

## **Triveni Engineering Industries Limited**

### **Q2FY08 Results Conference Call**

**April 29th, 2008**

**Moderator** Good evening ladies and gentlemen. I am Marina, the moderator, for this conference call. Welcome to the Q2FY08 Earnings Conference Call with the Management of Triveni Engineering & Industries Ltd. For the duration of the presentation all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions at the end of this presentation. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Jigar Dave of Citigate Dewe Rogerson, thank you and over to you Mr. Dave.

**Jigar Dave** Thank you Marina, Good afternoon everyone and welcome to the Triveni Engineering & Industries Ltd conference call for the quarter ended March 31<sup>st</sup>, 2008. Present with us are Mr. Dhruv Sawhney, the Chairman and Managing Director of Triveni Engineering, Mr. Tarun and Nikhil Sawhney, Corporate Vice-Presidents, Mr. Suresh Taneja, Vice-President and CFO and other senior management team members. We would begin the call with opening remarks from Mr. Sawhney followed by an interactive question and answer session. I would now like to invite Mr. Sawhney to address the conference and give some perspectives on the quarter.

**Dhruv Sawhney** Thank you very much. Welcome everybody to this second quarter conference call. We had a very good quarter with sales of Rs. 3.8 billion and substantial increase in our EBITDA margins over last year. The current quarter's EBITDA margin of 24% is a growth of 240%. PAT for the quarter was at Rs. 343 million. To look at our sugar business and our engineering business separately - our engineering businesses have an outstanding order book of Rs. 6.3 billion, which is 25% growth over the corresponding period of last year. PBIT margins

at 28% in the last quarter, is the highest for the company and we believe one of the highest in the industry.

Our mix of sales has changed slightly, whereby there is less amount of bought-out components and our top line growth has been 14%. In the last quarter, change in our emphasis on exports has shown fruit, we have increased our exports as a percentage of turnover to 17%. Our share of refurbishments, services & spares, both in turbines and gears sales have substantially improved and this, as you know is at a higher margin, that's been one of the causes for the overall increase in PBIT margins. In our water business, our substantial growth of over 100% is continuing and we have diversified our business into newer lines such as a desalination order and this is allowing us to get into pre-qualification stage for larger power projects as well. We don't see any slowdown really in the engineering business, though some customers are postponing their decision making, but they are all saying they would be taking those decisions in a few months. At the same time our concentration on spares and refurbishment as a service business is increasing and being well received. Exports too are extremely competitive today and we don't see any slowdown in the markets overseas in the lines that we are in.

Our sugar business has improved, sales realization in the last quarter, was some 5% higher than the previous year, the outlook looks positive and we expect each quarter's realization to be slightly above the previous quarter. The reasons for this are two fold. One, production in the country now will be approximately 26.5 million tonnes, versus 28.3 million tonnes last year. And plantings have not been very encouraging up till now for the year 2008-2009. It's believed that major concentrations of cane next year will be in Western UP, Western Maharashtra, and Northwest Karnataka where plantings won't go down. In the rest of the country there will be a fair amount of diversion of land away from sugarcane to other crops such as wheat. Triveni in

the current year had a 2% drop in sugar production versus some 14% less for UP as a whole and I have just given you the figures of all India. In the next year, we do not expect any drop in sugar production for our group. In fact, even though UP may have from half a million to three quarters of million tons less production next year, the stability of sugar production in the Triveni Group is primarily owing to two reasons. One is that in our newer units, plantings have been good, we are still continuing and should be finishing in the next week or so. And in our older units in Saharanpur and Muzaffarnagar, which is in Western UP, these are areas where there is a large amount of cane concentration and the only risk here is diversion to other sweeteners.

We have been used to the situation for a number of years in the past and while there will be some pressure on cane prices, we believe that the margins will increase, so if cane prices are going up, there will have to be a corresponding increase in the sugar price, because the alternate sweeteners can only become competitive if their price is good and that price is linked to the sugar price. So as such, the net margins in a deficit year in western UP are always much better than they are in a year of surplus. So, we foresee a much more positive situation in the two major sugar units of the company in Khatauli and Deoband and also our new unit in Western UP in Sabitgarh. The directions that the courts are taking in the sensitive case on cane pricing have been very encouraging. I would like to mention three on-going cases. In the Supreme Court, for the year 2006-2007, the court has asked the industry to pay a price of Rs. 118 versus a state advised price of Rs. 125. We had already paid Rs. 125 earlier and this is now standing up in very good stead with the farmers in their planting for the next year as also our relationship with them. Whenever, the final orders come, the adjustment of this will be done. But we have not taken any cognizance of the Supreme Court lower cane price for the year 2006-2007 in our accounts. Our accounts are at Rs. 125, we will only reverse this or book any profit when the final orders of the court come out. But the

direction here is that, they believe that the state advised price was something that was arbitrary and it's open to challenge.

The cane price for the year 2007-08 is before the Lucknow Bench of the Allahabad High Court. Here, they have given an interim price of Rs. 110 without any deduction for out center and no premium for early variety. We have accounted for this price in our costing for the current quarter, in fact for the complete production of the current year 2007-2008. Again, if we get the final order, which will have out center deduction, which last year, was Rs. 5.75 and it has now been increased to Rs. 10.58 by the Allahabad High Court, there will be some increase in our profits which were booked already and in the stock. One substantial change from last year is our sugar stock in hand. At the moment on the 1<sup>st</sup> of April, our sugar stocks are about 23 lakh tons higher than last year. We were 30.6 lakhs last year and we are 53.9 lakhs in the current year. In the month of April last year, we crushed some 5 lakhs more than we crushed this year. Even accounting for this increased production in April, our current stocks at the end of April would be some 50% higher than they were last year. This will augur well as we believe sugar prices will be increasing in the next few quarters and will affect our operations very favorably. We look at the sugar operations as an integrated model and the transfer pricing of molasses and bagasse is done, so we are not really concentrating on the results of any particular segment, but integrated sugar business as a whole. And that has been positive both for the last quarter and for the half year. We believe this will also continue. Moving on, we have filed the case in the Lucknow Bench of the Allahabad High Court for the incentives which the current government had stopped. The hearings are going extremely well and we expect a judgment very shortly. The government has filed its reply last week.

Lastly, I would like to mention about the world situation. Here again, even though plantings in Brazil are slightly more than the last year,

there is a substantial amount of diversion of sugar cane from sugar to ethanol and ethanol production will now consume almost 60% of all cane in Brazil. And as such, we expect the export prices to also remain what they are. In the current year, exports from India should be around 3.5 to 4 million tons and with the production of 26 to 26.5 million tons and consumption over 22 to 23 million tons, we expect the closing stock to be well within reasonable limits. I would like to open the floor now for questions.

**Moderator** Thank you very much sir. We will now begin the question and answer session. Our first question comes from the line of Mr. Kaushik Poddar of KB Capital Market. Please go ahead sir.

**Kaushik Poddar** You have talked a lot on the water business, I guess that will be one of your future growth drivers. Can you give us a sense of what the kind of business volume is that will be there in 5 years down the line? That is question A and question B is what kind of technology are you bringing to the table, as far as this business is concerned?

**Dhruv Sawhney** Yeah, I will ask Nikhil to answer that.

**Nikhil Sawhney** In our previous conference call we said that we would expect at least 100% growth rate for the following two years and we are optimistic on meeting that. It's very difficult to say, how it would happen 5 years down the line, but we would hope that we would be able to maintain those sorts of growth rates. We expect this to be a very significant part of Triveni portfolio businesses in the future and the technology that we employ out here is a variety, some are proprietary mechanical conventional water treatment equipments and others are high purity water treatment equipments. We do packages as well as certain integration of plants, falling short of turnkey jobs. The margins in this business have improved significantly because we have entered into new business lines where we are very conservative in our costing and the provision that we had taken did not materialize and therefore, we

think that the margins that we had in this quarter are supernormal, but do indicate the fact that we would have very good margins for the year.

**Kaushik Poddar** Okay thank you.

**Moderator** Thank you Mr. Poddar. Our next question comes from the line of Mr. Devendra Bhandari of Kantilal Chaganlal Pvt. Ltd, please go ahead.

**Devendra Bhandari** Yeah, I want to know what is our ethanol manufacturing capacity, how much ethanol we will be producing in one year? And whereas the 68 megawatt, we have the power generation, is it salable power or what it is? And how much in this segment we are going to grow in increasing production is the later year?

**Dhruv Sawhney** I am asking Mr. Sinha to answer that please.

**Sameer Sinha** Coming back to your power question first, we are exporting about 45 megawatts of say 68 megawatts and we may be looking at the possibility of setting up a couple of cogen plants in subsequent years. Coming back to ethanol, we can produce about 160 kilolitres of ethanol per day.

**Devendra Bhandari** Total annual production, how much ethanol?

**Sameer Sinha** 4.32 crore liters of ethanol can be produced per annum.

**Devendra Bhandari** Yeah and it will grow?

**Sameer Sinha** The government has taken a decision for 10% blending and over a period of time, we hope that this will cross its limit.

**Devendra Bhandari** Yeah, so in the results which we have shown, we have not shown any ethanol sales or distillery sales separately?

**Dhruv Sawhney** That is not separate, it's in the "others" category.

**Devendra Bhandari** Okay thank you.

- Moderator** Thank you Mr. Bhandari. Our next question comes from the line of Mr. Nirav Vasa of Latin Manharlal Securities, please go ahead.
- Nirav Vasa** Can you just throw some light on what was the landed cost of cane for this quarter?
- Suresh Taneja** Yeah, the landed cost of the cane for this season has been Rs. 118 per quintal.
- Nikhil Sawhney** But that is including all taxes, transportation, loading labor everything.
- Suresh Taneja** You know as Mr. Sawhney has earlier emphasized, it does not include the transportation rebate for which we have not taken the credit so far, as the court has held it's about Rs. 10.58 per quintal. So as and when the final order of the court would come in, we will take the credit for that.
- Nirav Vasa** And sir one more thing, can you throw some lights once again on your cogeneration capacity?
- Dhruv Sawhney** It is 68 megawatts and about 45 megawatts exportable.
- Nirav Vasa** Yeah sir, that's it from my side.
- Moderator** Thank you very much Mr. Vasa. Our next question comes from the line of Mr. Nirav Shah of PINC Research, please go ahead.
- Nirav Shah** Good evening. Sir few questions, first is on the cane and sugar scenario side. What is the target crushed we are expecting in the next season?
- Dhruv Sawhney** We crushed 5.85 million this year and we expect to be over 6 million next year.
- Nirav Shah** Okay, so overall three new units will push increase in cane crush, whereas that would be compensated by falling other units, is that so?

**Dhruv Sawhney** Yes, there is reduction in an area under cane as you know and we expect slightly better yield, but we don't expect the diversion or the extra yield conservatively to affect our overall crush. While, most factories in UP are forecasting a lower crush.

**Nirav Shah** But, how is this cane sowing in our all 7-8 units especially the three new units, how is the cane sowing or cane development program shaping up?

**Dhruv Sawhney** They are very well indeed, because one of the advantages was that we did pay the '06-'07 price. Relationships with the growers have been good and we have not found as much impact of the diversion to wheat as we had expected in the beginning. Now, the final planting figures will finish in the next few weeks and our survey will finish in June. So, I am talking on a very preliminary basis, but the indications at the moment are not bad.

**Nirav Shah** And any indications, I know it's very early, but any indications how the yields are going to be because this season the yields have dropped drastically, you know 50 to 55 tons of hectare?

**Dhruv Sawhney** Absolutely, let me tell you that the rains that have happened now are quite good for the sowing. We expect the ratoon crop to be not bad because of two reasons, one is it has a longer duration, the ratoon this year, because of season ended earlier, there will be more time, so there will be more growth, so that the ratoon crop will have better yield than last year. Even with the same weather pattern and we expect a better monsoon, the forecasts are quite good. So, in any case the ratoon, which is about 55% of the total crop, is in a much better shape today than what it was last year.

**Nirav Shah** So, the question now is regarding on the molasses prices. Sir, seeing that the prices are increasing, how economical is it to manufacture industrial alcohol, vis-à-vis molasses outside?

**Dhruv Sawhney** Well, we are only using the molasses from our two units in West UP for the distillery; the rest of the molasses are sold in the open market.

**Nirav Shah** So, but now say for example next season, the cane crushing on the longer time basis is going to decrease about 15% to 20% and then the molasses prices will also increase such?

**Dhruv Sawhney** Yeah, we will be expecting a substantial increase in the prices of ENA and industrial alcohol. They have already gone up, the industrial alcohol price in the last month has gone up quite substantially and I will just get Mr. Sinha to tell you where, you feel the pricing of ENA is forecast to be in July.

**Sameer Sinha** You see the prices of alcohol, which is the potable RS & ENA and for industrial alcohol after taking the credit for CENVAT are already in the Rs. 24 to Rs. 25 range versus the Q2 average of about Rs. 19. So, there has been already a significant increase in the pricing and we expect these alcohol prices to further go up by Rs. 2 or Rs. 3 in the next quarter.

**Dhruv Sawhney** We have not made any allocation on ethanol, so we are one of the groups which has not committed on ethanol, so that's just now going to help us.

**Nirav Shah** Sir, the prices that you just mentioned they are gross or net of excise?

**Sinha** These are gross of excise, because on potable alcohol there is no credit for CENVAT.

**Nirav Shah** But the excise duty is how much?

**Sinha** It's 14%, 14.42%.

**Nirav Shah** Okay sir and now coming to the engineering side, what are the turbine dispatches in megawatts this quarter?

**Dhruv Sawhney** As you know I said that, in the dispatches, megawatt is not really something to look at on a quarter on quarter basis, because very often the composition of turbines changes every quarter. So, we haven't really got a megawatt figure, we have got the sales figure, the megawatt is about 170-175. But again, as I said it's not comparable one quarter with another and neither is it comparable because every tailor made order has different bought out equipment, you know we are selling a whole package rather than just the turbines. But overall the main question is that our margins, which are net margin, which we forecast last year for '07-08' are going to come through. The growth in margins, which we always talked about the 25% growth in net profit in the turbine business, those are the figures that we are still on track.

**Nirav Shah** And sir, can you just give me the execution periods of all the three order books, details means of turbines, gears and water treatment business? There are order book figures but the execution period how much time?

**Dhruv Sawhney** Well, the execution period in turbines varies from 9 months to 13 months and the execution period in gears varies from 5 to 6 months and in water it is 4 months to 12 months. So it depends on the type of order, it's very difficult to be able to categorize that, but on the average the order book is 10 to 11 months.

**Nirav Shah** Sir, in the last conference call you had mentioned that tie up with Chinese manufacturing company in the higher range turbines, some of tenders were due to open in April and May, sir any update on that?

**Dhruv Sawhney** No, there isn't. The 220 megawatt and 330 megawatt which is what they were specializing on, these are imported ones, they have unfortunately been differed. The similar thing with oil and gas pipeline on the GE compressor, those Oil India and the private players bid have not come for bidding as yet. Their pipelines are still in the bidding stage for the equipment.

- Nirav Shah** Okay and sir just one question regarding the cane price of the Supreme Court order, so it was written that in amount of which we will be paying Rs. 118, so that is for the pending arrears or the whole quantity, means all the quantity in crush as a whole? How is that because I have talked to couple of companies and there was some ambiguity which I found.
- Dhruv Sawhney** As I mentioned in my opening remark, the Rs. 118 that you are talking about is for the season '06-'07 not the current season '07-'08.
- Nirav Shah** Sir, for the previous season, is it on only the arrears or the whole cane crush in that particular season?
- Dhruv Sawhney** It's for the canes of last year. Now, it is immaterial for us because we in any case have paid at and taken it into the books at Rs. 125, so we will await for these clarifications from the Supreme Court.
- Nirav Shah** Okay, so when the Supreme Court order came we had some pending arrears, so whatever arrears we haven't cleared that we also paid at Rs. 125 instead of Rs. 118, you are saying that?
- Dhruv Sawhney** No, no you see for pending arrears, the government had given a loan for clearing cane price arrears from excise duty. The government had given a loan for clearing cane price arrears and these monies we used for the payment of cane price of '06-'07 and '07-'08.
- Nirav Shah** Okay sir, that's all, that is from my side sir.
- Moderator** Thank you Mr. Shah. Our next question comes from the line of Mr. Nirav Vasa of Latin Manharlal Securities, please go ahead.
- Nirav Vasa** Sir, can you throw some light on how or what is your position regarding the carbon credit that you are eligible for?
- Sameer Sinha** See, we have got two projects, which are already registered and we have taken into account the carbon credit till the 31<sup>st</sup> of March 2007.

So, carbon credits for the period April 1<sup>st</sup> 2007 to March 2008 for both Deoband and Khatauli cogen plants is under verification and we expect that the issuances for that period to come before the end of this financial year.

**Nirav Vasa** And sir, how much carbon credits are you expecting from both these projects approximately?

**Sameer Sinha** We are expecting about 140,000 to 150,000 carbon credits from this.

**Nirav Vasa** Yeah, thank you very much.

**Sameer Sinha** There is a third project, which is also under validation, we expect to be registered before the end of the financial year and some verified emission reductions for this would also come into our account before the end of the financial year.

**Nirav Vasa** Okay, thank you very much sir.

**Moderator** Thank you Mr. Vasa. Our next question comes from the line of Mr. Bimal Sampath of Radha Sons International, please go ahead.

**Bimal Sampath** I would like some more details on your retail venture. Are we thinking of doing something what Godrej has done and second is on the gas turbine business?

**Dhruv Sawhney** I will take the gas turbine, it's on compressor and our gas engines; actually they are not moving badly at all. Waukesha gas engines, which we are selling, that business, the market share that we have is of 35% or 40%, it's still there. There is not a huge market for small engines, as pipelines have not been fully laid and commissioned as yet, so it all depends on, it's still a very potential business once the Krishna-Godavari gas starts coming in; everyone is waiting for the first Reliance and other gases to come. I will just ask Mr. Tarun Sawhney to talk on retail business.

- Tarun Sawhney** Good afternoon, it's an interesting point that you have raised about Godrej Aadhar and it certainly is a subject we are open to. It also highlights the fact that partnerships are the mantra for retail going forward at least in the nearer term, where people are looking at consolidation of supply chain, both in terms of sourcing of farm produce and secondly, of course bringing produce for sale right down to the rural areas as well. So, we are certainly open to relationships although we have nothing concrete on the anvil at this point.
- Bimal Sampath** Thank you.
- Moderator** Thank you Mr. Sampath. Our next question comes from the line of Mr. Achal Lohade of JM Financial, please go ahead.
- Achal Lohade** Yeah, I just wanted to know about the decontrol meetings talked about by government, so I was wondering what your views are on the same?
- Dhruv Sawhney** Yeah, that's a good question. Our views are very unambiguous, we welcome the loosening of all controls and we would hope that they happen very quickly. So, it would be extremely beneficial to Triveni, both the decontrols. The first decontrol is getting rid of the levy and release mechanisms, the levy price in Western UP is one of the lowest in the country, so that will be straight benefit on the top line and that's what we are expecting in the next few months, the phase one of it. The difference in levy price between West and East UP is quite substantial. Secondly, when the second decontrol happens of cane areas, that will be the link of the state governments and political interventions will be less and we welcome market forces to play and will be especially good for bigger groups, which have good relationships with the farmers, which would be paying the farmers and looking after them well in the past. This will now come into the foray and with our capacities, with this liberalization we expect much better utilization and a better relationship between cane price and sugar price and

thereby, a much more even and consistent profitability for our sugar division.

**Achal Lohade** Okay, do we expect the cane pricing to move according to the market factors and not by the SAP or SMP rule, is that the thing that you said?

**Dhruv Sawhney** No, I think that there will be more of a linkage between cane price and sugar price, which is what the market factors are.

**Achal Lohade** Okay, that's it, thank you.

**Moderator** Thank you Mr. Achal Lohade. Our next question comes from the line of Mr. Kunal Bhatia of Dalal & Brocha, please go ahead.

**Kunal Bhatia** Sir, I just wanted to get your view in regard to where we are on the sugar cycle at the moment?

**Dhruv Sawhney** That's an interesting question. I definitely think that the bottom of the sugar cycle has passed few months ago, nearly 2-3 months ago. We definitely have seen that when sugar prices started going up from let's say December-January. Now, what is good is that it's a gradual up turn it's not something substantial because that then has less government intervention and a much more comfortable situation with the farmer and the consumer. The supply demand situations will definitely come into check by the end of the year and the large stocks which were there for the last 2 or 3 years, as you know one buffer has already been released and prices haven't come down, they may not have gone up, they have come down slightly for 2 or 3 weeks, they will go back up again. They are certainly better than our last quarter realization as I mentioned. So, the sugar cycle has definitely turned and you should expect a gradual increase every quarter, I don't think, we should be looking at any major profitability increases immediately.

**Kunal Bhatia** What would be the average realization for the full year?

**Dhruv Sawhney** For the year up to now, well it's about Rs. 14.24 for the free sale part because of balance 6 months, I just take the free part and I would expect possibly about .60 to .75 maybe more.

**Kunal Bhatia** Okay, so about 15-15½?

**Dhruv Sawhney** Well, 15.25 any way

**Kunal Bhatia** I also had a one more question on ethanol like what your views regards to demand supply situation currently there in India as far as ethanol is concerned, because I do agree that the blending would go from 5% to 10%, so would that really make a change because the sugar companies together have that capacity to provide 10%?

**Sameer Sinha** With the coming estimates of lower sugar production, there would be pressure on providing the ethanol, the potable alcohol, and the industrial alcohol. Now, there could be two scenarios. One, the ethanol goes up to 10% like whatever shortage maybe there could be met by importing industrial alcohol. So, you see ethanol is fully met, maybe potable alcohol is fully met and whatever little shortfall is there, industrial alcohol could get imported. The other scenario could be that, finally realizing that there maybe a shortage of alcohol, that 10% ethanol blending may not come into force, because that remains at 5% or at 7.5% these are various scenarios which are building up.

**Kunal Bhatia** Okay and one more question on your power, internal as well as external, what revenues are you expecting for the full year?

**Dhruv Sawhney** Well, season is now stopped, you know, so there is very little internal sales for the next 6 months because it will all be sale to the grid and because of the short season, we are not going to have the same number of days that we had last year. So, there will not be substantial power sales in the next 6 months. So, what we are going to be getting is all our carbon credit sales earlier mentioned, we have not taken any of that into account.

- Kunal Bhatia** Right, so on an average excluding this year, what is your average number of days, operational and regards to power?
- Dhruv Sawhney** In the current year or the last year?
- Kunal Bhatia** Sir, last year, because the last year it would be normal, because this year you started a bit late, as you mentioned.
- Dhruv Sawhney** Last year it was 265 to 270 days.
- Kunal Bhatia** And this year would be around how many days?
- Dhruv Sawhney** Well 210-220.
- Kunal Bhatia** So, what would be the realization for 210 days around internal as well external?
- Sameer Sinha** See, what you can do, if you can workout the realization from the figures which have already being given so far, for future it will be only export for the remaining number of days and the per unit cost is approximately Rs.3 and we export about 45 megawatts, so it can be easily worked out from that.
- Kunal Bhatia** Okay, yeah thanks for the answer.
- Moderator** Thank you Mr. Bhatia. Our next question comes from the line of Mr. Nirmal Shah of Alchemy Shares, please go ahead.
- Nirmal Shah** Good evening. Sir, I just wanted to check how much total crushing capacity would be there in UP?
- Dhruv Sawhney** I think the crushing capacity in UP is about 9 to 10 million tons of sugar, out of which UP are going to produce 7.2 million tonnes.
- Nirmal Shah** How does it figure in terms of 3 parts Western, Central, and Eastern UP just the percentage, I don't want the exact number? Where it would be the maximum, because post expansion of Bajaj in the Eastern UP,

do you think the all three regions have almost the equal crushing capacity?

**Dhruv Sawhney** I won't like to make a judgment call on that, I haven't added up all the capacity.

**Nirmal Shah** Okay sir, what's your expectation for the sugarcane production including production for alternative sugar for the '08-'09 season?

**Dhruv Sawhney** I expect it to be about 5% to 7% less because as I have mentioned earlier that in Western UP the ratoon crop is better in yield, but in Eastern UP and Central UP, planting has been much lower. We will be getting all these figures in the month of June, if that is so, then it depends also on the monsoon, if you have a normal monsoon, some part of the drop in acreage will be made up in better yield because in many areas the yield was extremely low last year as in the current year.

**Nirmal Shah** Okay, thank you sir.

**Moderator** Thank you Mr. Shah. Our next question comes from the line of Mr. Sachin Trivedi of the UTI Mutual Fund, please go ahead.

**Sachin Trivedi** Hi sir, I have just one question, what is your understanding with Waukesha gas engines?

**Dhruv Sawhney** We are distributors, we package their gas engines.

**Sachin Trivedi** Is it exclusive tie up?

**Dhruv Sawhney** For half the country.

**Sachin Trivedi** Because that seems that Kirloskar also has some similar understanding with Waukesha?

- Dhruv Sawhney** Yeah, for the other half. And they are really moving more on the diesel side, they are really on the diesel engines of Waukesha, not on the gas engines.
- Sachin Trivedi** So, your market will be for the Northeast and Western India, right?
- Dhruv Sawhney** No, South India, South India and part of Western India, our plant is located in Bangalore.
- Sachin Trivedi** Okay sir thanks a lot.
- Moderator** Thank you very much Mr. Trivedi. Our next question comes from the line of Mr. Kaushik Poddar of KB Capital Market, please go ahead.
- Kaushik Poddar** My question is that if the decontrol happens does it mean that you can produce alcohol without going through the molasses and if that be so, do you need to carry out any modification in your plant?
- Dhruv Sawhney** No, you mean that is already allowed, you can produce alcohol from cane juice and that means that very small adaption in the distillery, very small.
- Kaushik Poddar** So, do you require any permission to do it directly or you have to go through the mediation of molasses?
- Dhruv Sawhney** At the moment, they have just changed it, laws just being changed to allow the production of alcohol directly from cane juice.
- Kaushik Poddar** Will it be more remunerating if you do it directly?
- Dhruv Sawhney** Well, it all depends on sugar pricing. Now, when the sugar pricing is going up, I mean less remunerative to produce alcohol from the cane juice and better to produce sugar.
- Kaushik Poddar** But in a worst case, suppose sugar prices come down, in that case?
- Dhruv Sawhney** Yeah that's right, that's what Brazil does.

- Kaushik Poddar** Yes, that's what Brazil does. In that case, the kind of modification that is required, will it be very huge capital expenditure?
- Dhruv Sawhney** Not at all.
- Kaushik Poddar** And on the retail front, what is the kind of turnover, because you have never mentioned the kind of turnover you have.
- Dhruv Sawhney** We haven't published those figures yet for the last quarter, but once we do that we will give it to you.
- Kaushik Poddar** But is it possible to give at least how many number of outlets you will have and the kind of area you have?
- Tarun Sawhney** Yeah, we have 44 outlets that covers part of Uttar Pradesh, Western, and Central and Uttarakhand and the largest portion of these stores are in C-class towns and balance are in smaller towns with primarily agri focus, so stores can be primarily divided into 2 parts, one primarily focused on our agri vertical, the others focused partially on agri, but more on consumer durables, lifestyle, and financial products and services.
- Kaushik Poddar** Okay, typically what is the size of these kind of outlets?
- Tarun Sawhney** The average area of the outlets is approximately 4,000 to 5,000 square feet carpet area, and so we have well over a lakh square feet under coverage.
- Kaushik Poddar** And this land is owned by you or leased?
- Tarun Sawhney** Some of the stores are owned by us, the others are under long lease. The bulks are under long lease.
- Kaushik Poddar** Okay thank you.

- Moderator** Thank you Mr. Poddar. Our next question is from the line of Mr. Kunal Bhatia of Dalal & Brocha, please go ahead.
- Kunal Bhatia** Sir, I just wanted to know what the inventory in India this year would be and so what's your take on inventory globally, which is available I believe, which is at around 62 million tons?
- Dhruv Sawhney** Yeah, well you know the global inventory is expected to go up by about 1.5 million tons in the year ending September '08, but that's not very significant. And in India if you are looking at an export of 3.5 million tons and consumption of 22.5 million, if it's 4 million tons, then we will have balancing, we have the same inventory opening and closing and that varies between 9.5 and 10 million tons.
- Kunal Bhatia** So, globally at the moment, what are prices of sugar trading at?
- Suresh Taneja** The prices are \$350 for white sugar.
- Tarun Sawhney** And raw is at approximately 11.5 cents for current month and the following month it is at 12.4 cents per pound, and for October '09 it is at 13.8 cents.
- Kunal Bhatia** Okay sir, thank you.
- Moderator** Thank you Mr. Bhatia. Our next question is from the line of Mr. Nirav Shah of PINC Research, please go ahead.
- Sachin Kasera** Sir, Sachin here, just wanted one clarification. There is a note in the results where you mentioned regarding some entry to gas engines, could you just throw some light on that?
- Suresh Taneja** We have actually incorporated a new subsidiary, which is Triveni engineering system and you know we intend to do business related turbine business but initially we will deal with the activities relating to gas engines.

**Sachin Kasera** But could you just throw some more light in to what exactly the type of business we propose to do where; what exactly the type of market that we are targeting?

**Dhruv Sawhney** Same market, it's a gas transportation and distribution market

**Sachin Kasera** How large is the market in India right now and who would be the key player sir?

**Dhruv Sawhney** Well, that's one we have. It is the same market. We are transferring the Waukesha business, which was in Triveni to the subsidiary.

**Sachin Kasera** Second question is regarding this turbine business, you know the first quarter was little lower because of this strike, under second quarter top line growth is only 14%, this is lower as compared to the growth that we are witnessing in the last few quarters, so is there some sort of slowdown that we have seen in the overall turbine space or will it pick up from 3<sup>rd</sup> and 4<sup>th</sup> quarter?

**Dhruv Sawhney** You know as I mentioned in my opening remark, the type of order that are executed depends on the type of equipments that come, some of them have less bought out equipments and some of them have more, that's why our profit projections have been consistent with what we had been expecting and that's why you see rather substantial increase in our PBIT and PBT margins. So, I am not really so worried about the top line. We are consistent in our views on the growth of bottom line and that's what has been coming from the last few quarters and we expect this to continue. We are not seeing any slowdown as such, that's why the order intake is good and I had mentioned that our orders in hand are substantially higher than they were last year.

**Sachin Kasera** And secondly sir, could you brief us some update on the tie up that we have done with this Chinese company for the high end turbines and secondly, tie up with GE for compressor?

**Dhruv Sawhney** Yeah, as far as the compressors are concerned, the work on the pipelines have not really started with Reliance and with other private operators and therefore their tenders have not been finalized as yet and that of the public oil company tenders for compressors on the pipelines. And secondly, the power plants that were coming up in the range of the Chinese, some of them have come up, rest of this particular size have got postponed for now, customers are looking at either consolidating into higher power plants or going down. But, we are very encouraged by the forecast of the compressors on the pipeline, because that business is very much there and top to that, the operators are going in a very detailed manner.

**Sachin Kasera** But from the impression that you have with all these perspective plans, can we expect some revenues in September '08?

**Dhruv Sawhney** When we started this I said; our revenues are expected only '09-'10 or '08-'09.

**Sachin Kasera** And regarding the Chinese arrangement for higher range of turbines, have we participated in any of the tenders off late?

**Dhruv Sawhney** Yes, we have participated in 80 megawatt tender.

**Sachin Kasera** Okay, result is still awaited, sir?

**Dhruv Sawhney** Yeah, that decision is still going on.

**Sachin Kasera** And are there any more RFQs that we are examining that we could be participating in the near future?

**Dhruv Sawhney** We are looking at those now.

**Sachin Kasera** Okay, sir thanks a lot.

**Moderator** Thank you. At this moment, there are no further questions from the participants. I would like to hand over the conference, back to Mr. Dhruv Sawhney for final remarks, over to you sir.

**Dhruv Sawhney** Thank you very much for the detail questions in all our sectors. One small point that I hadn't mentioned in the remark and it didn't come out in the questions, is we have been rather successful in our R&D efforts. The turbines that we developed of 27 megawatts are now commissioned and they are working well, this just happened in the last quarter. And this also is good because this has been a four year development, so in R&D we are moving to our second phase and we have just tied up a contract with the people who designed the first phase to re-do this in the next two years for us. So, we are having a strong concentration on R&D again, which is what had brought about the growth in turbines in the first place. Thank you very much for being here.

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