

Transcript

Conference Call of Triveni Engineering & Industries Limited

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Presentation Session

Moderator:

Good morning ladies and gentlemen. I'm Leela, moderator for this conference. Welcome to the conference call of Triveni Engineering. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Jigar Dave of Citigate Dewe Rogerson.

Jigar Dave:

Thank you Leela and welcome everyone to the 15 month FY2007 conference call of Triveni Engineering and Industries Limited. Present with us today are Mr. Suresh Taneja, Vice President and Chief Financial Officer, Mr. Nikhil Sawhney, Corporate Vice President, Mr. Sameer Sinha, Vice President, Corporate Planning and other members of the senior management team. We will initiate this conference call with brief opening remarks from Mr. Taneja, after which the floor will be open for questions and answers. I now request Mr. Taneja to initiate the conference call.

Suresh Taneja:

Good morning ladies and gentlemen. Let me welcome you to Triveni's investor call for the quarter 5 of the financial year 2006-2007. For the benefit of those investors who may not be aware, the company has extended the accounting year by 6 months; it will now end on 30th September 2007. Thereafter we'll have October to September as the accounting year, which incidentally also coincides with the sugar year.

The results for the quarter have been a mixed bag. Engineering businesses again has performed exceedingly well, its performance has been somewhat eclipsed by the sugar losses. The result of the sugar operations actually reflects a down turn in the sugar industry. However, the integrated sugar model pursued by the company, as well as diversified business profile of the company has largely mitigated the sugar losses. During the quarter, the turnover has increased by 15% to Rs. 344 crore. There is a net loss of Rs. 19.97 crore in the quarter and a profit of Rs. 70 crore in the 15 months period. The turnover has increased in respect of all the business segments: 3% in the case of

Sugar, 172% in the case of Cogeneration and Distillery, and 21% in the case of Engineering. The Engineering business, in this quarter, has contributed about 37% of the total revenues of the company. At PBIT level, there was a loss of Rs. 58 crore for the Sugar operations, whereas that of Cogeneration and Distillery has increased by 162% and 41% in the case of Engineering despite having a much higher base. The depreciation and amortization have also increased substantially in view of the various projects executed by us. Finance cost has also increased substantially to Rs. 22 crore in respect of the debts contracted by us to fund the projects.

Now we will briefly discuss each of the business segments. In the case of Sugar, there were basically two reasons for the losses. One was the negative contribution in respect of the sugar sold, because the cost was more than the realization price, and secondly in respect of the sugar inventories, which we were holding as of 30th June 2007, we had to write down the inventories to the market value. As the cumulative effect of these two factors, the major loss in Sugar operations has taken place. Now as regards to the operating performance of the Sugar operations, for the just concluded season, it has been very satisfactory. The crush has been more by 53%, the production has been more by 55%, and our dispatches during the quarter have been higher by 33%. However, the realization prices were lower by 27% during the quarter. Our new capacities were commissioned in the just concluded season at different points of time, and therefore the full impact of the capacities was not felt. However, next season the full impact of the capacities would be felt, and it is expected that the crush and the production is likely to go up by another 25%. We have also undertaken huge cane development program for all our sugar units. The objective is to have a proper balance, so that we are in a position to increase the recovery. This is absolutely a controllable thing, and the impact of increasing recovery is the lower cost of production, which is very necessary in this kind of a market. While the company will do whatever is possible in terms of further improving the operating performance, I think there is a serious concern in terms of the outlook of the sugar industry. The output prices today, are controlled by demand and supply positions, whereas the input prices are controlled by factors other than the market forces. We require a very clear-cut policy on this, for the sugar mills to be viable as well as for the interests of the farmers.

World production of sugar this year is expected to be at about 167 million tonnes, which will add another 10 million tonnes to the inventories. Inventories of approximately 74

million tonnes would be 50% of the consumption, which is not a very good sign for the international prices. Perhaps, the only redeeming feature is the firm crude prices, as a result of which Brazil is getting more into ethanol than sugar. This may limit some of the sugar supplies in the world trade and may stabilize the prices. Domestically also the position is not very different. In the just concluded season, we are expecting a production of about 28.5 million tonnes and there are estimates of equally strong production next year if not better. Exports are the only savior at this particular point of time to liquidate the inventory, and the government has announced subsidies in respect of exports. It is estimated that exports would be approximately 1.5 million tonnes during this year, which may rise to about 3 or 3.5 million tonnes next year. The sugar manufactured by sugar mills in India, has a very limited market on account of the quality issues, and therefore it is expected that majority of the sugar that would be exported would be in the form of raw sugar. In respect of the raw sugar, there would be subsidies from the government, and also the raw sugar would have freight advantage in terms of exports to the nearby countries. The Central Government has announced buffer stock of 5 million tonnes. It has got two advantages, one it reimburses the inventory carrying cost to the sugar mill and two it keeps sugar out of the market circulation, which helps in terms of stabilization of the prices. The most important thing is that the position in UP is very peculiar as of now. UP has paid one of the highest cane prices for the just concluded season, and the industry has pleaded its case with the State Government and has also taken up with the State Government regarding rationalization of the cane price for the next season. The dialogues are still going on and we are awaiting the response of the government on that.

In respect of the Cogeneration business, we added another 23 megawatts in November '06. As a result of that, our power generation has gone up by 47% and our export of power has gone up by 52%. The profitability could have been a little higher, but for a planned shutdown for 15 days in respect of one of the plants, and for 7 days for the second plant. These shutdowns were planned in Q6, but due to some technical reasons, it had to be brought forward to Q5. In the Cogeneration business segment, we have also booked revenue from carbon credit, net of expenses to the extent of Rs. 10.10 crore. This is in respect of the carbon credit, which has been verified by SGS (India). The Distillery was commissioned in April '07, and during this short period, after an initial stabilization period, it is now operating at full capacity. As

of now we are manufacturing rectified spirit, industrial alcohol, and extra neutral alcohol.

Steam turbines have been the mainstay of the company. They are registering remarkable growth. In terms of net sales, they have achieved a growth of 24%, in terms of PBIT they have achieved a growth of 51% and the margins are at 25.4%, which are approximately 450 basis points higher than the corresponding previous quarter. All this has been the result of the efforts of the value engineering they have been carrying out from time to time and supply chain management. The order book is very healthy at Rs. 454 crore and the unit has been on course in terms of the export targets. As of 30th of June 2007, they have export orders of approximately Rs. 50 to 55 crore. The high speed balancing machine is expected to be commissioned in August '07. This is cutting-edge technology, and apart from the captive requirements, it would also help in terms of building up our refurbishment business. Other machines, such as Mill Turn Machine, CNC VTL etc., are also expected to be commissioned in the next two to three months. As we had informed in the last quarter, we have already achieved internal developments in terms of increasing the range of the turbines to 30 megawatts, and now we are also working in terms of inlet pressure and the temperature limits etc. One of the USP of the unit is the service, which includes erection, commissioning, spares, servicing, operation and management, refurbishing, etc. This department is being strengthened and the total strength of this department is being increased to 165 people.

The Gears business is also very competent of posing another 25% growth in turnover and profitability. There has been a small aberration in this quarter, whereby the turnover and the profitability has declined by about 10%. The shortfall is expected to be recouped in the next quarters. The business diversification in respect of this business is expected to arise from niche low speed gears, high power hydel gears, marine gears, and special application gears etc., in which the unit is working out the technology issues internally as well as outside.

Water business has also achieved very decent growth and the manufacturing facility for this business is expected to be ready by September/October 2007, which will help the unit to better control the manufacturing process, rationalize sub contracting, improve quality, and ultimately achieve margin expansion as well. The order book is very healthy at Rs.40 crore. During this quarter itself there has been an intake of about Rs. 20 crore in terms of orders, including

an order of Rs. 9 crore in respect of a power plant in Rajasthan. This job involves recycling of waste water through Memcor ultra-filtration followed by RO membrane. The unit has now started accepting the turnkey projects with low civil work component and is exploring different areas where its technology could be extended.

I leave the floor open now for Q&A.

Question and Answer Session

- Moderator:** First question comes from Ms. Vasudha Vachhar of Quantum Securities.
- Vasudha Vachhar:** Hi sir, I wanted to know for how many days the distillery operations were in the last quarter?
- Suresh Taneja:** The commercial production started on 17th/18th of April and there was some stabilization period, so roughly it would have operated for two months.
- Vasudha Vachhar:** And how much rectified spirit was produced in terms of liters.
- Sameer Sinha:** We have produced about 70 lakh liters of rectified spirit during this period.
- Vasudha Vachhar:** And roughly what was the selling price?
- Sameer Sinha:** We were selling at around 15 rupees. This is industrial alcohol, net of excise duty of about 16%, plus some surcharge, so effectively having a value of about 16.48% adding on to the 15 rupees. Because in terms of potable alcohol, which is rectified spirit and ENA, there is no excise duty, so you can't claim MODVAT on the excise duty on the molasses, which you have paid. We have been primarily into industrial alcohol sales, which have attracted this excise duty.
- Vasudha Vachhar:** And for the turbines business, you just mentioned your foray into the 30 megawatt turbines, was there any sale of 30 megawatt turbines during the quarter?
- Suresh Taneja:** There is no sale of the turbine in the quarter; however, we have received the orders, which will be executed after one or two quarters.
- Vasudha Vachhar:** Thanks.

Moderator: Next question comes from Mr. Kaushik Poddar of KB Capital Market.

Kaushik Poddar: I want to find out as to how competitive you are in production of sugar, alcohol, etc.... I was trying to compare your results with Balrampur. In case of Balrampur I see that last quarter they had sales of some Rs. 329 crore of sugar, and you people have only Rs. 188 crore. As I understand your capacity is more or less in the same range. So how is it that your sales are much lower? And if you can compare your profitability with Balrampur's.

Nikhil Sawhney: We can't comment on the profitability of Balrampur, but we could give you an idea of the profitability at Triveni over the last quarter. There is a distinction between the cane crushed and the sugar sold, because of inventory holding and the government release to that regard. And if you look at our capacities, if you say that they might be approximately the same, our capacities have come up through the season and towards the latter half of the season, where the amount of sugar crushed was less. We crushed a total of little bit more than 6 million tonnes of cane and I think Balrampur crushed maybe 50% more than that.

Kaushik Poddar: Okay and how much will you be crushing in the coming season when everything will be under full production?

Nikhil Sawhney: The capacity utilization would go up significantly and we estimate that we would be crushing near about 8 million tonnes of cane.

Kaushik Poddar: As far as the incentive from the UP Government goes, there is some confusion whether you are getting it or not. The fact that Mayawati has discarded all the previous policies, does it mean that you will not be getting it. What's the legal position in this regard?

Nikhil Sawhney: The legal position is quite strong actually. There is a case before the High Court right now regarding Uttam Sugar Mills, which is another Sugar company, and it seems quite favorable at this time. But at the same time we are not accounting for it currently.

Kaushik Poddar: Okay and what is the kind of benefit you will be getting provided this policy is upheld?

Suresh Taneja: One clarification I would like to make, I know there has been lot of press reports. In terms of an official order or a notification there is nothing, as of now, which suggests that we will be denied the benefit under the old policy. And this

is what the legal position is. Lot of clarity is expected to emerge in the next few weeks, but as of now there is nothing which tells us that we will be deprived of these benefits.

Kaushik Poddar:

You mean to say there is no official order saying that previous policies stands cancelled or something of that sort?

Suresh Taneja:

It also states that the earlier policy, which was valid up to 31st March '08, is terminated with immediate effect. It doesn't mean that who has invested money under the old policy, whether the benefits would be denied to them or not.

Kaushik Poddar:

How much benefit you will be getting, provided this policy remains functional?

Suresh Taneja:

We will get a benefit of about Rs. 105 crore on account of capital subsidy in terms of the total investment made by us, and then there will be a recurring subsidy from next year onwards in the range of about Rs. 50 crore per year for 10 years, but it will be capped by the total investment made by us under the policy.

Kaushik Poddar:

But as you said you have not yet accounted for this?

Suresh Taneja:

We have accounted for the revenue benefits.

Kaushik Poddar:

Okay, thanks a lot.

Moderator:

Next question comes from Mr. Anil Gupta of ICRA.

Anil Gupta:

Just wanted to know one thing, what is the valuation you have taken for the sugar inventory.

Suresh Taneja:

Our realisation at the end of the period was approximately in the region of about Rs. 13.50, so that's the valuation we have taken.

Anil Gupta:

Okay and what was the valuation for the last quarter, when you have taken the write down of Rs. 28 crore?

Suresh Taneja:

It was in the region of about Rs. 14.60 per kg.

Anil Gupta:

Okay so another 100 rupees per quintal.

Suresh Taneja:

This includes the production that has taken place during this quarter, which had to be fully written down.

Anil Gupta:

Okay fine, that's all.

- Moderator:** Next question comes from Mr. Neerav Shah of Pinc Research.
- Neerav Shah:** Good morning sir. You have mentioned that you have received Rs. 10 crore from carbon credits during this quarter. Sir where has that been accounted?
- Suresh Taneja:** It is accounted as Cogeneration revenue.
- Neerav Shah:** What is the unit-wise breakup of carbon units we have received?
- Suresh Taneja:** This income pertaining to only one unit, the Deoband plant, and that too in respect to the period up to 31st March '07. And in respect to the subsequent parts, as and when these carbon credits are verified, we will be accounting for it.
- Neerav Shah:** You have mentioned that you will be entitled to 2 lakh carbon credits annually.
- Suresh Taneja:** On an annual basis.
- Neerav Shah:** What is the unit-wise breakup of those 2 lakhs?
- Sameer Sinha:** We expect about Rs. 75,000 coming in from the Deoband plant, about Rs. 85,000 coming in from the Khatauli phase 1, and about Rs. 40,000 coming in from the Khatauli phase 2, which is under the process of validation and registration right now. The first two being registered.
- Neerav Shah:** A question relating to the turbines division, how many turbines did we deliver in terms of megawatts and numbers in this current quarter?
- Suresh Taneja:** In term of megawatts, it's approximately 146 megawatts this quarter, and the numbers we don't have readily.
- Neerav Shah:** Okay, not an issue. And sir what is the breakup between domestic sales and refurbishments and exports?
- Suresh Taneja:** Roughly speaking, the spares, refurbishment, etc, has formed approximately 9% of the total revenue in the current quarter.
- Neerav Shah:** Do you believe that these 25% margin is sustainable going forward, or can we see some slow down in that margin, and stabilize it around 23%? Is this achievable on a continuous basis?

- Nikhil Sawhney:** While the margins this quarter were record margins for this business historically, our attempt is to maximize it. Given visibility of our order book, we believe that approximately 22% / 23% would be sustainable in the long term.
- Neerav Shah:** What is the debt as on June, including working capital?
- Suresh Taneja:** We have a term loan of approximately Rs. 590 crore and we have a working capital of about Rs. 375 crore.
- Neerav Shah:** And sir, inventory we are carrying?
- Suresh Taneja:** Its approximately 290,000 tonnes.
- Neerav Shah:** As for Triveni Khushali Bazaar, can we share some numbers.
- Nikhil Sawhney:** Triveni Khushali Bazaar is a 100% subsidiary of the company and we haven't got out the numbers as yet. When company reports its result for the next quarter, which is at the end of the year, all the performance data will be available.
- Neerav Shah:** How many stores are we currently operating?
- Nikhil Sawhney:** We currently have in excess of about 44 stores. On average you could say the newer stores, which are selling higher FMCG products, are selling in the range of approximately a lakh a store a day.
- Neerav Shah:** There is not much of stores addition in this quarter, because I believe last quarter it was 40 stores.
- Nikhil Sawhney:** There has been limited addition because of rationalization of geography as well as of product and inventory.
- Neerav Shah:** Regarding the turbines expansion. Earlier it was mentioned that the capacity would start commissioning from March onwards. There has been some delay. What are the key reasons for the delay?
- Suresh Taneja:** No, the expansion is already completed, and the delivery times have substantially come down from 12 to 13 months to 9 to 10 months.
- One was the expansion of the physical capacities; the other was expansion in term of certain machinery that was coming in. There are two types of machinery that are coming in, one is high speed vacuum balancing tunnel, which is with regard to our refurbishment business, and more importantly is our VTLs which would further reduce

our delivery time. So the physical expansion is all complete, this is just the machinery, which is forecast to have actually come in at this time anyway.

Neerav Shah:

What are the current bagasse prices and molasses prices, which we sell in the open market?

Suresh Taneja:

As regards molasses prices, we are in the region of Rs. 1,250 per tonne to Rs. 1,500 per tonne. As for bagasse there is not much of a transaction at this particular point of time.

Neerav Shah:

But it should be around Rs. 58 to 100 a tonne, in that range?

Suresh Taneja:

There are no transactions, because the bagasse is not generated at this particular point of time.

Neerav Shah:

Okay, thanks a lot.

Moderator:

Next question comes from Mr. Amit Thawani of Multi Act Trade and Investments.

Amit Thawani:

I was wondering if there is any significant progress on the JV or the collaboration with the foreign partner as regards to the steam turbine business.

Nikhil Sawhney:

We are actively pursuing this, and we would have certain clarity in the coming future with regard to our technology expansions through the strategic route. So having said that, our own internal R&D is progressing extremely well and we have plans of going through a two year process of expanding our range to 45 megawatts as well.

Amit Thawani:

And do we expect any significant write offs in inventory of sugar in the coming quarters?

Nikhil Sawhney:

We believe that the price right now in the domestic market is quite sustainable, it's a level that hasn't fluctuated very much over the course of the last two three months. So our belief is that at least for the next quarter before production starts in November '07, prices should pretty much stay stable, if not there might be some changes regarding policies that might come out and impact the prices in that regard. But typically we are heading towards the festival season, which is when prices are usually the most buoyant.

Amit Thawani:

Thank you sir.

Moderator: Next question comes from Mr. Pratik Jain of Enam Securities.

Pratik Jain: Good morning sir. Brazil has shifted around 56% to ethanol, up from 50% last year, with this India gets an opportunity to export raw sugars, and how well are you placed to export raw sugar?

Nikhil Sawhney: Well, we could produce raw sugar, production of raw sugar is not a problem. It is a bulk commodity and therefore transport plays a big role in terms of the final price. How competitive are we, I would say that Maharashtra and Southern Mills are far more competitive than us in terms of exporting raw sugar and as far as this policy is allowed in India, we could assume that there would be a greater export from Southern Mills leaving a larger amount of the domestic market to northern factories.

Pratik Jain: Alright, so no news from your side about raw sugar exports as of now?

Nikhil Sawhney: No, we believe that this is a situation that we will have to judge when the new season starts, as well as what the cane pricing formula works out to. And it all depends on cane pricing. Currently cane price is at Rs.125 per quintal with the SMP at approximately Rs.82 and our recovery rate would come out to about Rs.90. So, given that fact, what you could assume is if it was at SMP, our cost of production would go down commensurately and therefore we would be far more competitive on the export front for raw sugar. But you have to wait and see as to what the exact position will be.

Pratik Jain: Please can you give me the breakup of your distillery process?

Sameer Sinha: It's a very short period of operation we had in respect of the distillery.

Pratik Jain: What is manufactured at your distillery?

Sameer Sinha: Our manufacturing process is extremely flexible; we can run this plant 100% on industrial alcohol, 100% on extra neutral alcohol and 100% on fuel ethanol depending on the market requirements.

Pratik Jain: Right sir, so for the next couple of quarters, what do we expect, where will you be heading into?

Sameer Sinha: See, the first quarter we have been primarily focusing on the industrial alcohol and in terms of customer acquisitions,

we have got all the three major customers who are buying from us and going forward our samples have been approved for extra neutral alcohol by a large number of buyers and in this quarter we should have sales getting into this segment. We are not into the fuel ethanol segment, which will depend on the new tender, we would at that time, enter into this market.

Pratik Jain:

Okay sir, thank you.

Moderator:

Next question comes from Mr. Manpreet Singh Sadhu of Dolat Capital Markets.

Manpreet Singh Sadhu:

Hello, good morning sir. Talking about your turbines business, could you tell us about your dispatches prices per megawatt?

Nikhil Sawhney:

A turbine is a customized product and therefore one turbine is not the same as another, not only in terms of design and in terms of power rating, but also in terms of the application, so therefore one turbine is never priced at the same rate as another turbine, based on megawatt output, but it would rather depend on factors such as steam, temperature and outlet and extend of condensing. Therefore it is not possible to give that sort of an analysis. But if you were to take a rough number, it will approximately work out to Rs. 79 lakh a megawatt.

Manpreet Singh Sadhu:

Talking about your distillery business, what is the output?

Sameer Sinha:

The capacity is 160 kl per day of production of any type of alcohol.

Manpreet Singh Sadhu:

Do you have any cost rationalization plans?

Nikhil Sawhney:

Cost rationalization plans primarily stem from our controllable factors on cane, in terms of the quality of cane, the maturity of cane, which would impact the recovery levels. Secondly our cost rationalization aspects are also in terms of introduction in certain contract labors, VRS and reduction in transport cost of cane.

Manpreet Singh Sadhu:

In there any de-merger proposals?

Nikhil Sawhney:

Actually this is a decision that the board has to take; currently we are not able to give clarity on this situation.

Manpreet Singh Sadhu:

What about the Cogeneration plants, have they commenced any business right now?

- Sameer Sinha:** Yes, like we commented earlier, we added 23 megawatts of capacity at our Khatauli unit, taking our total capacity up to 68 megawatts.
- Manpreet Singh Sadhu:** The order book for your water treatment business would be?
- Nikhil Sawhney:** About Rs. 40 crore.
- Manpreet Singh Sadhu:** Rs. 40 crore, of which Rs. 9 crore is from Rajasthan?
- Nikhil Sawhney:** That was one of our larger orders that we received. Electromechanical equipment packaging is the segment that we are entering into which are higher value orders while still retaining our margins.
- Manpreet Singh Sadhu:** Alright sir, thank you very much.
- Moderator:** Next question comes from Achal Lohade of Crisil Research.
- Achal Lohade:** Good morning sir, I had couple of questions, first one is regarding the cost of production, sir can you tell us what was the average cost of production per quintal of sugar?
- Suresh Taneja:** Roughly speaking it is approximately about Rs. 1,550 per quintal.
- Achal Lohade:** Okay, so we have valued the closing stock at Rs. 1,320, as I understand, so about Rs. 200 per quintal is already booked?
- Suresh Taneja:** Yes.
- Achal Lohade:** Okay sir, the another question was regarding the raw to refined sugar processing, sir can you tell us how much would be the additional cost for refining the raw sugar to white?
- Suresh Taneja:** Besides the capital cost that will be required if we had the machinery, the typical global tolling margin is between the range of USD 70 to 100. We believe that in India it would cost us approximately about Rs.120 more per quintal of sugar.
- Achal Lohade:** Okay and sir, can you give us a sense about the cane prices. There are talks about the cane price rationalizations, so what's our sense for next year's and '08-'09 cane prices?

- Suresh Taneja:** As you know the cane price during the current season were pretty much at the same levels as domestic sugar prices which makes the economics of factories quite weak. Therefore, while it is not possible for us to know what exactly will come about, it is our hope that the government would act rationally in terms of viewing this problem of the industry, which would ultimately impact both the constituents, which is the farmer and the industrial players of sugar.
- Achal Lohade:** So, as of now we don't expect any kind of decline in the cane prices or cane costs?
- Suresh Taneja:** It is our hope, it is difficult to say exactly what will materialize, and I think you need to wait till about October-November to get a clearer picture on that. And further you will only get a picture in terms of the sowing for '08-'09 in between February-March of 2008, so that's only when you will get the idea of the output levels of sugar.
- Achal Lohade:** Okay, sir can you tell us the cane prices we have paid?
- Suresh Taneja:** We pay the SAP, which is Rs.125 plus transportation and some increase in terms of early maturing varieties.
- Achal Lohade:** What would be the size of that, transportation cost?
- Suresh Taneja:** Roughly speaking our landed price is about Rs.8 to 10 more than the SAP.
- Achal Lohade:** Okay the last question is regarding the export potential. We see that we don't have much of export potential for refined sugar, so can you give us the size of the export potential in terms of raw sugar export and refined sugar?
- Suresh Taneja:** I think it would be better for you to get an idea of that from people who are more active in the export field, though suffice to say that the raw market is quite generic and therefore it would only work on freight differentials. It would be rational to assume that the Middle Eastern and part of Southeast Asian market could be competitive for Indian sugar.
- Achal Lohade:** Okay and what would be the freight advantage we will be having in that regards?
- Suresh Taneja:** The freight advantage is over Brazil primarily with very high freight cost currently, I think the differential comes to between 30 to 50 dollars.
- Achal Lohade:** Okay, thank you very much.

Moderator: Next question comes from Mr. Vinay Patel of ICICI Securities.

Vinay Patel: Very good morning everybody. Just a brief question that I had on the growth in the turbine business and the outlook. I would believe that this is the one area, which is expected to record very high growth and some of the larger companies in this segment are already trading at very high multiples, what would be your outlook in terms of growth over the year?

Nikhil Sawhney: We work on an immediate order book basis. Given the fact that we have an enquiry book which is quite healthy currently, what is important to keep in mind is that our profitability comes from two factors; one is product margins, but more importantly our spares and servicing. We are a good proxy to manufacturing growth in the economy as well as to captive power generation in the economy. Therefore as long as our visibility in terms of manufacturing growth goes, it is quite reasonable and we are not seeing any sort of slow down, in fact with our enhanced product range, we think that the market is actually growing. More than that what we would find is that through an increased focus on exports as well as on spares and servicing, we would retain a high gross margin structure currently.

Vinay Patel: On the sort of timeline on this order book, with your increased capacities in this space, this would be about 9 to 10 months.

Nikhil Sawhney: Exactly, you could say about that much. About 90% of those orders would be completed this year; the only ones that would be executed in the following year will be our naval orders, because defense is dependent on certain other factors.

Vinay Patel: Okay, so we would continue to look at the same current levels of growth, going ahead also, so say around 20% growth levels in this segment?

Nikhil Sawhney: I think you can expect it a little bit higher than that.

Vinay Patel: Sure, thank you very much.

Moderator: Next question comes from Mr. Karan Vasani of Crisil Research.

Karan Vasani: Good afternoon sir. I was just wondering what your outlook on sugar price is. Do we see the appreciation in sugar

prices globally, which has happened recently, translating into an appreciation in the Indian prices?

Nikhil Sawhney:

India is not going to import sugar in the foreseeable future. As far as the impact of increased dispatches is concerned, it would reduce the local stock levels and therefore improve the sentiment in the market. Currently the bigger problem is actually of sentiment because supply is controlled and therefore there shouldn't have been such a large decline in prices. What we have found is that there has been a significant liquidation of stock in the trade. Trade could hold, well it's a guess, but anywhere between three to five million tonnes and that we believe has come down from about a two month level to may be a week now, so, depending on how the sentimental factors move and how the trade picks up in terms of building positions that could have a positive impact on sugar pricing. Ultimately if you look at the margins for the companies operating in this field, it would solely depend on the cane pricing for the next season.

Karan Vasani:

We expect to have an idea of the cane pricing by say, October or so?

Nikhil Sawhney:

Exactly.

Karan Vasani:

About government policy, while we talk of excise duty deferral and other debt restructuring, policies coming out from the government, anything is expected on that front?

Nikhil Sawhney:

I think that your guess would be as good as ours. I don't know how likely it is for the government to give these sorts of subsidies and how probable it would be. Historically I am not certain of this, if it has actually happened for the sugar industry. Having said that, cane price reversal to SMP has happened previously in 2002.

Karan Vasani:

I believe that there is a High Court order and mills had to retrospectively pay back the SAP.

Nikhil Sawhney:

Exactly, there was a Supreme Court judgment 3/2 which ruled in favor of the SAP on behalf of the state governments, but there is certain legal opinion that people have sought in terms of how that violates Article 14 of the constitution which is arbitrary. There are certain steps that the industry is taking to try and convince the government, if not take a legal course.

Karan Vasani:

One final question on cane arrears, can you tell us what the position is in UP as of this moment?

- Nikhil Sawhney:** I think you would expect approximately about Rs. 2,000 crore.
- Karan Vasani:** Historically how is this being paid off, do you later on arrive at some sort of settlement for a reduced amount or is the full amount paid with interest?
- Nikhil Sawhney:** I don't think there is any set answer to this because it's really not in our policy to actually follow this sort of process. We would have to wait and see as far as what the government is willing to do in terms of helping the industry, not only from the Central perspective, but from the States. As you know, the central government had given significant subsidies for export, which has primarily helped coastal mills. And certain state governments have also stepped up in Centre's support to help them. The buffer stock actually did help in terms of increasing certain liquidity constraints that factories might have faced. The exact amounts of which have not been notified as of yet, but that would go a long way in terms of helping liquidity crunch.
- Karan Vasani:** And could you tell me how much capacity has come up in UP under the sugar industry promotion policy?
- Nikhil Sawhney:** I think there was a 30% increase in capacity over the course of the last two and a half to three years.
- Karan Vasani:** Would we have a number in TCD terms?
- Nikhil Sawhney:** I would say it would be close to 200,000 TCD.
- Karan Vasani:** Alright, thank you so much.
- Moderator:** Next question comes from Mr. Arun Vellayan of Karma Capital Advisors.
- Nikhil:** Hi, Tarun this is Nikhil here actually, I just wanted to know whether you have accounted for the subsidies under the sugar policy in UP or you have not accounted for that?
- Suresh Taneja:** We have accounted for all the revenue subsidies.
- Nikhil:** That amounts to roughly Rs.1.40 per kg?
- Suresh Taneja:** It is a little less than that, but the total amount is not very significant, because we were eligible under the policy only from 31st January, so the amount is not significant at all.
- Nikhil:** Alright, okay thank you.

- Moderator:** Next question comes from Ms. Vasudha Vachhar of Quantum Securities?
- Vasudha Vachhar:** I just wanted to know, what is the main reason for the fall in sales in the gears segment?
- Nikhil Sawhney:** It is a question of timing actually, the fact is the billing would actually come about in the subsequent quarters.
- Vasudha Vachhar:** Okay, what kind of growth are we expecting, for '07 in this segment?
- Nikhil Sawhney:** I think you could expect about 20% growth, if not higher. This business operates on a shorter order delivery cycle, so if you take the year April to March, you still have certain time for order booking left. And the current order book is of about 43 crore.
- Moderator:** We have a followup question from Mr. Neerav Shah of Pinc Research.
- Neerav Shah:** What were the key reasons for the marginal expansion of turbines was it on the pricing front or raw material savings front?
- Suresh Taneja:** It is a combination of both. Especially in terms of the input part, there was a tremendous effort on the part of the units in terms of supply management and also value engineering, etc. All this is yielding fruit as of now.
- Neerav Shah:** Are any of our exports in dollar denomination or they are all in Euros and Pounds, because you mainly cater to the European market, so we must not be impacted much by the rupee-dollar movement?
- Suresh Taneja:** That's right; the majority of the exports are in Euro.
- Neerav Shah:** Okay, now that the Euro has stabilized, it has not depreciated against rupees, so that should not have any impact on our revenues?
- Suresh Taneja:** That does not have much of an impact on the revenue, especially because we get these drawback duties that compensates to a large extent.
- Neerav Shah:** Okay and sir, just can you repeat the sugar inventory level as on June?
- Suresh Taneja:** It was 290,000 tonnes.
- Neerav Shah:** Okay, thanks a lot sir.

- Moderator:** We have a followup question from Mr. Pratik Jain of Enam Securities.
- Pratik Jain:** I wanted to know the capacity for sugar year '07 and sugar year '08 in sugar and distillery units?
- Suresh Taneja:** Our sugar capacity is 61,000 TCD, distillery is 160 KLPD, Cogeneration capacity is 68 megawatts, out of which 42 megawatt is exported during season and off season.
- Pratik Jain:** I wanted to know the quantity of sugar sold in this quarter and the quarter ended 30th June '06?
- Suresh Taneja:** We have sold 122,000 tonnes in this quarter against 92,000 tonnes in the previous quarter.
- Pratik Jain:** Okay sir, thanks a lot.
- Moderator:** Next question comes from Mr. Sandeep Somani of HSBC Securities.
- Sandeep Somani:** My question is regarding the sugar industry, do you think that the cycle, which is in down turn is going to turn around in next few quarters or what would be the historical time it has taken to really turn around?
- Suresh Taneja:** If you look at the position this time, the current estimates are that the next year also the production is expected to be as good as this year, if not more, so I think the surplus stocks are going to continue. However, because of the fact that today, take the example of UP or even take the example of Maharashtra, where the farmers have got much less cane price than was earlier envisaged by them. I think it has been a historical trend that whenever such thing happens, it effects on the cropping pattern and the cycle of the sugar turns, so I think it is expected that some kind of an effect on the sowing would take place in '08-'09, the sowing basically during March '08 onwards.
- Sandeep Somani:** So, it will be at least a year from now.
- Suresh Taneja:** Absolutely, basically it is '09-'10 which will be affected.
- Nikhil Sawhney:** But on the other side the fact is that when you are talking about the health of the industry, it all depends on your input price also. So, if you are looking in terms of the price of sugar or if you are looking in terms of the margin of the industry, depends on different factors.

Sandeep Somani: I think as far as the sugarcane price is concerned, it is much more determined by the MSP prices, if I am correct to understand that and moreover prices are fixed. If the realization starts improving, the margins will start showing up?

Nikhil Sawhney: Sugar pricing is a sentiment factor and there is no exact science to it because the supply is constrained by the release mechanisms and if you look at the surplus situation in the country, if you take a buffer stock of 5 billion tonnes, which would probably get rolled over for another period, you would find that inventory levels will build up for the next year as well, following which we believe that sugarcane production should come down considerably. This typically happens, historically it happened in the states of Maharashtra and parts of Southern India, not so much in UP.

Sandeep Somani: Okay, is there anything which is changing world around or in India, wherein, in short term, prices has started moving as far as sugar stock is concerned?

Nikhil Sawhney: I think you would be able to better comment on that because of stock pricing. I think the fact is that may be people know something that we don't.

Sandeep Somani: Okay sir, thanks a lot sir.

Suresh Taneja: Thank you.

Moderator: There are no further questions. Now I hand over the floor to Mr. Suresh Taneja, Vice President and Chief Financial Officer of Triveni Engineering for closing comments.

Suresh Taneja: Thank you very much for being here.

Moderator: Ladies and gentlemen, this concludes your conference for today. Thank you and have a pleasant day.

- ENDS -

Note: (1 crore = 10 Million; 1 Quintal = 100 Kg)

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