Triveni Engineering & Industries Limited

Q2 & H1 FY 21 Conference Call Transcript
November 10, 2020

Moderator: Ladies and gentlemen, good day and welcome the Triveni Engineering & Industries Limited Q2 and H1 FY 21 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 now 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 Q2 and H1 FY 21 Earnings Call. We have with us today Mr. Tarun Sawhney – Vice Chairman and Managing Director, Mr. Suresh Taneja – Group CFO, 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 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 very much. Good afternoon, everybody and welcome to the H1 fiscal 2021 consolidated results earnings call for Triveni Engineering & Industries Limited. The overall performance of the company during the half year ended 30th September has been in line with our expectations. Our revenues have grown by 28% in the half year to ` 2,392 crore, with a profit before tax of approximately ` 180 crore and the profit after tax of ` 115 crore.

In the quarter under review, no export incentive has been booked pertaining to the previous years. However, in the corresponding quarter of the previous fiscal year, there was a booking of just under ` 92 crore on account of the export incentives. During the half year, however, the total export booking of incentives has been ` 57.7 crore versus ` 91.8 crore in the previous corresponding half year.

The highlights for the Sugar business. We anticipate, in the sugar season 2021, that the country will produce approximately 31 million tonnes of sugar. This is after a diversion of approximately 2 million tonnes of sugar, which will go towards ethanol production. The previous year, 2019-2020 sugar season, approximately 27.4 million tonnes of sugar was produced, and 0.8 million tonnes of sugar was diverted towards ethanol. The sugar season for all seven of the Triveni Group sugar factories has now commenced. With our last, the seventh factory in Eastern Uttar Pradesh at Ramkola having started operations day before yesterday. I am also happy to report that the initial signs of recovery show a positive bias compared to the previous year and I think that is very encouraging for the teams on the ground, and a result of a considerable amount of hard work that's been done in the fields and in contact with our farmers.

Ethanol prices have been recently increased. The C-heavy price has been increased by ` 1.94 per liter, B-heavy by ` 3.34 per liter, which is the most significant increase, and juice prices by ` 3.17 per liter. It's also important to note that two more slabs for transportation over longer distances have been added into this tender, and that is encouraging and will lead towards an early achievement of a 10% EBP10 for the nation. During the half year, all offseason expenses relating to the Sugar business, including expenses incurred to repair the plant to make them ready for operations for the ensuing sugar season have been expensed out. Therefore, the Q2 results will always carry a lower margin owing to this treatment of accounts.

On the review effective 1st of April, 2020, the management has combined the co-generation operations with the sugar operations, and the co-generation activities will no longer qualify as a separate operating segment. In the Alcohol business, the profitability of the distillery in the current period was lower than the previous period, in view of the much lower raw material price related to ethanol sold in the previous period. Besides higher proportion of production in the sale of ENA, in lieu with obligation to sell molasses to country liquor during the current period has resulted in lower contributions, which will be made up, during the course of this year. Further, redundant capital lightens aggregating to ` 3.6 crore have been written-off upon uninstallation of the incineration boiler at the Muzaffarnagar distillery.

As far as the Engineering business highlights are concerned, the Board has approved to redesignate the "Gears business' as the 'Power Transmission business'(PT) , which is a more accurate representation of the present business, and accordingly, the terminology has been used in the segment information. Both the Engineering businesses have performed much better in Q2 after the operations were impacted due to the pandemic in quarter one. The profitability in quarter two is almost at the same level of the corresponding quarter of the previous year. However, the profitability in the H1 is lower because of the impact of lockdown, where operations came to a standstill for a total period of six weeks in Q1 and the start of operations happened in a phased manner.

The pandemic has also slowed the process of tendering and finalization of orders of the Water business, and I will discuss this in greater detail towards the end of these opening remarks. But there are encouraging trends of recovery, despite the uncertainty, and this is not just domestically but also internationally. We found that across the Water and the PT business, there has been a lot of new interest cropping up from a variety of sectors. In the Water business, we are seeing more discussions for newer tenders, and that is an encouraging sign. As far as the Engineering business is concerned, we are seeing that the COVID impact globally is making firms look at reliable but lower cost options, especially for engineering products. As far as our Transmission business is concerned, are in a fortuitous position to take advantage of that.

There are consistent challenges in terms of meeting supply chain requirements, as far as Power Transmission business is concerned. Because we have enjoyed excellent relationships with our vendors, we are able to meet new customers' requirements quite easily, at least for the foreseeable future and I will discuss that also, when I come to the Power Transmission business discussion.

The company has completed the buyback of just under 62 lakh equity shares at a price of ` 105, aggregating to a total amount of ` 65 crore.

If I turn to the financial highlights, the revenue from operations for Q2 stood at `. 1,168 crore with a PBT of ` 51.1 crore and a PAT of ` 31.2 crore on a consolidated basis. The finance cost in H1 is primarily lower due to the lower average CC utilization by approximately 54% against the previous corresponding period and this was due to higher sales volumes, which included some exports.

The total debt of the company as of the 30th of September is ` 761 crore against ` 1,755 crore at the same time of the previous fiscal year. The ` 761 crore comprises of term loans of ` 442 crore, it's important for me to mention that ` 440 crore of this ` 442 crore are soft loans with interest concession. As a result, at the end of Q2, our average cost of funds stands at 6.04% average. This is the combination of term loans and working capital.

Looking at our businesses in a little more detail. As far as our Sugar business is concerned, during the quarter, TEIL sold 2.41 lakh tonnes at a growth of 33%. During the same period of Q2, TEIL exported 28,000 tonnes of sugar and that was significantly higher than the corresponding period in the previous fiscal year. In Q2, no export incentive was booked for the previous year and I have discussed this in my opening remarks in the previous quarter of the corresponding year, there was ` 91.8 crore that had been booked.

Pursuant to the additional export allocation granted over the initial allocations under the MAEQ program, the company has exported just over 100,000 tonnes of sugar, which was the total quantity that was allocated from the Government of India. Therefore, the total quantity that was exported by the company stood at 285,000 tonnes and this was absolutely enormous achievement. Through all the reallocation processes, TEIL had retendered for the MAEQ for significant quantities, which was then allocated to us by the Government of India and we were successful in exporting it.

The challenge is the receipt of these amounts of subsidy from the Government of India, and we have a large quantum that is outstanding. However, we are fairly hopeful through the winter session, we will be receiving a significant portion of those funds. As on today, we have approximately ` 398 crore of receivables from the Central Government, this does not include power dues from the UP State Government. So, a substantial amount of money is owed to the company from both the State and Center, more so from the Center. However, I am fairly confident that over the coming few months we will receive budget or the Department of Finance will give budgetary allocations, and a portion of this will be paid back and will directly go towards cane price.

The sugar inventory as of the 30th September, 2020, was 27.4 lakh quintals, valued at Rs. 27.9 per kilo. The co-generation operations achieved external sales of ` 17.9 crore units during H1, which was significantly higher than ` 13.4 crore units in H1 fiscal 2020, a growth of approximately 34% due to higher operating days during the current year. White sulphitation crystal sugar is being sold at approximately ` 32.5

per kilo, and refined sugar, which accounts for approximately 40% to 45% of the group's production, is being sold at ` 33.5 rupees per kilo. So, we have seen that leading up to the festival period, higher quality sugar is commanding a reasonable premium, which is quite encouraging in these times of excess production. International sugar prices as of the 6th of November were 14.16 pounds for raw sugar, and cluster over $402 a tonne approximately for white crystals.

Looking at the industry scenario, for the sugar season 2019-2020, as I mentioned, the country produced about 27.5 million tonnes of sugar. The decline was due to the shortfall in cane in the states of Maharashtra and Karnataka. In the sugar season 2019-2020, which ended on the 30th of September 2020, the estimated sugar inventory is approximately 10.6 million tonnes across the country. Let me say, this is far higher than what is required in the country. We need no more than 6 to 7 million tonnes which is approximately two months' worth of consumption for there to be an equitable balance. Therefore, this will always be considered as a negative. However, during these periods, to have a MSP that has been strictly enforced by the Government of India, is an absolute blessing. We have been able to ensure that the prices that we are getting are substantially higher. And then in our case, as I have just mentioned, the rates that we are getting at the mill gate even now are because of the prevalence of the quota system and also the MSP.

The bumper production for this year is going to be approximately 33 million tonnes, with 2 million tonnes diverted out of this towards ethanol, and therefore 31 million tonnes of sugar being available for consumption in the country, and that means that the opening stock of 10.6 million is surely to balloon without an immediate export policy. The Government has yet to announce any export scheme for sugar season 2021. However, from the industry's perspective and from Triveni's perspective, we have done a lot in terms of communicating why this is absolutely essential, and why it will impact the farmer directly if such an incentive scheme is not brought about. We are hopeful that over the coming month there will be a change in policy. If newspaper articles and communication are anything to go by, the most recent communications by Secretary Food are very encouraging on this front.

There were media reports that the GoM had recommended an increase in MSP of sugar by ` 2 a kilo in August, 2020. This too has not been made effective and we are still waiting for an approval by the cabinet. One is hoping that, again, this is something because there has been an increase in the FRP, in the price of sugar across the country, that this is something that will happen as and when new sugar get sold. Therefore, the sugar that is costed would be higher cost of cane.

As per industry estimates, the total acreage under sugarcane in the country is estimated to be 52.6 lakh hectares for the sugar season 2021, which is 9% higher than the previous year. Uttar Pradesh, however, is expected to have a sugarcane acreage of 23 lakh hectares, 0.5% lower than the previous season. The real increase has come in Maharashtra, where the sugarcane area has gone up by 48%, very substantially compared to the previous year, primarily due to better monsoons. Both the southwest and the northeast monsoon have been very kind in Maharashtra and we were seeing a commensurate increase in Karnataka as well. Due to the higher availability of sugarcane and surplus sugar, the enhanced ethanol prices actually have been a boon to the industry. About 0.8 million tonnes was diverted last year and this year, we are expecting 2 million tonnes, at least, to be diverted from sugar towards ethanol.

As per the Government's August data, on the 11th of September 2020, ` 13,000 crore of sugarcane price arrears existed across the country. I don't have a figure for you for across the country. But as of today, ` 6,300 crore of cane arrears exists in just Uttar Pradesh alone and this is a worrying thought. So without an export policy, without an increase in MSP, these numbers, with the ensuing season on the way, are surely going to balloon and I would imagine that this is a concern for all involved.

The ethanol production capacity in the country has increased over the last 12 months by about 8%, which is an encouraging amount. For the 2020-2021 sugar season, the Uttar Pradesh Government has not yet announced its SAP, State Advised Price. However, the recent announcement has been made over reservation of 18% of molasses for country liquor manufacturers. And lastly, the Central Government has recently announced or notified a new scheme for extending financial assistance to molasses based standalone distilleries for the enhancement and augmentation of ethanol production capacity.

In the recently announced ethanol tender, I am happy to give you a quick brief of the results of this tender. The total tendered quantity was 458 crore liters, bids were received for 322.5 crore liters. There was a substantial amount of overbidding and therefore our anticipated contractual quantity in this round is going to be around 275 crore liters. However, there is greater flexibility and much easier terms for future contracts that have been put in place by the Government, and therefore we anticipate that these numbers will go up consistently through the tendered process over the course of this molasses year. Of 322.5 crore liters, 41 crore liters is tendered through juice, 25 crore liters in Karnataka, 13 crore liters in Maharashtra, 1.1 crore liters in Uttar Pradesh.

77.6 crore liters are tendered through B-heavy. This I think is a huge achievement of the Government of India. It is in terms of trying to find a solution to the sugar problem and in terms of building up a robust ethanol sector. It is an excellent sign to which the industry too as has responded very favorably with a quotation of 178 crore liters. 87 crore liters in Uttar Pradesh, 56 crore liters in Maharashtra and 24 liters in Karnataka. 72 crore liters is through C-heavy, because as you remember, the traditional route for manufacturing ethanol. Interestingly, 34 crore liters has also been bid through grain. I think this is an excellent start to this year's ethanol blending program and I am quite certain that we will achieve significantly higher numbers than last year and perhaps record numbers for the country on our journey towards E10.

The hope is that for select states the Government of India will allow slightly higher load that is an area that is currently being discussed. It's something certainly that's been supported by the industry and something that Triveni has been pushing for, at least in the larger states of Karnataka, Maharashtra and Uttar Pradesh to take this levels of E10 up to E13, so that the quantum being consumed in the states can go up quite easily without any significant change to car part, etc., impacting the automobile manufacturers.

Very briefly, I would like to cover the international sugar scenario before turning to the other businesses. In the Center South Brazil, it's estimated that sugar production will touch a record high of 38 million tonnes. Production in Thailand is expected to be very low, again, very substantially lower and we are seeing a lot for East Asia and as a consequence, all the various agencies that didn't declare reports for the global sugar balance, vacillates a little bit. So I think the global sugar balance, in our estimation, will remain constant this year, compared to last year, international sugar prices have been significantly volatile. And from a low of 9.24 cents in April 2020 to 13.4 cents on the 30th of September was an increase of 45%. We have moved up significantly touching a recent high of just under 15 cents, 14.97 cents per pound on the 2nd of November 2020. Clearly, the fact that India has not announced its export program has had an impact, in our opinion, on global sugar prices. If India does decide to export between 5 million tonnes and 6 million tonnes of its sugar, there will clearly be some softening of these prices. However, if raw sugar has to be exported, which is what can easily be absorbed by global markets, the decision to export is one that needs to be taken sooner rather than later.

Looking at the performance of our alcohol business, our production has grown fairly substantially, as has our average realization. All of these details are in the notes that has been sent out to you. The new 160 KLPD distillery that was commissioned at the end of April 2019 has been completely stabilized by September 2019. And this now has resulted in higher volumes of production and dispatches, especially when we compare the quarter and half year against the previous year. The profitability of the distilleries as mentioned, was lower on account of lower raw material prices in the previous year. In addition, we produced a larger quantity of ENA, which is sold at a lower price, in lieu of our heavy molasses obligation. However, I would encourage you to look at this process over a full fiscal year, because that will then get balanced out because the supply of ENA only happens at particular times based on requirements, etc. The lower cost of ethanol sold in the corresponding quarter of the previous year was due to the molasses prices, as I mentioned, which were prevailing at that point in time. The distillery has received contracts of `10.14 crore liters during the current marketing year.

Looking at the Engineering businesses; the Power Transmission business had excellent revenue of ` 38 crore approximately, and an order booking of just under ` 40 crore. The turnover in profitability in H1 is lower and that is primarily, as I mentioned, due to the impact of the lockdown in Q1. However, the transmission business has adapted quite well to digital platforms and continues to interface with its customers through a variety of new means and that has led to a greater acceptance of orders being taken by utilizing technology and has really allowed our order booking to come back to normal levels. Our anticipation is higher but they are at normal levels compared to the previous year under the given circumstances. The business has received strong inquiries from defense and is hopeful of concluding more tenders positively in the coming quarters. As you know, over the last two quarters, within the defense space as well, there has been precious little that has actually been finalized.

Turning to the water business; the gross revenues for the quarter was ` 66 crore, with a PBIT of ` 6.1.crore. And these results are the consolidated results, which include the wholly owned SPV executing the Mathura project, which was awarded to us by NMCG under the Namami Ganga program. Due to the pandemic, no major tenders were finalized in H1 and this has had a small impact on the order booking for H1 fiscal 2021. But we believe that this is very short term, as there is a requirement for larger numbers of tenders to be finalized. The water situation across the country is growing worse by the day and so we are very hopeful that we will be in a positive position and be able to report positive numbers on order bookings to you in subsequent quarters. The outstanding order book on the 30th of September stood at ` 874 crore, which included ` 472 crore towards O&M contracts, which have a slightly longer period of time.

I would like to very briefly cover the outlook for the two business segments. For the Sugar business segment, as I mentioned, we are indeed hoping for the announcement of a subsidized export policy by the Government of India. There has now been a lot of communication from the industry to the Government, that the timing is absolutely crucial, especially if we want to produce raw sugar and I anticipate that if the Government is to take this kind of a decision, it could certainly be over the next four to five weeks, which will give ample time for manufacturers across the country to convert from crystal sugar to raw sugar and export at a timely amount. The first half of the calendar year actually has the greatest acceptance of Indian sugar, given our geographical advantage as India compared to high sugar demand countries around us. You have Iran, East Africa, Sri Lanka, Bangladesh and Indonesia, which is a recent sugar trading partner for India.

In addition, we are also looking at the continuity of subsidies that were announced in previous years by the Government of India and we are hoping for a positive outlook on that front. This includes a ` 2 per kilo increase in the MSP, which was approved earlier but has yet to reach the Indian cabinet's approval and we are still waiting for any increase of SAP from the State Government. However, the anticipation is that it will be no more than ` 10 at the very maximum. The industry has very recently represented to the State Government that at this point in time there is a lot of pain with ` 6,500 crore arrears of the previous year. This year, having just started, we have to mitigate against any unforeseen increases in cane price arrears, which may very well happen if there are any inordinate increases in the cost of sugarcane.

Turning to the Engineering businesses; while the pandemic did slow the tendering and finalization across both the Water and the Power Transmission business, I am happy to say that we are seeing very encouraging signs. So as I mentioned, because we have been able to reduce costs in our Power Transmission business, we find ourselves being able to afford the same level of margins, and report the same level of margins quarter on quarter. In addition to that, we are able to offer better terms to our international customers and a larger portion of our business is now coming from outside of the country. As far as the Water business is concerned, we expect some subdued activity over this quarter. However, we see that from the next quarter, there will be a substantial number of tenders that will be closed out and the business is gearing up to positively participate in the next generation of water projects across the country.

Lastly, I would like to mention that the buyback that was approved by the Board of Directors of the company has been completed and the company bought back an aggregate of 61.9 lakh equity shares at ` 105, amounting to just under Rs. ` crore.

Thank you very much. I would now like to open 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 Shanti Patel from SP Investments.

Shanti Patel: Will you be able to tell us a segment wise revenue in term for percentage? That is number one. Number two, what is our PAT margin and return on capital and the return on capital employed? And whether we will be able to maintain in the next two three years the same?

Suresh Taneja: Your first question was, what is the percentage revenue of each business segment? If you look at the segment revenue which is given in the results, it is very, very clear. And obviously, the sugar and co-generation are forming a major part of the total revenue. In terms of total percentage, it is roughly speaking about 86% which is sugar and co-generation, if you also take distillery into picture, it becomes about 90% and the balance 10% is contributed by our Engineering business.

Now, as regards the return on capital deployed, etc., for the financial year 31st, March 2020, if you look at the return on equity, that was 27.9%. If you look at return on capital employed, it was 17.43%. And if you look at the return on capital employed for H1 FY 2021, it is 16%.

Tarun Sawhney: We don't give forward-looking statements, but the intention of the company is that we are embracing positive growth. We have invested in areas that will deliver positive change. So we are very hopeful that this going forward will be equally positive. Now we are in businesses which have significant government intervention and that intervention has an impact on the profitability of the fund. Provided a status quo is maintained, we believe that we would be able to deliver commensurate results going forward. However, it is contingent on a lot of things happening in the ecosystem.

Shanti Patel: Return on equity was at around 17%, correct?

Tarun Sawhney: Yes, we have answered the question. If you need the details again, you are welcome. You know, all this information is very much available in the annual report also. And return on equity for FY 2019-2020, which is the full year, was about 28%.

Moderator: The next question is from the line of Sanjay Manyal from ICICI Securities.

Sanjay Manyal: Sir, just want your views on two, three things. One is, what kind of an ethanol volume we can do for the full year perspective? We have a capacity of `. 11 crore, ` 11.5 crore. And what is your tender quantity? Out of which what is B-heavy and C-heavy?

Sameer Sinha: Like you rightly mentioned, we can do a quantity of about 11 crore litres, and we are looking at this, the upcoming tender of at least 10 crore litres, if not more, and depending on the production and B-heavy, C-heavy how it pans out. We can just fine tune that number going forward. In terms of the percentage of our total production, we are looking at about 85% to 90% in terms of B-heavy.

Sanjay Manyal: Is there any planning, I mean, a lot of your peers have announced the CAPEX in sugarcane juice. Do you have any plans in that perspective? There has been, what I understand, the government is giving you interest subvention for the CAPEX. So have you applied in that?

Tarun Sawhney: We had applied earlier on and we were evaluating multiple projects at various locations of our sugar factories. So yes, to answer your question, we have applied and we are at various stages of evaluating those ventures. As you can understand, it's a fairly long drawn out process, acquisition of land, and then pollution clearances etc. So we are still in in the process of evaluating expansion of ethanol projects across the group.

Sanjay Manyal: Okay. And is there any fresh update or clarity on sugar export or subsidy or MSP?

Tarun Sawhney: I wish I could offer you more information than what I had said in my opening remarks. Unfortunately, at this point in time, no, there isn't. I think that we have to wait for several political events to pass by, and the festival period to pass by, and then hopefully we will be able to see which policies will be continued by GOI. The hope is that all of them will be implemented and I think the one great barometer is, once the entire country has started producing sugar, there may be a greater willingness to look at these policies again. Now with an increase of ` 10 FRP, which the GOI had announced for this sugar season, to not announce an increase in MSP is something that that I am concerned about and therefore I say that it is something that will certainly happen sooner rather than later.

Moderator: The next question is from the line of Resham Jain DSP Investment Managers.

Resham Jain: So, my question has been partially answered, but just on the CAPEX side. Currently, the new 160 KLPD facility, now you have a very good ethanol capacity. What will be your odds on balancing between sugar and B-heavy molasses, or maybe cane juice also directly over a period of time? Because, as of today, it looks like ethanol is much better and it will take away a lot of inventory. But the situation can keep changing over a period of time. So to what extent, just from a long-term perspective, what will be that balancing act between the sugar and the ethanol going forward? That was my first question.

Tarun Sawhney: Okay. So I think your question is more of a medium-term question, it's not about this year and next year. The fact that the Government of India is looking at ethanol as a new sunrise sector is absolutely vital. Now, the ethanol industry in India is well over a decade old, but in terms of the push towards other raw materials, that is a very recent push. And the success of the B-heavy campaign this year will add further encouragement, in my opinion, to the Government of India. Also, the larger quantity that has been tendered, 41 crore liters out of 322 liters was big for juice. Now, I think that will require substantial increases in capacity. For B-heavy, the larger groups across the country have the capacity to be able to process B-heavy, by and large.

There may be some incremental changes and some capacity addition that may be required. But to start looking at juice as a viable option requires substantial more capacity addition and this is something that with the Government postponing, or rather extending their subsidy program, which is a very welcome initiative, but it has to be coupled with a commensurate or rather a viable price from ethanol from juice and we are seeing that scenario happening. So I am very hopeful that in the next couple of years you will see more distilleries crop up across the country to process ethanol directly from juice or syrup. I would say that in the three to five years period, once we have crossed E10, and we are on our way to E20, the only way that we achieve E20 is by a large scale capacity to be able to process juice or syrup into ethanol. So I see that that is now becoming much more of a reality.

At this time, last year if you would have asked me what your thoughts are and what are the impediments to get to E20, I would have been far more reticent. I think given the very positive steps that the Government has made with the pricing this year, the continuing of the loan scheme, I think these will go a very long way in terms of propelling more investment into the ethanol sector. The one thing that is required, I will have to say, is the timelines that are taken for pollution clearance. As you know, a good 9 to 12 months can be taken in terms of land acquisition and subsequent pollution clearance. Now, GOI is cognizant of this, and industry representations have been continuous on this front.

So, hopefully, we will see some type of process improvement in terms of this initial hurdle and that is absolutely vital, because what you don't want, and one of the reasons why there has been a requisites from the perspective of the industry is that ethanol prices are announced for a period of one year. But if it takes you two years to build an ethanol plant, a distillery, then there are business questions, viability questions that will always linger. So if you can reduce, the time period to get the plant off the ground and operational, number one. Two, you have a clear indication in terms of direction of pricing, that will be a very powerful tool in terms of spurring this ecosystem. As of now, I have to say that I am certainly much more optimistic than I was in the past.

Sameer Sinha: Yes, sir, I got that point. What I was trying to understand is, at what level you will stop, let's say, as of today we have a good headroom to put up more ethanol capacity to divert sugar, but at what level you will feel that, okay, this is the right balance? Because we have seen years when sugar prices also go up. So, just from that perspective, how much headroom do we have from currently 11 crore liters which we manufacture, till what level we can go if we intend to?

Tarun Sawhney: See, you are absolutely right about that. You see, in years of excess, the incentive for a company would be to minimize their stocks on hand, so that their internal balance sheet looks pretty good. Now to that extent, you may look at investing in juice capacity. Now, it depends from company to company, frankly speaking. So you have to really evaluate, A, the balance sheet of an individual company. So for Triveni, for example, if we were to look at a scenario and we said that, that the juice is here to stay and the juice prices will follow the same trend that they've been following, we would say that at least we should have fungibility in the medium-term of 10% of our total production. Now that is a very significant amount, about 10%. And it means that we need to see those indicators from the Government. Now, provided we see those indicators, a balance of about that much would be good.

Now, in Brazil, you have greater security, frankly speaking, because you own the farmland, number one. So you know exactly, or you know the efforts that you have put in and the yields that you are going to get pretty much and because you have that security over farmland, you have the ability to take big bets of having dual capacity of sugar processing and ethanol manufacturing. In India, you sadly don't., the quantum of having 50:50 just simply is something that we simply cannot have. We must also remember that we have a target of only E10 right now in the nation. So because we have a target of E10, that itself curtails the amount of new capacity coming online for juice. If there is going to be an advantage for the first few firms that tries it out, etc. Because when you have touched E10, you hit one hurdle. Then it's up to the Government to take E10 up as planned towards E20. For the E10 route, I would anticipate that it is not something that will apply to all factories across the industry. It is really about the first few movers into that segment. I would say that there is approximately 2% -% headroom in terms of percentage blending, which can come from juice. That kind of scope exists today. That's about it.

Resham Jain: Right. Sir, just one small question is on the ethanol application which you have already filed for. What is the total amount, like in terms of KLPD, you have applied for?

Tarun Sawhney: Are you talking about the tender?

Resham Jain: No, sir. I am mentioning that under the new Government scheme, you mentioned it is at the evaluation stage and all, but you have already applied for the new ethanol capacity. What is that number you have applied for?

Tarun Sawhney: So, we have been put in our applications to set up 160 KLPD plants at two other units. However, those are all under evaluation as of now. The Board will have to approve them, there will have to be a lot of work done on those plants.

Moderator: The next question is from the line of Gaurav Jhanwar from Systematix Shares.

Gaurav Jhanwar: My question is relevant to the previous participant's question. I just wanted to know that the new projects that we are evaluating, so that's going to be operated from the sugarcane or like we are looking at other options like grain also?

Tarun Sawhney: Very interesting question. As of now, there are multiple opportunities available that are being evaluated. But until they are approved by the Board and communicated to the stock exchanges, only at that point will we be able to discuss in this manner. But I will say that we are evaluating multiple opportunities, because there are very interesting things that are happening with the growth in the distillery sector. So, you have not just the opportunity to set up new distillery capacity, you have expansions in terms of the fertilizer portion, carbon dioxide capture, those sorts of ancillary and smaller businesses. But you also have distinct possibility coming from the sugar factories of making compressed biogas from the press mud waste that comes from the sugar factory. Now that, again, due to GOI policy becomes a fairly reasonable new initiative and another ecosystem that will build out over the next few years. So we are looking at a variety of different opportunities at this point in time, but nothing concrete to report to you.

Moderator: The next question is from the line of Sonika, an Individual Investor.

Sonika: My first question is on Sugar business. What is the reason behind the decline in the inventory? Like from to 54 lakh quintals in June 2020 to 27 lakh quintals in September 2020. And the next question is on ethanol, what is the quality you have sold during the quarter? What is the transfer price of B-heavy and C-heavy molasses?

Tarun Sawhney: So the reduction in inventory is because of the quotas that we have received. And therefore, that's reflected in our sales. As far as the ethanol questions, let me defer that to Sameer.

Sameer Sinha: So you were asking about the percentages in the quarter of B-heavy in dispatch and in production? What exactly was your question?

Sonika: Yes, I am asking about the quantity of ethanol sold during the quarter.

Sameer Sinha: We sold approximately 34,385 KL during the quarter under review.

Tarun Sawhney: That includes the ENA portion coming out of it.

Moderator: We take the next question from the line of Arvind Joshi from Bateleur Advisors.

Arvind Joshi: I had two questions. Basically, the whole of sugar industry is now very enthused with the new policies of the government, and everybody wants to expand. We are in our relatively stronger position. But considering the demand supply gap in the suppliers of these plants and equipment, how realistic do you think are the planning stages in the sugar industry and especially with us? I think we are well covered but how do you broadly look at the sugar industry coping up with the expectation on time schedules for getting these capacities on line?

Tarun Sawhney: So, I think your question relates to the distillery portion, correct?

Arvind Joshi: Exactly. Yes, ethanol capacity. Right.

Tarun Sawhney: Right. So in terms of manufacturing capacity across the country, yes, you are absolutely right, there are limited manufacturers for all the critical equipments, whether it be the ethanol plant, evaporation systems, the boilers, chimneys, the material handling, etc. Some portions of it has fewer suppliers, other portions have a few more. However, I think emanating from this crisis, the order booking level that we are seeing in these various suppliers is not nearly at their all-time highs. So their ability to be able to absorb new orders is definitely there. I don't see that as a constraint at all at this point in time.

Arvind Joshi: Okay. So the early movers would definitely be in a much better position, who have the clarity and the funding to expand?

Tarun Sawhney: I think early or even mid movers, that's what I am trying to say. I don't think supply is going to be a huge constraint, at least for the next year or so.

Arvind Joshi: And sir, one more question I had. Are we planning to convert our press mud into CBG also, because that is also some level of value addition which earlier was overlooked and now opening up a very exciting opportunity, because CBG is now fixed at a price of ` 46 a kg. So are we evaluating those options also?

Tarun Sawhney: To be perfectly honest, these are smaller, discrete plants. Yes, it offers valuate addition. And, frankly speaking, the technology is still untried and untested. It is it is a new scheme; it is something that is being pushed very aggressively by MoD. And it is something that we at Triveni are certainly evaluating. The question really is about technology adoption, because the few technology providers in this place are yet to be fully tried and tested.

Moderator: The next question is from the line of Anupam Goswami from B&K Securities.

Anupam Goswami: Sir, I just wanted to ask on the export policy. If the export policy does not happen, and given the high quota of sugar that we are getting, where do you see the sugar realization going forward? Will it touch to almost MSP level and be benign in that? Or is there a chance of seeing a bit higher, if you can throw some light on it?

Tarun Sawhney: I have very firm views on this. The Government of India has a quota system which it also uses in parallel to regulate prices, in addition to the MSP. So I think prices falling substantially, as the case that you pointed out, below MSP to FRP level, I think that is not possible at all. The Central Government is very cognizant of prices across the country. And also, acutely aware of the fact that if you don't sell the sugar, how are you going to pay the sugarcane farmers? And therefore, I, at least on the pricing front, even if there is no export policy, yes, there will be a downward bias. You see, right now the MSP is ` 31/kg and I mentioned on our earnings conference call, we are getting ` 32.5/kg for sulphitation sugar and ` 33.5/kg per kilo for refined sugar. There could be a little bit of a downward bias on this, marginal, 1% or 2%, 1% maybe. But a lot of it will be controlled by curtailing quotas. The quotas have been very aggressive and pretty bountiful to ensure that there is a pipeline. Of course, this period, September, October and November is very important, because this is the festival season and you want to healthy pipeline in the country. But the Government of India always has the ability to control this by lowering the quota, and then by enforcing that the quota as well as MSP is maintained throughout the country. So I think that it's vital for exports to happen. If exports don't happen, cane arrears will balloon out of control, that's a certainty. But as far as the downward impact on sugar prices, my personal view is that it is not going to be draconian from any perspective, it may be slight.

Anupam Goswami: Okay. And sir, where do you see the UP quotas going forward? Since the Maharashtra production has also come back to normalcy, will the UP millers get a less quota from than before?

Tarun Sawhney: So I am afraid the calculation of the quotas etc. is based on a variety of factors if I understand, the quantity of B-heavy molasses that you make, etc. plus the sugar that you have in stock. I mean, Uttar Pradesh, as you know, has more sugar in stock and if any reduction in the allocation of quotas towards Uttar Pradesh, I expected that too will be small, for those reasons. The first thing that there is a huge amount of B-heavy going towards the production of ethanol, and this adds towards your monthly quota, and much larger than last year. And the second is that you have a higher opening balance versus other parts of the country.

Moderator: We take the next question from the line of Udit Gupta, an Individual Investor.

Udit Gupta: Sir, I think this question has been answered, but I couldn't hear it properly. So in the coming ethanol season what is our expectation of quantity and the proportion of B-heavy?

Tarun Sawhney: Our total production would be in the region of 10.75 crore litres to 11 crore litres plus over there. Out of which, let's say, in ethanol we would be targeting around 10 crore litres, and of which about 85% would we B-heavy.

Udit Gupta: Okay. And sir, the rest of the quantity would be for ENA?

Tarun Sawhney: ENA and a little bit of C-heavy, marginal.

Udit Gupta: So 10 crore litres is ethanol and 85% is approximately B-heavy?

Tarun Sawhney: Yes.

Udit Gupta: And sir, what is that processing cost of ethanol, per liter?

Suresh Taneja: I think the processing cost is in the region of about ` 9 per liter.

Moderator: The next question is from the line of Resham Jain from DSP Investment Managers.

Resham Jain: So, just one question on the export. At 15 cents now, what will be the rupee terms price for the export?

Tarun Sawhney: About 26.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Tarun Sawhney: Thank you very much, ladies and gentlemen, for joining us for the H1 earnings conference call for Triveni Engineering & Industries Limited. We are very hopeful that the sugar season that is underway is going to be a positive one and we will achieve newer and higher records across Triveni group. Across the Engineering businesses we are also very hopeful that the next half year will be a very positive one and I think all indications point towards that as well. I look forward to talking to you at the next earnings conference call and hope to come to you with continued good news. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Triveni Engineering, that concludes this conference. We thank you all for joining us. You may now disconnect your lines.