



Triveni Engineering & Industries Limited

Q3 & Nine Months FY 20 Conference Call Transcript

February 04, 2020

Moderator: Ladies and gentlemen, good day. And welcome the Triveni Engineering & Industries Limited Q3 and Nine Months FY 20 Earnings Conference Call. As a reminder, all participant 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 this 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 Q3 and Nine Month FY 20 Earnings Call. We have with us today Mr. Tarun Sawhney – Vice Chairman and Managing Director, Mr. Suresh Taneja – Group CFO, 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 maybe forward-looking in nature. And a statement to this effect has been included in the invite which was sent to you earlier. I would also like to emphasize that while this call is open to all invitees, it may not be broadcasted or reproduced in any form or manner.

We will start this call with opening remarks from the management, followed by an interactive question and answer session. I would now request Mr. Tarun Sawhney to open the call. Over to you, sir.

Tarun Sawhney: Thank you, Rishab. And good afternoon, everybody. Welcome to the Q3 and Nine Months Earnings Call for Triveni Engineering & Industries Limited. I will spend the first portion of this call just giving you some highlights of our performance for the quarter and nine months. Followed by detailed analysis of our business segments, and a brief review of the immediate outlook for all of our businesses.

The quarter was a very successful quarter. And for the nine months, the revenues in operations stands at ₹ 2,943 crore, which is a growth of 28% over the corresponding period of the previous fiscal year. In fact, the profits after tax are ₹ 197.5 crore, which is a growth of 45% over the same nine month period of the previous fiscal year.



With reference to the Sugar business, the country's production for season 2019-2020 is now estimated at 26 million tonnes after considering the diversion of B-heavy molasses and sugarcane juice towards ethanol production.

The operating performance in the sugar season 2019-2020 is certainly for us in line with our estimates. We have contracted a sizable quantity of our export quota and exported about approximately 27% during the quarter. The ethanol production from B-heavy molasses is also underway at three of our seven units.

We focus on optimizing working capital requirements through accelerated exports is another initiative that we successfully did over the last quarter. The business has performed well due to stable sugar prices and a higher volume of sales.

I want to say that we booked export subsidy on 10,000 tonnes of sugar and not on 38,654 tonnes which was sold for exports of the MAEQ 2019-2020 quota, due to pending conditions being fulfilled, including paperwork etc. and we will be in the position to be able to recognize it going forward, of course.

In lieu of the revision of the power tariff for the co-generation plant, with effect of the 1st of April 2019, the profitability of this business has definitely been impacted. On the positive note, the quantity of ethanol that we have sold in the quarter has included 33%, which has been produced by B-heavy molasses. And overall, for the current season, 53% of the ethanol that is produced will be from B-heavy molasses, and thereby accruing a higher rate per liter of ethanol.

Turning to the Engineering businesses, the Gears business maintained its good growth trend, and the Water business continued to perform better, resulting in higher turnover and profitability. The outstanding order book combined of our engineering businesses was just under ₹ 1,300 crore. The debt of the company as a whole on the 31st of December stood at ₹ 1,544 crore at an average rate of about 6.5% combined for short-term and long-term

Turning to the businesses in particular. The Sugar business has done extremely well in this quarter and nine months. For the nine month period, we have included approximately ₹ 100 crore of subsidies pertaining to the previous year as compared to ₹ 42 crore in the previous nine months. The sugar inventory as of 31st of December 2019, was 47.6 lakh quintals and valued at ₹ 30.4 per kilo.

The cane crushed as on the 31st of December was 2.57 million tonnes as an adjusted recovery of 11.26%. The adjustment is due to the raw sugar and through the B-heavy molasses being made to normalize it in order for you to be able to compare it against other mills that are not undergoing any of these programs. We did produce raw sugar at three of our factories, the same three that were producing B-heavy molasses as well.

I can give you the numbers as of yesterday as well for our crush, which stood at approximately 4.09 million tonnes at an adjusted recovery of a shade under 11.5%. So, this clearly substantial outperformance when we compare our performance in this quarter at this sugar season versus the previous corresponding quarter and previous sugar season.

Our domestic realization was ₹ 33,552 per metric tonne. Current sugar prices are slightly lower than that, at approximately ₹ 33,000 per metric tonne. Now this vacillation has happened at a very aggressive quota, national country-wise quota in

the month of January, the February quota while it is a little bit lower at 2 million metric tonnes, is still quite a handsome quota for the month of February.

And therefore, I expect that prices will remain at this stable sort of level, ₹ 0.5 to ₹ 1 per kilo vacillation up or down. We are towards the lower end of the estimates. So this is the kind of broad range that we will be in, that I foresee at least for the month of February, and for March as well. So up to the end of this fiscal year.

Looking at the industry scenario, the closing balance at the end of the last sugar year, 30th of December 2019, was approximately 14.6 million metric tonnes. And with the consumption of 25.5 million tonnes and exports of 3.8 million tonnes having taken place in the previous sugar year.

Notable important points that one would like to mention includes the fact that the FRP and the SAP were not increased for this sugar by the Central Government and the State Government. And the Central Government also provided a lump-sum export subsidy of approximate ₹ 10,500 per metric tonne for exports of up to 6 million tonnes from sugar mills under the MAEQ program, which is the Maximum Admissible Export Quantity program for sugar season 2019-2020.

Further to this, the Government has also announced a reallocation procedure for MAEQ for those mills that have not exported or do not wish to export sugar. And thereby, offering potentially a little more quantity to those mills that have interest in exporting sugar.

Now, this is very encouraging news, because the 6 million metric tonnes export target of the Central Government had in mind was an ambitious target, and not everybody will be able to participate to achieve those numbers. And therefore, we want to come close to those numbers. And my personal forecast, if we do manage to reassign quotas and give it to those who do want to export, we as India may export up to 5 million metric tonnes. About 2 million metric tonnes have so far been contracted, which means that there is quite a lot of sugar to reach 5 million metric tonnes, 3 more million tonnes that needs to be contracted and also evacuated in a fairly aggressive schedule.

For this sugar year, the estimates are approximately for production, as I mentioned, of 36 million metric tonnes. This is after considering a diversion of 0.8 million tonnes from B-heavy molasses and sugarcane juice towards ethanol. And this decline from 33 million tonnes production of the previous year is primarily due to a decline in the states of Maharashtra and Karnataka of sugarcane availability, and therefore sugar production.

For 2018-2019, on the ethanol front, the OMCs had invited a very large tender. However, in terms of what was supplied, we achieved approximately 5% at model ethanol blending, which is really very low. And frankly speaking, there's a lot of effort that is required on all parts, especially the industry, in terms of supplying ethanol to the OMCs to achieve higher levels.

This year, the results have also not been very good. And for the marketing year 2019-2020, against 511 crore liters of ethanol which was requested in the first track, only 163 crore liters was actually offered, on which the LOIs were 156.5 crore liters. Furthermore, in January 2020, the OMCs tendered another 253 crore litres, which are under bidding and finalization, I am fairly hopeful that there will be sort of aggressive bidding at that point.

We at Triveni, have our quotas for the remainder of the year, for molasses and ethanol, and so we are fairly covered to the extent of 95% of our production. And we are fairly secure in terms of the destinations for the ethanol and other forms of alcohol that we will be manufacturing.

A very important notification was issued by the Ministry of Environment, where it is decided to waive the green clearance requirements for distilleries, which are planning to produce up to 50% more ethanol than their capacity without increasing the pollution. Now, this is extremely important and is indicative of the clear steps that the Central Government wants to take to facilitate the establishment of not just greenfield but also brownfield projects for ethanol. This is a trend that I foresee will continue quite substantially for the next couple of years.

As you all know, we had the President of Brazil visit India and was the Chief Guest at our Republic Day, there were many discussions happening. Over the next few weeks there will be conferences held that will be focusing on India's ethanol program and looking at more technologies and sustainable technologies in terms of propagating this brand new industry, which does require substantial investment if we are to achieve the targets of 10% and further of 20% by 2030, as has been mandated by the Central Government.

Turning to the international front:

Sugar, the most significant point that I would like to mention is that the global deficit has in fact widened, which is why we have seen an increase in both white and raw sugar prices. We have projected a deficit of 6.5 million metric tonnes earlier, which has widened to almost 11 million metric tonnes for this sugar year. A consequence of that has been the shortfall in production in Thailand. And of course, no broad change in the mix between sugar and ethanol in Brazil.

And then, of course, large drops in production in other parts of the world, including in India. And these have been, of course, very positive. So we have seen on the 3rd of February, the white sugar futures in London were at \$406 a tonne, which was down slightly from a two and a half year high of \$416 per metric tonne, very, very substantial. And raw sugars on March have posted nearly a two year gains, two year highs at 14.61 cents per pound. Again, very, very, very good numbers and therefore I see that our target of achieving 5 million metric tonnes export from India is something that is certainly a reality.

My personal view is that global markets have factored in Indian exports to that tune already. And therefore, there really won't be any drop in pricing just because India decides to contract and export. There are other global factors that can impact it, certainly not the Indian export scheme.

Turning to other sugar businesses:

Co-generation business was impacted because of the downward revision of the tariff by UPPCL which as announced on the 4th of September, but effective from the 1st of April of last year. Nevertheless, for the quarter under review, our PBIT stood at ₹ 17.2 crore, of course, was a big decline from the previous year where we had a much higher PBIT.

Turning to the Distillery business for the quarter under review, our both distilleries were functioning at rigid capacities and we had a production of 25,500 kiloliters, which again was very much according to our targets. And an average realization of



₹ 46.8 per liter leading to a PBIT of ₹ 33.2 crore for the quarter. And for the nine months it was ₹ 94.2 crore, which is slightly down from the previous year. However, this has to do with the price of molasses which is the transfer price has gone up when we consider the period of now and the year ago.

The distilleries are operating at very high levels of efficiency. And during the quarter under review, the company processed 41% of its production through B-heavy molasses which is quite as per our expectations but it also offers us great solace in terms of experience and managing any technical issues that could have cropped up, of which they were none, which is of course very positive.

The journey to our Engineering businesses. Our Gears business had an excellent quarter and an excellent nine months. Our revenues for nine months were higher than ₹ 120 crore and for the quarter was over ₹ 45 crore, with PBIT of ₹ 17.3 crore, which is a 52% change quarter-over-quarter. The order book he was also very healthy and ₹ 36 crore.

The businesses saw excellent growth in terms of OEM sales and in terms of our refurbishment business, and also our spares and service business. So, there were growth across parameters, some growth domestically, a lot more growth internationally. And I think that is the kind of trend we will see over the next few quarters where there will be more push with respect to international and global sales. But they won't be muted domestically, the growth will be low but it would certainly be there.

The Defense initiatives is also hopeful of concluding some several important court orders over the coming quarters. And we are excited about adding that to the portfolio of our Defense Engineering business. So, a very good news on that front. And the immediate future looks very bright and positive.

On the Water front as well, the results of revenues of ₹ 17.5 crore and a PBIT of almost ₹ 6 crore are extremely positive and a result of streamlined operations and, of course, the operations of our SPV, which is executing the Mathura power project awarded by an NMCG under the Namami Gange program. The outstanding order book on the 31st of December stood at ₹ 1,137 crore for this business, which included just under ₹ 500 crore towards O&M of contracts which is over a slightly larger time.

Turning to the outlook. The Sugar business is certainly in an interesting scenario, we have the sugar price declared, we know pretty much how much sugar will be produced by the country and we are anticipating a fairly large export program. With the rains that have occurred across the country, the water levels that exists in the dams in Karnataka and Maharashtra, the planting has been extremely good across the country. Planting in North India has just about started in just the beginning of February, but my forecast is that it would be an excellent year for planting across the country and we do have sufficient water levels which is a positive for the sugarcane crop.

Turning towards the Engineering business, the output for the Gears business is very positive. As I mentioned, we are seeing growth avenues and growth markets, both in terms of geographically as well as in terms of product profile, that will certainly add and benefit this particular business.

Within Water, we see many projects that are coming up towards finalization finally. And so we expect these orders to be concluded very shortly. And the anticipation is

that we will fare well in these orders. And we continue to leverage our existing strong relationships with industrial customers as well in our Water business.

Thank you very much right. I would now like to open the floor for some questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question answer session. We take the first question from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.

Kirti Jain: First, I want to understand the distillery throughput we are expecting C-molasses and B-heavy for the current year and how do we expect the blended profitability for the distillery segment? Second is, the planned CAPEX for the current year and the next year? And thirdly, how we see growth in the gears and water division over current year and next year? These are the three questions from my side.

Tarun Sawhney: All right, so I will try and answer all of them. Firstly, thank you for your opening remarks. With respect to our distillery segment, in terms of the segmentation of B and C molasses, we expect almost 60%, maybe 55% of this year's dispatches will be from B-heavy molasses, and the balance will be in C. We expect no appreciable decline from our rated capacities on production or dispatch. And therefore those have simple arithmetic based on our capacities, 320 KLPD distillery which will operate not for 330 days, but the bulk of 330 days as per what is allowed by law. And the difference between B and C would be 55 to 45 approximately. And that should sort of give you an idea of exactly what our dispatch schedule etc. should be like. We have the contracts in place as well. So, we have a fairly good comfort level that if nothing quite extraordinary happens with respect to the operations we should certainly be able to see that through during the course of this molasses year.

Your next question was about CAPEX for the company. As of now we have no substantial CAPEX requirements for any of our businesses. There is some minor tinkering of CAPEX that is always in play for all the business segments, but there is no large facility, or a factory being established in any of the verticals, be it Engineering or Sugar. And therefore, there is really nothing to report or a number to offer you as far as the CAPEXs are concerned. The CAPEX last year were primarily due to the new distillery that came up at Sabitgarh and of course the incineration boiler that came up at our distillery at Muzzafarnagar. And all of that is pretty much been in, not pretty much, it is totally completely. So that that's over there.

Now your third question was regarding the Engineering businesses. Can you repeat that question, please?

Kirti Jain: Sir, what is the sales and profitability we expect for the Engineering businesses?

Tarun Sawhney: Right. I am afraid we don't give forward looking, we don't give any forecasts. What I can share with you is that we feel that both the segments are doing very well. We are happy with the growth profitability in both our water and our gears business. They have done extremely well in the preceding quarter under review, and in the nine months under review. And we hope this will certainly continue good forward.

Kirti Jain: Sir, so in the ethanol segment, we should expect a business of 320 KLPD into 330 days, correct? That's the throughput we are expecting in ethanol segment, right?

Tarun Sawhney: We would be close to it, that is the maximum that we could possibly do. Let's assume that you don't have 100% operational efficiency, nobody has 100% operational efficiency, so we should be fairly close.

Kirti Jain: Sir, given that government is giving a lot of incentives, and also waiver of interim clearances, are we thinking to put more distilleries in the coming time next year or a year down?

Tarun Sawhney: That's a very good question. Let me say that based on C-heavy molasses capacity, we have sufficient distillery capacity to take care of all of our captive molasses, and even buy some from the open market. However, when you migrate towards B-heavy molasses, at that point in time we have the scope of setting up more distilleries. We had applied for more permissions with the central government for which we have received some approvals. However, given the current pricing of B-heavy molasses and the current pricing of molasses from sugarcane juice, we see very limited opportunity for fresh capital investment for greenfield projects at these pricing levels, given where sugar prices are. Because you have to look at, well, what is the price of ethanol compared to the alternate, the alternative being sugar price. So given the estimation of ₹ 33, ₹ 34 per kilo of sugar price, at these prices of ethanol, I see very limited numbers of new distilleries coming up. And I think this is something the government is aware of. And they will certainly review when the time comes.

Kirti Jain: Sir, but next year you had highlighted that the production will be bumper. So again, the inventory will also be pending...

Tarun Sawhney: I want to interrupt you. I never said that next year the production will be bumper. I just said that the planting could be very good. There is a long journey between good planting and a bumper crop. And let me tell you what is in store. Firstly, we are seeing very unreliable weather patterns that are happening across our country. Okay? That is a huge, huge risk. I see disease as an ongoing risk to the sugarcane crop and something that people have to work hard to mitigate in their areas, like we do for our farmers, all the farmers that supply cane to Triveni. In addition to that, just because there is plenty of water in the dams in Karnataka and in Maharashtra, doesn't mean that it's going to get diverted towards the sugarcane farmers necessarily, because there was, as you remember, drinking water paucity as well across both states. So we are going to see how that progresses.

Then, of course, the biggest factor is the summer monsoon, and how that plays out. And that has a huge impact on yields. So you may have a large tractor area that comes under cane, but the other most important factor is your yield, which is contingent on weather, disease during the summer months. And that, of course, is a huge imponderable. So it's very difficult to say what next year has in store, I would not venture to that. I have offered you a highlight on the first one, which is what is happening on planting.

Moderator: Thank you. Next question is from the line of Kapil Jagasia from ICICI Securities. Please go ahead.

Kapil Jagasia: I have few questions, specifically on the ethanol side. So considering the fact that you have mentioned that there will be 50% of the production would happen through B-heavy, then would it be safe to assume that the sacrifice of sugar would be somewhere around 30,000 tonnes to 50,000 tonnes?

Tarun Sawhney: Well, we are working it out for you as we speak.



Kapil Jagasia: Right. So I can probably go ahead with the next question.

Tarun Sawhney: It would be approximately 50,000 tonnes.

Kapil Jagasia: Right. And so you have contracted for 8.5 crore liters in the first tender. What could be the quantities you are looking to contract in second or third tender?

Tarun Sawhney: At this point in time, we are pretty much covered up to 90%, and the balance of course, we can supply to private oil marketing companies as well etc. So, we don't really have any plans of offering anything in subsequent tenders. Sorry, I want to give you a more accurate answer for your first question, it will be approximately 35,000 metric tonnes.

Kapil Jagasia: Okay, perfect. So, just considering the fact that in the January and February we have got somewhere around 90,000 tonnes monthly quota each, and probably if I assume that March probably will be similar and if we do the entire export, say, by Q4, then our volume figures should be somewhere around 4 lakh tonnes in Q4, in the sense I am only doing the number which are available, so January and February numbers are available now. So would it be safe to assume that the Q4 sugar volumes would be somewhere around 4 lakh tonnes?

Tarun Sawhney: You mean in terms of a dispatch from the factory? See, March is very difficult to say. So, you know, you could put any number for March. You are right about January and February of 9 lakh quintals or 90,000 tonnes for each month. March would probably, in all probability, be more than 2 million tonnes for the country. I don't want to guess but it will probably be more than 2 million tonnes because it is a slightly longer month, there are two extra days, plus it's keeping up for the for the summer demand and you have industrial demand that starts climbing rapidly at that point in time. But if we did assume a number of 90,000 tonnes, then yes, it's not going to be 40 lakhs, it will be close to it.

Kapil Jagasia: Because I am constrained over here that you have done 50,000 tonnes exports in almost 131 countries

Tarun Sawhney: Exactly, so 13 left and you added 27. So, I am saying it will be close to that, that's what I am saying, you are pretty much correct.

Kapil Jagasia: But are you sure about that 1.3 will go as export in Q4 itself?

Tarun Sawhney: That is certainly our intention.

Kapil Jagasia: Okay. And sir, would it be possible if you can give at what price we have contracted the entire quantity?

Tarun Sawhney: I would rather not but thank you for the questions.

Kapil Jagasia: So additional sugar quota, means you have mentioned, I am sure you also would have asked for the additional sugar quota when the government is really communicating that.

Tarun Sawhney: Well, it's something that we anticipate and I just spoke about it earlier in my opening remarks that it's a very positive move that has been taken by the central government. We too have asked for an additional quota, I can certainly share that. How and what happens, we will find out hopefully before the 15th of this month.

Kapil Jagasia: Okay. And what is the quantity you have asked for?

Tarun Sawhney: Well, I think the quantity has absolutely no bearing on what we get. Because I think the total amount that is going to be divided up amongst everybody who has asked for it is going to be a mere fraction of what people have asked for.

Kapil Jagasia: Right. And sir, just one more about the subsidy part. So you have not really booked the subsidy. Firstly, what really stops you to really book the subsidy in the quarter itself? Because if I am not wrong, most of the other companies are doing the same. And so what would be the scenario in Q4 if you supposedly you really export that?

Tarun Sawhney: Thank you. I am actually very happy about this question. Our philosophy not just for this MAEQ, but for the last MIEQ, and for many, many previous incentives of the state and central government going back many years has been more traditional and conservative. And that is what we have followed through, and our auditors know that that is exactly what we would want to do. And we recognize as do our auditors recognize that other companies have different types of accrual based accounting treatment. As far as we are concerned, we only account for the subsidies once our entire paperwork has been completed and submitted with the Government of India, all the relevant authorities. And so without all the checks and balances and the dotting of the lines and crossing of the T's, so to speak, having been done, we will not account for it in our P&L.

Kapil Jagasia: Okay. So just in that respect only, suppose you have been able to do the entire export in Q4, will you be able to book a part of the subsidiary or the entire subsidiary in Q4?

Tarun Sawhney: Very tough to say, because we need to get all the shipping dock, if we have complete documentation that had also been filed, so that portion we will be able to recognize. I can't tell you what that moment will be, of course, as of now.

Kapil Jagasia: Perfect. Sir, just one accounting thing. Your revenue from the co-generation is flat, whereas our tariffs have been revised downwards. And what I could see in the presentation, the quantities are more or less same, it's not very different. So how the revenues are same when there was substantial decline in the power tariffs?

Tarun Sawhney: In fact, it starts a little bit earlier, firstly. Basically, apart from the power export, we also account for the sale of power and steam to our sugar factories, and that's what has kept the revenue constant.

Moderator: Thank you. Next question is from the line of Ashok Patel from India SMEs Investment. Please go ahead.

Ashok Patel: Sir, I want to understand that for half year FY 20 our sales from ethanol was around ₹ 191 crore. And for similar period previous year the sales were ₹ 96 crore. So what led to the rise in ethanol top-line?

Tarun Sawhney: We have a brand new distillery.

Ashok Patel: Okay. And what is the size of it?

Tarun Sawhney: So we have doubled our capacity. We have two distilleries now of 160 KLPD each.

Ashok Patel: What is the size which you mentioned?

Tarun Sawhney: The total capacity of 320 KLPD of two distilleries of 160 KLPD each.

Ashok Patel: And the new distillery started contributing first time for the June quarter, right, this year?

Tarun Sawhney: Correct.

Ashok Patel: Okay. And simultaneously the margins also dropped, if you compare FY 19 the distillery margins were 58%, which is right now 37%.

Tarun Sawhney: Yes. So, the margins are dependent on the price of the raw material, which is molasses. We price our molasses raw material based on market pricing. And therefore, the market pricing of molasses goes up and it has because the total quantum of sugarcane in the country has come down so the price of molasses has going up. Therefore, so to speak, the profitability remains in sugar rather going into the distillery business.

Ashok Patel: Okay, got it. But our realizations are same on that front, right, in terms of ethanol production, which are fixed by the Government and the OMCs offer realizations?

Tarun Sawhney: Yes, broadly speaking. I mean, there is some quantity of alcohol that is ENA or industrial alcohol that is sold at different prices, but the bulk of it is all ethanol.

Ashok Patel: And regarding sugar segment, FY 19 entire year average realization would be?

Tarun Sawhney: For fiscal 2019 this year? You are talking about one year ago?

Ashok Patel: Yes, FY 19.

Tarun Sawhney: ₹ 31.46 per quintal.

Ashok Patel: And right now we are sending it for this quarter?

Tarun Sawhney: ₹ 33.5 approximately.

Ashok Patel: Sure. So I just wanted to understand that if you have currently 320 KLPD distillery, on a full utilization how much ethanol can it give?

Tarun Sawhney: That's a arithmetic calculation. At 100% capacity it can...

Sameer Sinha: It would be at 30 days for 320 KLPD at 100%. This is a little less than ₹ 10.5 crore.

Ashok Patel: Okay. Little less than ₹ 10.5 crore?

Tarun Sawhney: Yes.

Ashok Patel: Okay. And sir, any ballpark figure regarding when we are trying to achieve ethanol blending of 6%, how much production are we sacrificing on domestic level?

Tarun Sawhney: I am sorry, can you repeat that question?

- Ashok Patel:** On pan-India basis, when we are achieving ethanol blending of say 6%, so how much sugar production are we sacrificing?
- Tarun Sawhney:** We are not sacrificing very much at all. With the level that is going to be achieved this year, only 600,000 tonnes of sugar is going to go from sugar to ethanol through the route of B-heavy molasses and juice. The balance comes from C-molasses which would happen in any case.
- Ashok Patel:** Okay. And as you just explained that global deficit is expected to be over 11 million tonnes. So you see domestic exports reaching the target which are set around 5 million tonnes to 6 million tonnes, will it get fully achieved?
- Tarun Sawhney:** Yes, I think I can safely estimate that India will try and export 5 million metric tonnes in this sugar year. And it will meet part of the global shortage of 11 million tonnes, obviously.
- Ashok Patel:** And simultaneously, we would also be able to reduce the inventories which are standing at roughly 14 million tonnes domestically?
- Tarun Sawhney:** Clearly, yes.
- Ashok Patel:** So it will provide a much favorable demand-supply from domestic perspective?
- Tarun Sawhney:** Well, it will provide some relief, I think 10 million tonnes which is probably what the closing balance will be, it's still a trifle high. I would be more comfortable with the closing balances of about 8 million metric tonnes.
- Ashok Patel:** Okay. And last question would be, what is the rough time taken for setting up a crushing capacity and distillery?
- Tarun Sawhney:** So, typically a sugar factory will take approximately, they both take about the same amount of time, between 18 to 24 months. You see, we also have to have environmental clearances for both factors, and I am taking that into account.
- Ashok Patel:** And sir, roughly what would be the capital cost for distillery specifically? So I am asking because for two of your peers, for example, Rampur set up 1,100 KLPD distillery at ₹ 62 crore expenditure, whereas Dwarikesh setup 100 KLPD at ₹ 145 crore expenditure?
- Tarun Sawhney:** It is pretty difficult, distilleries can be multi product, they can be single product. They can have different attachments, they can have different technology selections, they can have different technology partners. They can be set up with different levels of automation and there are environmental costs as well to take into account which differ from location to location. So, there isn't any thumb rule really that you can compare the two, what you are attempting to do.
- Moderator:** Thank you. We take the next question from the line of Lavin Shah from Valuequest Research. Please go ahead.
- Lavin Shah:** Sir, firstly on this exports, so have we conducted our entire quantity what we are supposed to do this year?
- Tarun Sawhney:** Yes, we have.

- Lavin Shah:** And out of that, like 27% is already been physically moved out of our factory or country, right?
- Tarun Sawhney:** Correct.
- Lavin Shah:** Okay. And sir, just wanted to know, with this Government willing to give additional quota to the mills who have already exported or contracted, so we have also asked for certain additional quotas, so if actually there is this thing that Maharashtra there would be a big shortage in terms of overall production, and the mills over there won't be able to export a sizable quantity, so do we see a chance where we can actually get quite substantial quota, say something like 50,000 tonnes to 1 lakh tonnes kind of additional export quota?
- Tarun Sawhney:** I think we would be delighted if we got that kind of quantity. But honestly speaking, the mechanism of allocation and the quantity of allocation is unknown to me. So, I really don't have a comment to make on what will be allocated to Triveni or will be allocated as the entirety. Having said that, I think that's information that leads to the first tranche according to what has been published by the Government of India will be clear in the next 10 days.
- Lavin Shah:** Perfect. And sir on this export, so our realization for this quarter is around ₹ 19.82 per kg. So this would be like this translates to a price, let's say, around 13 cents, 13.5 cents. So at the current price, the price is hovering around 14.5 cents to 15 cents, would we be making money accounting for the export subsidy that is there?
- Tarun Sawhney:** Yes, marginally yes, absolutely.
- Lavin Shah:** Okay. Sir, and this export subsidy that we are yet to book, so that will be like ₹ 10.44 per kg is what we will be receiving from Government, right?
- Tarun Sawhney:** Correct. ₹ 10.448 per kg.
- Lavin Shah:** Okay. And you just spoke about there was this question from a previous participant on additional capacities for distilleries. So, what is your thought? I mean, you mentioned that at the current prices it won't be viable or it doesn't make sense to go for additional capacity. But if we were to like sacrifice more sugar that would be better in for us as well as for the industry, right?
- Tarun Sawhney:** Yes, I mean, from an overall picture, of course, it is much better, because we need to bring down our sugar balances and our inventories. And the easiest way to divert it to ethanol, to sugarcane juice or B-heavy molasses to ethanol. What I was saying was, that given the current prices of ethanol from juice or B-heavy, I would imagine that there is limited incentive initiative to set up a greenfield project, which will be the project from scratch. But tinkering to additional distillery capacity or small brownfield expansions are things that you can certainly expect, given the changes that MoEF has made in terms of the elimination of requirements of permission for small increases in your capacity if you are making ethanol provided you are not increasing impact in pollution, you can certainly go ahead and do that, and do that quickly. So those things are opportunistic, and they will certainly happen. Is it a panacea to the problem? It certainly isn't. But it's marginal CAPEX that can happen across the industry.
- Lavin Shah:** So does that mean that for industry to go for some sizable CAPEX from hereon, it will require further increase in the prices of ethanol by the Government?

Tarun Sawhney: I would say so. So, I would like to just add that if you have a sugar factory of say x capacity, and you want to set up like the Brazilian model we have to embrace. My particular perspective is that we have to embrace the Brazilian model where as a manager at a sugar factory you make an operating decision based on prices where you are going to divert the sugarcane juice, either towards sugar or through the distillery to make ethanol or alcohol. Now, if for a sugar factory or x BCD, you take C-heavy molasses, for example, and set up a distillery based on C-heavy molasses. If you then have to expand that distillery to take into account the full quantum of juice, it would be potentially 8x the size of the existing plant. So we are talking about massive investments if you are looking at direct conversion of juice. B-heavy is different, B-heavy mills are still making sugar, that's 25% diversion approximately. So, we will still require larger capacities. But if you really wanted to have the option like in Brazil of going both ways, like the Brazilian scenario today is they are making 33% sugar and 66% ethanol right now, that's the mix today in Brazil. Four years ago, it was more like 50:50 or 45:55, actually, to be more precise. So they have taken more sugar capacity away and moved it to ethanol, because it's been more remunerative for them.

If the Indian sugar industry and ethanol industry were to have the same framework, which is something I think that there is a lot of conversation happening, not just at the industry level, certainly at the Government level, and certainly at the international level, that the fundamental problems that exists in the Indian industry, Indian industry's revolution can be investment in ethanol capacity. There are other things that will need to happen, dealing with sugarcane prices, ethanol prices, sugar prices, etc. I won't discuss that, but Indian industry's role will be to substantially increase the distillery capacity. And for that we are talking about massive schemes, the Government has announced ₹ 6,000 crore of loans, it will have to be much more than that to be able to set up larger capacities. But it would only be driven, in my opinion, by two things, number one, by a higher price for ethanol produced directly from seed material; and second, a certainty over a longer term. Because the payback of a distillery is in many years, and currently the pricing is annual. And therefore, for industry to invest in something where the payback is several years but only a comfort of pricing of one year is a slightly challenging situation.

Moderator: Thank you so much. We take the next question from the line of N.K. Arora, an individual investor. Please go ahead.

N.K. Arora: Can you please tell me the market price of molasses these days?

Tarun Sawhney: So, the market price of molasses changes quite dramatically, in the last tender it was approximately ₹ 4,500 to ₹ 4,750 per metric tonne for C-molasses, of course, and that too only in Uttar Pradesh. I must say, I do not have the numbers for the other parts of the country.

N.K. Arora: Okay. Secondly, Defense Expo is starting from tomorrow in Lucknow. In the Times of India there was a report that 17 Memorandum of Understanding will be signed on 5th February. Triveni Engineering is mentioned as one of the companies. Are we setting up a defense project in GOP Defense Corridor?

Tarun Sawhney: Actually, we are entering discussions with the UP government that if we were to do a defense project in Uttar Pradesh, which we do not have today on the cards but we are doing the preparatory work and the groundwork, and I think the press announcement was a little premature and eager that we will have the ability to be

able to do it in Uttar Pradesh, a state which we think is run and governed extremely well, and where there is enormous possibility of talent that is available.

Moderator: Thank you. Next question is from the line of Dhaval Shah, individual investor. Please go ahead.

Dhaval Shah: So, I have a question on your engineering business, which is niche at this moment. So firstly, what kind of opportunities do you look at for gears and water business currently? And what should the potential revenue for the Triveni be in the next two years, maybe this year we can end up with around ₹ 450 crore, ₹ 500-odd crore revenue for both gear and water. So what kind of opportunity do you see for these two segments?

And secondly, we have seen some margin expansion for the gear business this quarter. So this is because of what reason, if you can explain? And is it sustainable going forward?

And thirdly about the water business margin. So we have seen also the operational profit for this nine month compared to the losses last year. So given, I mean, what kind of order inflows are there and are you L1 in any of the contracts presently. if you can share?

Tarun Sawhney: Okay. Let me just start off by saying that the first sub-part of your first question, which talked about a two year perspective, we don't, and I personally don't give any forward looking statements or projections for our businesses, either engineering, or sugar. I am happy to talk about the environment, but not necessarily any financial projections for our business.

Now, how we look at opportunities within both water as well as gears? The methodology is very simple. We look at areas that are sustainable areas that offer great promise, areas where there is growth in terms of new projects and new ventures. So that's common, that's fairly common and it's fairly standard for engineering companies to look at all these types of different sort of base movement in terms of looking at expansion.

Now looking at the water business, first, as I had mentioned in my opening remarks, there are many projects that are coming up for finalization where we are participating. We don't know where we are, but we are very hopeful that we will certainly be getting a few of them. You alluded to the profitability of the water business group and the fact that it has shown a resounding improvement nine months over nine months. The fact that we have excellent profitability this year, yes, this is something that we hope that will certainly continue and sustain going forward. A lot of that has to do with rationalization of our business operations.

Number two, taking the right types of projects that suits a company like Triveni. A project that we are doing for NMCG, for example, is something where we find great promise. And we hope that we will get more such opportunities, although there aren't very many of those, but hopefully there will be more that will be offered by the Government of India to us.

Your last question regarding our gears business and our margin expansion for the quarter? The rationalization for that is really because of the products that were dispatched over the quarter, a much higher segment of export revenue. And there is service refurbishment revenue in the quarter. Is that something that is going to be sustainable? It's going to be challenging but our margins going back for H1 or

for the previous year, etc., are still extremely good and healthy levels. This is slightly higher. Our attempt are to inch higher, although this quarter is certainly a little bit of an anomaly, and primarily because of the dispatches that we had.

Dhaval Shah: Okay. And secondly, I mean, given that you will be generating strong free cash flows next year, I mean, many of the sugar companies have come up with a dividend announcement, but it is not from Triveni side. So, is there anything lined up in your mind for the CAPEX announcement? Or given that you also mentioned that the government has green clearance requirement for the 50% more expansion of ethanol capacity, so is there anything lined up at your side, if you can share?

Tarun Sawhney: So, as I mentioned, we have no real, no substantial capital expenditure requirements that have been outlined or discussed at the board level at this point in time. And as far as dividends are concerned, the Company has a dividend policy, it's on the website of Triveni Engineering. And as and once it's considered, we will first report to the exchanges and then of course happy to discuss it with you.

Dhaval Shah: Okay. And just one last if I may. This brownfield, you mentioned suppose a sugar company comes up with 50% more ethanol capacity for the brownfield. So, firstly for Triveni, is there any facility or extra space over there for any further brownfield expansion?

Tarun Sawhney: So, space is not a requirement. However, as I mentioned, we are already meeting our total capacity of C-molasses production. So, any expansion would either be based on buying molasses from the open market or utilization of B-heavy molasses. So, those are permutations and combinations that are typically dependent and governed by what the prices are. And prices are set by the government. At this point in time, we have no plans of any expansion. But dependent on when we hear any revision in pricing or strategies or procurement by the Central Government or by the oil marketing companies, we will certainly evaluate it. I personally think this is a very big positive step for those that didn't have sufficient capacity, and therefore there will be more capacity generated. So I think this doesn't directly impact us, it may certainly impact others in the industry. Overall, wearing the industry hat, and from the sugar perspective, I think this is a great positive. And I hope that people actually make up this avenue and expand.

Moderator: Thank you. We take the next question from the line of Vimal Sampat, individual investor. Please go ahead.

Vimal Sampat: I am Vimal Sampat. My question is on our debt. So, we said that our debt is ₹ 1,544 crore. How much is it long-term and how much is short-term?

Tarun Sawhney: Term loans are ₹ 626.5 crore, which includes soft loans of ₹ 623.5 crore and the balance is for balance is short-term.

Vimal Sampat: And our inventory is around ₹ 1,400 crore?

Tarun Sawhney: Yes, approximately.

Vimal Sampat: So, now I mean we are practically debt free?

Tarun Sawhney: No, we have taken loans at soft interest, not debt free to that extent.

Vimal Sampat: Right. So, now we are throwing up cash every year which is a substantial amount. And soft loans you would not like to repay, because it will be at a very low rate of interest. So, are we looking at, since the banks are asking all the defaulters to sell off and things like that, are we looking at some acquisitions, looking at our strong balance sheet?

Tarun Sawhney: So, let me answer the first part of your question, which is, yes, we have excellent rates of interest, our pooled rate for the nine months is 6.5% odd, so these are very low, so we wouldn't want to repay that until it necessarily becomes due, because it is actually very positive as far as our operations are concerned. On the balance sheet, yes, it comes up as a big number. But it is an easily serviceable number with the cash flows, as you mentioned, that are being generated.

With respect to expansion opportunities within our agriculture business or within our engineering businesses. We don't have any specific companies that we are looking at or any inorganic targets or anything like that at all. But it's not as if we would be averse, if there were things that came along at the right price or if opportunities came along for us to invest. So we are open to all forms of expansion. Last year, as you know, we spent quite a sizable amount of money in terms of expanding our distillery capacity and so you can see that we are certainly looking at those sorts of investments. The preceding year we started off a new project in our water business at Mathura that required a reasonable amount of capital to be deployed in that business, that is throwing off good cash flows, you are seeing that in our P&L of our business. So, we certainly look at opportunities as and when they present themselves.

Vimal Sampat: And our gears, what is our capacity utilization now on the gears business?

Tarun Sawhney: So, I would say that as of today we are approximately at about 80% odd.

Vimal Sampat: So, we will look at expanding that also maybe in future?

Tarun Sawhney: I think, as and when we see what the next year looks like, certainly we are not shy of spending money, and in fact the capital turnover ratio in our gears business is a very, very good number. So you don't need to spend a lot of money to get a much higher return, or certainly much higher turnover. And as and when the time comes, we will certainly take the necessary approvals from our board and look at expansion there as well.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we take this as a last question, it's from the line of Lavin Shah from Value Quest Research. Please go ahead.

Lavin Shah: Sir, firstly on this water business, like we have been talking about some contracts that we are already into the fray. So what is the status on that? Because last quarter also we were looking at some of the contracts being finalized and nothing has happened as yet in Q2 as well as Q3.

Tarun Sawhney: So the contract that we are talking about is a contract that we had one almost a year ago located at Mathura. That is being operated through a subsidiary of the company. Of course, it forms a part of our group results.

Lavin Shah: Sir, sorry to interrupt. Actually, I meant into the new contracts and new orders that we have actually bid for.

- Tarun Sawhney:** Just repeat the question, please.
- Lavin Shah:** So I just meant that new orders or the new contracts that we would have bid for, so even last quarter we had spoken about a lot of orders that were there in the pipeline.
- Tarun Sawhney:** Correct. So, we have seen that finalization of orders has not been as aggressive as we wanted. We were hoping that after elections there would be a massive spate of order finalization, which really has not happened. So we are still awaiting very sizable numbers of orders and we are expecting that that would certainly happen over the next few months.
- Lavin Shah:** On the sugar business, so what is the situation as per you in Maharashtra? So do we see that crushing season will actually now begin to reside or stop maybe by end of Feb or something like that?
- Tarun Sawhney:** Well, it's certainly started already. If you look at Maharashtra data, the season is showing the first signs of stopping, and I think by the end of the month of February we would see substantial signs of slowdown and a larger number of factories finishing their operations. But all of this has been forecast. And it's been taken into account when one looks at a country's production of 26 million metric tonnes.
- Moderator:** Sure, thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to have the floor back to the management for closing comments.
- Tarun Sawhney:** Ladies and gentlemen, thank you very much for joining us for the nine months results for Triveni Engineering & Industries Limited. I look forward to talking to you in approximately three months' time and hopefully with good news like we have had on this quarter. All our various businesses under agriculture and engineering have certainly got more positives than negatives at this point in time. And I think that is very encouraging, it's a very good environment. There are certain challenges in the economy and we are very fortunate that we in our businesses are not faced with those at this point in time. Thank you very much for participating at this point. Thank you.
- Moderator:** Thank you very much. On behalf of Triveni Engineering & Industries Limited, we conclude today's conference. Thank you all for joining us. You may now disconnect your lines.