ 3145 per quintal. Sugar is being sold as per the monthly release quota allocated by the government to the company and we are following this mechanism rigorously. The inventory level as of 31st March 2019 was 62.5 lakh quintals and valued at approximately ₹ 30/Kg. There was some income from incidental co-generation at Chandanpur, Milak, Narayanpur and Sabitgarh which resulted in revenue of just over ₹ 23 crore for the year-ended March '19.

If one looks at the industry scenario, our estimates of about 33 million tonnes of production as we had mentioned in the last call are pretty much going to be on track. The country is probably going to produce half a million tonnes higher than the previous season. The estimated closing balance for the 30th September of this year is estimated by us at about 14.2 million tonnes, which is substantially higher than the figure as on 1st of October 2018, and this is after considering a very high export number of about 3.5 million tonnes. So, we anticipate a few more export contracts will be entered into in the next four months by millers across the country and will raise the total exports to approximately 3.5 million tonnes which is very honestly speaking I think it is a very positive outcome given what is happening across the industry and the financial issues that quite a lot of the companies in the industry are facing, to achieve 3.5 million tonnes of export out of 5 million tonnes is a remarkable number.

During the quarter under review, in view of the mounting dues, the Government had increased the minimum selling price of sugar from ₹ 29/Kg to ₹ 31/Kg in February '19 and this of course was a very positive step and has certainly helped in stabilization of prices across the country and maintaining the differential that exists historically and even today between Maharashtra and North India. However, the cane price arrears in the state of Uttar Pradesh as of 20th May 2019 are in fact still very high. They are lower than the ₹ 12,200 crore of same date on the previous year and stand at about Rs. 11,000 crore which is quite substantial.

Based on the initial crop estimates for the next year and the state of Maharashtra where we have done quite a lot of research and estimate that the crop will be approximately 7.5 to 8 million tonnes, down by about 2 to 2.5 million tonnes. We are happy to make an estimate for the next crop at approximately 30 million tonnes with a slightly lower bias. It does mean that we will have more production than consumption; however, there is an opportunity here with the additional ethanol capacities that have been established over the past 12-months for converting more B-heavy molasses into ethanol and taking away from the sugar balance. Our estimate saw that if the pricing is done at the appropriate time and therefore the mills have enough time for planning, we can see a million tonnes of conversion away from sugar to ethanol and that is quite substantial.

From the international perspective, the global sugar production is estimated to be about 174 million tonnes in '18-19 with a surplus of approximately 2 million tonnes, while for '19-20, there is a deficit that is forecast of up to 4 million tonnes of sugar. Brazil which produced 26.5 million tonnes in '18-19 is expected to produce about 1 million tonne to 1.5 million tonnes more in the subsequent year. China is estimated to produce approximately 11 million tonnes which will be down by about 0.5 million tonnes from the previous year and will be a major destination for global exports.

Turning to the Co-generation business, the business has done very well during the quarter with revenues of approximately ₹ 92 crore and a PBIT of ₹ 47 crore, very much in line with our own internal estimates. We have achieved the PLF levels as we had targeted and remain unchanged from previous year at the highest levels benchmarked across the industry.

Looking at our Distillery, our production for the quarter under review was approximately 11,200 KL and the average realization was about ` 43.2/litre which was little bit higher than the average for the year, stood at ` 41.5/litre. The PBIT figure for Q4 fiscal '19 is significantly higher than the corresponding period of the previous year due to the lower material cost; however, this I must point out, the cost of molasses has changed quite considerably over the last few months from levels that were below ` 50 per quintal, it has risen to approximately ` 300-350 per quintal of molasses.

The project related set up of the new ethanol plant in our sugar factory at Sabitgarh has been successfully completed and the distillery has been successfully commissioned during April 2019 and is in full production as we speak.

Looking very briefly at the Engineering businesses, I have to say that we are delighted to inform you that the Gears and the Water business have had record year as far as revenues are concerned and in the immediate past record profitability as well. The Gears business has records of both front with revenues of ` 41 crore plus in the quarter, leading to revenues for the year of ` 133 crore, 19% increase in revenues YoY. As far as the profitability is concerned, again, PBIT number for the year stood at ` 38.1 crore with excellent order booking of approximately ` 180 crore as on the 31<sup>st</sup> of March 2019. The order booking in this year was extremely positive especially because we received significant orders from new OEMs after a great lapse of a few years. So, we have been successful in terms of reaching new product to customers and markets. On all three fronts, we have had significant successes and that very honestly bodes very well for the year to come.

As far as the Water business is concerned, we have had revenues of approximately ` 90 crore for the quarter, resulting in approximately ` 250 crore of revenues for the year and PBIT of 7.3 for the quarter and 7.2 for the year. The improvement in the performance is directly attributable to the substantial intake in orders which resulted in increased activities and turnover. And as I had projected to you at the very beginning of the last fiscal year that this year we were anticipating return to normalcy and profitability for Water business and that will certainly happen. As a consequence, our outstanding order booking position as on the 31<sup>st</sup> of March has stood at ` 1,313 crore which includes just over ` 500 crore of orders towards O&M contracts which is more a slightly longer period of time. However, these are service oriented contracts and therefore have a higher margin.

The outlook for both the Engineering businesses seems very positive. For the Gears business, the outlook in capital goods not just in South Asia but in all of Asia and certain other markets seems positive. There are certain industries that are showing a great deal of pick up and there are certainly OEMs that have started expanding their horizons and looking to what is they are looking towards us in terms of securing their gearbox requirements. The company is continuing to explore new products and new geographies to improve its turnover and profitability.

On the Water front, the company has participated in a large number of tenders; however, I should point out that the onset of elections since beginning of this calendar year, there has been absolutely no finalizations of any orders and we anticipate that the order finalization for water projects will start probably in June or July at the very earliest of calendar 2019. However, we have been steadfast in terms of our execution and we believe that over the coming fiscal year we will see good number of contracts being finalized. The company continues to successfully

leverage its existing engineering relationships with industrial customers who have good business possibilities coming from that sector in future.

Overall, we believe the company should perform well in the coming quarters and in the financial year in all of its segments of business.

Thank you, and I would like to open the floor for questions.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Neerav Vasa from Anand Rathi. Please go ahead.

**Neerav Vasa:** My first question pertains to the Ratoon cane. So, would it be possible for you to share the outlook because what has happened is that this time the farmers have been really struggling, we are reading a lot of news in the press regarding farmers not getting their money on time and impacting the working capital. So, based on the scenario, are you seeing ratoon cane being available for next season or farmers are preferring to go for the crops?

**Tarun Sawhney:** Firstly, good morning and excellent question. I have to say that, yes, you are absolutely right. In our field trips that our research department has made to Maharashtra and Karnataka we have seen that there has been an impact on ratoon cane in many areas because of the paucity of irrigation water. However, our factories as you know are in western, central and eastern Uttar Pradesh with almost all of them having substantial access to irrigation canal and otherwise. There are two important points. Our cane price payment is at very high levels, as I mentioned in the opening remarks, approximately 90% and we were above 90% also a short while ago and the farmers are very happy with this level of payment. It is far-far higher than the total cost of production in terms of the money received. So, we have had two or three things, in fact, I have data that has been taken out and I can share with you specifically on the ratoon crop, the long-term average of conversion of plant to ratoon in Uttar Pradesh is approximately 93% or 94%. We expect that from Triveni the conversion plant of ratoon to be as high as 95% going into the next year. The initial data while the surveys have started on the ground, I think that we are happy to give an estimate of a minimum of 95% conversion of ratoon into plant for all of our sugar mills combined.

**Neerav Vasa:** My second question pertains to ethanol business. Sir, as we are seeing unlike earlier ethanol seems to be becoming a secular business. I wanted to understand with regards to availability of juice or I can say the permission from the Government for diversion of sugarcane juice of molasses from a) are we seeing a scenario that in a couple of years sugar mills in India would be free to divert the juice independently based on the demand and supply scenario towards either manufacturing of sugar or full-fledged ethanol manufacturing as it is done in Brazil, are you envisaging such kind of scenario?

**Tarun Sawhney:** The hope is that the industry does gravitate to that kind of position; however, the capital that needs to be deployed to achieve that position is quite substantial. I will take a minute or two to answer your question. Firstly, there are no policy or administrative hurdles in converting sugarcane juice to ethanol at this point in time. The current molasses policy that exist today allows that. Now, the ethanol sector has not been cyclical sector. There is one tickling point which is that the ethanol price has been decided by the Government on an annual basis. So, there is no visibility especially when you have large CAPEX like distillery, multiple years to set up and you do not have visibility of putting in a fundamental price of your product

into your financial model, that is slightly tickling point. The industry itself will urge the Government to look at a multi-year pricing model for the ethanol that will be delivering to the OMC. If that is followed, it will create a little more flexibility and perhaps provide an additional impetus. Now with the soft loans that have been given for ethanol as well as the prevailing prices right now, we have seen good interest in terms of new capacities and as you have seen Triveni itself has doubled its ethanol capacity from 160 KLPD to 320 KLPD and we have been beneficiaries of the financial assistance provided by the Central Government. I do not subscribe to your cyclical in the ethanol sector really. I think the fortunes can vary because there is molasses price on one side and there is also the ethanol price on the other side. Molasses price being free ranging and the ethanol price being decided on a year's basis, but it is not cyclical like the sugar sector is. Having said that, if one does gravitate to a scenario where a mill has a choice to diverting sugarcane to either produce sugar or produce ethanol, for example, yesterday the Asia-Brazil Agro Alliance Association and the former President of UNICA actually urged India to incentivize the increase of ethanol production. Now, honestly speaking if we go down that route, yes, the flexibility is required and the capacity to absorb it certainly exist within the country. We will have to move beyond E10 norms, we will have to broach E15 and E20 and what I have come to know is that it is possible with the current generation of automobiles in our country to embrace E20 level without a problem at all. So, they are possible in terms of demand, they are possible for the consumer, they of course have the benefits of the environment and of course diversion away from sugar and having foreign reserves, etc., So, there are lots of many-many positives, but you must remember that if you want to convert C-molasses and B heavy molasses, then you can do it within your existing distillery set ups. If you look at conversion of juice to ethanol, you will need to quintuple your distillery capacity because the quantum of raw material is just that much more; 5 to 6x the capacity. If that is the route that is incentivized by the Central Government, you will have massive investments in distilleries. But of course, anybody making that investment must have the security and must have the confidence that they will not be subject to vagaries in pricing.

**Neerav Vasa:** As of now, as we have set up the distillery capacity, I believe all the distillery that we would have would be using molasses as a feedstock. So, are we looking at migrating from first generation to second generation with regards to ethanol manufacturing so that we can use multiple agro waste or agri feedstock?

**Tarun Sawhney:** We have done substantial amount of research on 2G ethanol and at this point in time the cost of the ethanol produced is substantially higher than the price that is being paid by the oil marketing companies today. Experimental projects that are underway by the oil marketing companies, the capital cost are many times that of a conventional distillery. So, for Triveni we are eyeing it but at this point in time the technology cost do not allow us to be competitive. As and when they do, we will certainly look at it and investments in those directions.

**Neerav Vasa:** Sir, some of the companies in India which set up ethanol plants, they are saying that they have already developed a technology based on which the existing plant that is 1G plant can be upgraded to 2G plant which is we can operate on multiple feedstocks. Have there been any success stories with regards to the same?

**Tarun Sawhney:** These are all under pilot stages and there has been no documented and proven large-scale adoption in India or anywhere else for that matter as on today. So, it is all pilot and experimental. You may read a press report here and there but I would urge you to consider it speculative rather than technology that is freely available.

**Moderator:** Thank you. The next question is from the line of Vedant Pathela from Vallum Capital. Please go ahead.

**Vedant Pathela:** Can you give me some more explanation about the ` 102 crore subsidies that have not been recognized?

**Suresh Taneja:** There are three kinds of subsidies which the Government has announced – One is the production subsidy which is in the nature of assistance in the cane price and #2 is a freight subsidy which is basically to facilitate exports and the third is a buffer stock subsidy. In respect of all these three subsidies the Government is putting multiple conditions for the availment of these subsidies. As we did not fulfill the conditions in respect of these subsidies, we have not accounted for these subsidies in our financial statements.

**Vedant Pathela:** When can we expect to start the third distillery that you are planning to launch?

**Tarun Sawhney:** The third distillery is contingent very honestly on the molasses policy that we are going to see for the subsequent year. So, it is a two year process to set up a distillery plant and we are well under way of securing environmental clearance. Post receiving all environmental clearances is when you go in for the actual orders, etc., We have received an acceptance of our loan from the Central Government. So, that portion is very much underway but we have to wait for the environmental clearance. As you understand, we have had elections in the country for the last six, seven weeks, everything has been at a standstill for at least in the past two, three months. We expect that in the summer the clearances will then start initiating again and we will wait for receiving the confirmation before we go ahead by placing the order. But we will come back to you with the specific timelines at an appropriate time.

**Moderator:** Thank you. The next question is from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.

**Kirti Jain:** First is on the buyback, any thought on the quantum sir, how much would be the planned outlay which our team thinks which will be in the strategic buyback of the company?

**Tarun Sawhney:** Board meeting will be held on the 3<sup>rd</sup> of June for the directors to consider quantum and pricing. So, I have no other information to offer you at this point in time.

**Kirti Jain:** Then with regard to the Gears business and the Water business what is the roadmap we are having in these two businesses for the next three to five years?

**Tarun Sawhney:** I am afraid the company as a policy does not offer forward-looking projections in all three of our businesses – Agri as well as Water and Gears. If I look at the span of the last five years, the environment for Gears has never looked better and we have seen that 20% growth this year. The order booking of course is extremely good with executable orders in this year. So, we are anticipating a very good performance for this year and I would like to leave it at that. As far as Water is concerned, after a hiatus literally of about five years we have seen that, not the last quarter but the preceding few quarters, we saw order finalization and that has resulted in the company actually winning substantial orders and taking our total order booking up to ` 1,300 crore as I mentioned. Since the beginning of the calendar year, as a result of elections, etc., and the administration being very busy on multiple count, there has not been any of the orders in our sector that has been finalized, we tendered a lot of orders. We anticipate that this will start in Q3 of the

fiscal year. The scenario is very positive. The management team is clearly energized across both the businesses. And I am afraid I cannot offer you any specific growth targets.

**Kirti Jain:** Water, we are focused on municipal or we are towards the (ZLD) Zero Liquid Discharge solution sir?

**Tarun Sawhney:** We are agnostic of technology. While we do own certain core technologies across the spectrum of the value chain, we are agnostic, we provide all solutions to all parties. So, we look at municipal solutions and we also look at large industrial solutions. The ZLD solution that you are speaking about, some of them are actually much smaller and are not focused on by the company, but there are large ZLD solutions that are certainly focused by the company.

**Kirti Jain:** So, with these prices, we expect that we would be neutral at the gross profit level in the Sugar business at ` 31 price?

**Tarun Sawhney:** Depends on what we sell at. Sugar that we have more than 60 lakhs odd bags in stock and plus we will have production in the month of April and May as well that will be added to it. All of these will be sold over the next several months and few quarters. Now today's prevailing price the average blend that we are getting is approximately ` 33.25 to ` 33.50 per kilo. Will that maintain itself going forward? It is a huge question market. I do not forecast an increase, but I certainly do not forecast a substantial decrease in the prices. It will be range bound going forward, but it is contingent on the Government maintaining strong hand in terms of the total quotas that are given out on a month-to-month basis and to make sure that everybody complies with those quotas as well. As I mentioned, our cost of sugar on our books is ` 30 per kilo not including interest and so you can work out the mathematics, it is pretty positive.

**Kirti Jain:** On industry perspective, when do you expect we would be reaching demand/supply equilibrium as a country in terms of sugar production?

**Tarun Sawhney:** You have asked an excellent question. The question really I would rephrase it is why should we reach an equilibrium. I think we have the possibility of initiating a brand new ethanol industry that help the country in multiple ways, FOREX, environment, helping the consumers, availability of raw material at the doors. All of these from a geopolitical perspective, there are many advantages of having a sound fuel ethanol program in the country. For a solid fuel ethanol program, you will have to consistently produce more sugarcane than is required by the sugar consuming customers in the country. So, for us to come down to a balance level, that is really dependent on the vagaries of the monsoon. The FRP was announced about nine months ago, gives farmers 71% return. Now a farmer getting 71% return on a crop, he is not going to migrate away from the crop, especially in the sugar industry they are only interested in improving the farmers yield and ensuring that the farmers do not have pests and diseases and companies like us have substantial budgets in terms of outreach and cane development programs to ensure just that. So, farmers not really moving away from sugarcane. He will move away when he is forced to which means vagaries of the monsoon, availability of water, etc., and that again is anybody's guess because we cannot predict the monsoon coming up in the next few months, very challenging to see what is going to happen next year and the year after.

**Moderator:** Thank you. The next question is from the line of Ritika Agarwal from Quest Investment. Please go ahead.



**Ritika Agarwal:** Firstly, how many days of operational distillery do we have?

**Tarun Sawhney:** 330-days for each distillery.

**Ritika Agarwal:** Is that the maximum number of days at distillery?

**Tarun Sawhney:** That is the legally permissible maximum.

**Ritika Agarwal:** Secondly, you spoke about the cane juice to ethanol perspective. So, what kind of CAPEX do we envisage for conversion of C-heavy plant to a cane juice to ethanol, and the price of cane juice to ethanol being ready remunerative to ` 59 per litre, is this beneficial for the sugar companies?

**Tarun Sawhney:** That will have to be calculated through a complex financial model, you will have to look at how you finance it and what the costs are, etc., But in a nutshell, the technology is the same, there is no difference in technology between setting up a plant that consumes C-heavy molasses and a plant that consumes cane juice. If you convert the full quantum of all juice you will actually have to increase the capacity by a minimum of 6x.

**Ritika Agarwal:** So, what kind of CAPEX would go in the same?

**Tarun Sawhney:** It depends on the size of the sugar plant because it is contingent on how much cane you are crushing on a daily basis. It is a very simple calculation and if you contact us offline our investor relations department will take you through it.

**Ritika Agarwal:** On the ethanol blending program by the Government, it wants to increase from 7% to 10% and then to 15%, so what kind of CAPEX we envisage in the industry, can we assume that currently it is at the total capacity utilization and any incremental would have to come from a new CAPEX?

**Tarun Sawhney:** Yes, of course, the capacity utilization of existing distilleries is at the maximum and in the search to go to 10% complete blending and onwards you will require substantial CAPEX. I think rather than trying to calculate how much CAPEX is involved, we can look at what the Government is offering in terms of the total package of approximately ` 10,000-odd crore. When that gets availed? Again, can be easily tracked from Government sources, you will see how much capacity is actually coming up in the country.

**Ritika Agarwal:** `10,000 crore of interest subvention are you talking about?

**Tarun Sawhney:** Yes, of course.

**Ritika Agarwal:** On the compressed biogas opportunity that the Government is talking about of putting 5,000 plants in the next three to five years, so what is your read on it – did we apply to the Lol and how do you feel about this whole process by the Government?

**Tarun Sawhney:** Yes, the company did apply for two of the Lols and we are waiting and seeing, we have not made any capital deployment decisions as yet.

**Ritika Agarwal:** So, do you feel this whole project is viable ?

- Tarun Sawhney:** I think it is too early to tell.
- Ritika Agarwal:** Any idea when would we get some clarity on the same, where is the lag coming from?
- Tarun Sawhney:** Honestly speaking, I think there are certain processes in terms of technologies, there are certain process in terms of actually how this distribution would fittingly happen. We will see some of that happening. We have to wait for the elections to get over and then some implementations to happen. And the pricing of course is only a three year pricing. So, if you are setting up a plant for multiple years, you want some agreement on long-term pricing. I think that is one of the other hindrances. So, there is really no timeline to figure out when that is going to change. That is dependent on the Government. So, one will have to just wait and watch.
- Moderator:** Thank you. The next question is from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.
- Anupam Goswami:** On a macro basis in the company, how much capacity are we going to need in ethanol for our 10% blending and how much capacities are currently there or in the pipeline to come up?
- Tarun Sawhney:** As far as Triveni is concerned, with 320 KLPD capacity operating for 330-days of the year, we can consume the entire amount of C-molasses that is produced by the company in the foreseeable future. So, we have sufficient capacity to consume all our captive molasses, in fact, we will be purchasing molasses from other sugar factories in the state and elsewhere as well.
- Anupam Goswami:** I was asking from the industry point of view, how much capacity that will come in going forward and will that be sufficient with the fuel supply?
- Tarun Sawhney:** I think honestly speaking that is a very broad question. There is no end to really answering that. The information is available in the public domain. Now for the last tender for example split grain was allowed. In the future if spilt grain is not allowed, it is only molasses ethanol that is accepted, then the capacity that is required is very different. Having said that, we have sufficient capacity in the country including split grain ethanol manufacturing capacity to produce almost 10%. However, to get the 10% to reach all corners of the country is challenging because there are great distances between the manufacturing unit and the depots and not all the depots go complete and fulfill the tender. So, there are some of those logistical challenges that will also have to be contended with. This year for example we will certainly end up doing about 7.5% blending which I think is a remarkable achievement of the Central Government.
- Anupam Goswami:** On this note, do you feel that OMC tendering of ethanol will go up from the current level?
- Tarun Sawhney:** The OMC is based on 10% ethanol blending. So, unless the Government decides to increase E10 to a higher number, the total quantum being tendered is not going to increase. However, I do believe the discussions are on the anvil and a decision is on the cards for an increase at least in the major sugar producing states to take E10 to a higher number.
- Anupam Goswami:** How much sugar inventory are we holding and what is the current price?

**Tarun Sawhney:** We have about 62 lakh quintals of sugar as on the 31<sup>st</sup> of March valued at ` 30 per kilo.

**Moderator:** Thank you. The next question is from the line of Vedant Pathela from Valuum Capital. Please go ahead.

**Vedant Pathela:** My question would be that we have 320 KLPD capacity and we are producing that much of molasses to convert into ethanol and you also said that we will be buying from outside sources as well. So, would it not be difficult to buy it from outside because oil companies are increasing capacity, then will there be any insufficiency in the availability outside?

**Tarun Sawhney:** The quantum that we will need to purchase is actually very small; it is a balancing number. And we always have the flexibility of using B-heavy molasses produced by our sugar factories to meet 100% of the requirement. So, I do not forecast Triveni distilleries operating at anything lower than the highest operating efficiencies.

**Moderator:** Thank you. The next question is from the line of Vijay Gupta, individual investor. Please go ahead.

**Vijay Gupta:** My first question is regarding the ethanol only. Can you please let me know do we have sufficient order right now to service our entire capacity that we have on hand?

**Tarun Sawhney:** Yes, we do.

**Vijay Gupta:** Because I think somewhere we read that 6.6 crore litres of orders that we have on hand and probably you will apply in 2019 the tender that came in?

**Tarun Sawhney:** We have sufficient orders on hand for all of our anticipated production and our customers include both customers in the private and public sector.

**Vijay Gupta:** What is the size of the orders that we have for ethanol production?

**Tarun Sawhney:** I am afraid I cannot do that.

**Vijay Gupta:** In your concall you referred to the significant orders being received for the new products and new OEM. That is the focus and that is where the company has also received success. Can you please throw some more light on what are these new products we are referring to and what are these new OEMs we are referring to?

**Tarun Sawhney:** We do not typically give out names of our customers, I am not about to do that today. As far as the Gears business is concerned, high speed gearing is used in a variety of different applications from gas turbines to compressors to pumps to blowers, etc., and we have seen new customers come in, in areas where typically our demand has been lower. So, we have seen more customers for compressors and more customers for pumps especially within the Asian market that have approached Triveni to supply products to them. So, there has been a press in terms of new product generation, lines where we used to make products once every few years, now being a consistent manufacturing chain and also in terms of new geographies and the customers.

**Vijay Gupta:** In Q4, the distillery production seems to be lower than what we did in Q2. Any specific reasons for that?

**Tarun Sawhney:** Yes, we had a shutdown of our distillery because of the Kumbh Mela. This was directed by the State Government as well as by the regulator. And this was not just for Triveni, this was for all distilleries in the gangetic region. And we lost just about 25-days.

**Vijay Gupta:** My last question is regarding the current inventory and the valuations of the same. The current price that I believe the Government has mandated for sugar is ` 31. Is it correct?

**Tarun Sawhney:** Yes.

**Vijay Gupta:** During your call you mentioned that the current inventory that we hold in the company have been valued at ` 30?

**Suresh Taneja:** Because you always value inventory at cost or market price whichever is lower.

**Vijay Gupta:** Should I assume ` 30 is the cost?

**Suresh Taneja:** Absolutely.

**Vijay Gupta:** And our realization is ` 33.25 to 33.50, that we can expect if this inventory gets sold in the market assuming the selling price remains the same?

**Tarun Sawhney:** Absolutely and you will have interest cost as well today.

**Moderator:** Thank you. The next question is from the line of Govind Saboo from India Nivesh. Please go ahead.

**Govind Saboo:** Sir, our closing inventory is 6.2 lakh MT. What was this last year?

**Suresh Taneja:** Just to give you a clarification, we have 62 lakh quintals of sugar, in addition to that we have 5 lakh sugar which is earmarked for exports, so total we have 67 lakh quintals. As against 67 lakh quintals, last year we had 53 lakh quintals.

**Govind Saboo:** What is your view on flushing out of this inventory because inventory is piling up YoY and next year also we are seeing that domestic production will be more than domestic consumption?

**Tarun Sawhney:** I am delighted you have asked that question, it is an excellent question actually. It is a huge problem. You highlighted the biggest problem that the industry has right now. It is not the fact that you have sugar prices at ` 31. Yes, ` .31 is low, the industry wants a higher price, the average cost is higher, but we leave the discussion aside. The biggest problem is evacuation of sugar. As I mentioned the company forecast 14.2 million tonnes as the closing sugar balance for the country. That is above all historic benchmarks. We have never had so much sugar lying in the country. And we are coming up into another year where if Triveni forecasts are correct, we will be adding to this balance provided we do not export. We have also heard that there are WTO considerations, countries have taken us to reconciliation at the WTO and I do not know about that, I cannot comment about that because that is G2G discussion. We have to have exports next year. We have to make sure that the entire country evacuate essential quantities of sugar equally if not going beyond the export program that happened this year, that is #1. #2 is the encouragement of B-heavy pricing. We need to make sure that B-heavy ethanol pricing increases from its existing levels and therefore all sugar factories that own

distilleries are encouraged to manufacture of B-heavy and divert that to ethanol taking with the sugar balance. I mentioned in the opening remarks this can be in excess of million tonnes. So, if I do the simple back-of-the-envelope mathematics, if we have 14.2 million tonnes of opening stock and production of approximately 30 million tonnes with the consumption no higher than 26 million tonnes, .Let us be conservative, left with net addition of 4 million tonnes. If we export 3 to 3.5 million tonnes and convert excess of a million tonne towards ethanol manufacture, you can then have a closing balance somewhere roundabout 12, 12.5 million tonnes as of 30<sup>th</sup> September 2020. So, I do not foresee any massive reduction in terms of the quantity of sugar that is left in the country. While we have quantitative restrictions that have been placed by the Central Government, we will certainly be able to manage that in a scenario where we have buffer stock, where we have monthly quotas, where we have MSPs, the Government has done admirable job of delivering stability in pricing. We will need to make sure that continues for the foreseeable future. So, the total quantum of sugar stocks in the country is not coming down if they are in hurry but it has a possibility of going up unless we really look at a two-pronged strategy of further exports and conversion of B-heavy into ethanol.

**Govind Saboo:** Sir, how much sugar did we export in '18-19?

**Tarun Sawhney:** '18-19 number is up to 3.5 million tonnes for the country.

**Govind Saboo:** This subsidy, ` 8/kg, is enough for exports?

**Tarun Sawhney:** I just want to correct you. It has got nothing to do with exports. It is a production subsidy that has been given to the farmers of those factories that have completed their exports.

**Govind Saboo:** It comes to about ` 8 per Kg of sugar exported?

**Tarun Sawhney:** If you really had to do some mathematics behind it, it comes to about ` 8.3 per Kg.

**Govind Saboo:** Is it sufficient for the mills?

**Tarun Sawhney:** Depends on what the international pricing is. International pricing has varied quite substantially. There have been times where there have been periods of some profit.

**Govind Saboo:** I just need a small clarification in export. We are sitting on so much of inventory and MSP is ` 31. Then how is the realization of more than ` 31 MSP, that is the fundamental question?

**Tarun Sawhney:** As I mentioned, the Government has quantitative restrictions. The Ministry of Food, the Directorate of Sugar announces a monthly quota for the country and then sub-divides it to all the sugar mills across the country which means that they tell each mill how much sugar they can sell in the next calendar month. When you have quantitative restrictions, you can have as much stock as you like. You could only sell what you are allowed to sell.

**Govind Saboo:** Then the monthly demand/supply that determines the prices?

**Tarun Sawhney:** Correct.

- Moderator:** Thank you. The next question is from the line of Ritika Agarwal from Quest Investment. Please go ahead.
- Ritika Agarwal:** Sir, my question was on reported export loss. So, is the current export being done at a loss or is it a profitable for the company.
- Tarun Sawhney:** The export is always a loss because the export price is substantially lower than the cost of production, and all the exports that are being done have been done at a loss of approximately ` 81 crore and that the full export loss has been accounted in the results for fiscal '19.
- Ritika Agarwal:** We get subsidies later?
- Tarun Sawhney:** There are production subsidies that are linked to this provided to comply with all the Government conditions and there is some time for us to be able to comply with all of those conditions including all of the exports, etc., which is why we have not recognized the production subsidy, the buffer stock subsidy and the inter-subsidy to the tune of ` 102 crore.
- Suresh Taneja:** One of the conditions is also regular supply of ethanol.
- Ritika Agarwal:** My second question is with the molasses price being gone up in the last six months, so is it more profitable to produce ethanol from C-molasses or to sell it out? ?
- Tarun Sawhney:** It is far more profitable to produce ethanol.
- Ritika Agarwal:** Can you also sell B-heavy molasses in the outside?
- Tarun Sawhney:** I do not see why you cannot sell B-heavy molasses. It is just that I have not heard of anybody doing it. But I am sure that will change in the years to come.
- Ritika Agarwal:** Is there some policy if we are producing from juice to ethanol we have to do it around the year and we cannot do it partially for the year?
- Tarun Sawhney:** You can do it partially but you have to do the entire quantum of juice that is crushed at that moment in time. So, you cannot have two streams operating during the day, one cut for ethanol and one cut for sugar. If you do that, the ethanol that is produced is priced at the B-heavy price. If you want to secure the ` 59 per litre pricing, you have to convert all the juice that is crushed. However, this is something that the association is discussing with the Government and is urging the Government to reconsider that if you use any quantity of juice, you will be given the benefit of the total cane juice price.
- Moderator:** Thank you. Well, ladies and gentlemen, that seems to be the last question for today. I would now like to hand the conference back to the management for their closing comments.
- Tarun Sawhney:** Thank you very much for joining us on the fiscal '19 Conference Call for Triveni Engineering & Industries Limited. It has been a spirited discussion and we look forward to coming back to you in three months' time with good news across all of the businesses. And the scenario right now I should say on the engineering side is certainly buoyant and is upbeat. And on the sugar side, we of course wait for good,

solid productive policy for both the State and Center and we are hopeful that will certainly happen. Thank you, again and good afternoon.

**Moderator:**

Thank you very much. Ladies and gentlemen, on behalf of Triveni Engineering & Industries Limited, we conclude today's conference. Thank you all for joining and you may disconnect your lines now.