

Triveni Engineering & Industries Limited

Investor/Analyst Conference Call Transcript

November 24, 2008

Moderator: Ladies and gentlemen good morning and welcome to the Triveni Engineering & Industries Limited Q4 and FY2008 results 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 at the end of today's presentation. Should anyone need assistance during this conference call please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gavin Desa of Citigate Dewe Rogerson; thank you and over to you Mr. Desa.

Gavin Desa: Thank you. Good morning everyone. Welcome to the participants on the Q4 and FY2008 conference call of Triveni Engineering & Industries Limited. We have present with us Mr. Dhruv M. Sawhney, the Chairman and Managing Director of the Company along with the senior management team. Before we begin I would like to say; some of the statements made in today's discussion maybe forward looking in nature. A statement in this regard is available in the conference call invite which was emailed to you earlier. Further, this call is being hosted by the company to share details or developments during the year and strategy going forward. While the call is open to all invitees it may not be broadcasted or reproduced in any form or manner. I would now request Mr. Sawhney to share some perspectives with regards to the company's progress during the quarter and year under review after which the floor will be open to an interactive Q&A session.

Dhruv M Sawhney: Thank you very much Gavin! Good morning everybody. Welcome to the conference call on the years' results for FY 2008. Our results have been quite good and especially considering the situation in the country. Our net sales for FY2008 on a year to year basis are up by 21% at about Rs.16 billion and EBITDA on a year to year basis is also up by a 153%. PBIT as you have seen from the publication on quarterly results has increased by almost 300% to Rs. 2.33 billion in this 12 months period when we compare it with the previous 12 months period. PAT at Rs.1.12 billion is a substantial increase over the PAT previously which was almost negative because of the sugar operations. We have a proposed dividend of 60% and EPS of 4.32.

I think we have met our expectations as far as engineering business in terms of both sales and profits and we have been sharing these with you in every quarter. We are happy that we have been able to come in at what your expectations were. As far as sugar is concerned there has been a turnaround especially in the last two quarters and this is continuing. So we foresee FY 2009 for sugar being much better than what it was in 2008. And we also foresee our engineering having growth in both top-line and bottom-line. Take the sugar situation today, in the global sugar scenario you may have read reports by International Sugar Organizations, the US Department of Agriculture and other commentators that there will be a shortfall of some 7 million tons on global production versus consumption. So for the first time in the last few years there would be a reversal and stocks will come down. So with that we believe that sugar prices in the year to come are going to be at least at this level if not slightly higher. The slight increase in sugar production in Brazil will be more than compensated by the drop in production in India, the EU and in other countries such as Pakistan. Ethanol exports from Brazil are continuing but the real driver is the consumption of Ethanol domestically and that has always been at a much lower price so it has not been affected so much as Ethanol consumption in other countries with the drop in crude prices. So as such we are fairly confident of the projection of Brazil sugar exports in the year ending September 2009 and with that the international

sugar prices. Domestically too, there is, the industries' projection of 20 million tons of sugar production in the sugar season 2008-2009. The government has now lowered their estimates to 20.5 million tons, but there are enough stocks and we do not expect any import. That has also being stated by the Food Minister as you may have read today.

As far as the Triveni mills are concerned, five mills have started and the balance two will start in the next 4 to 5 days. Currently our mills along with the associations have gone to the High Court against the State Advised Price of Rs.1400 per ton for normal varieties and Rs.1450 per ton for early varieties. We expect some decision from the Allahabad High Court in the first week of December. At the moment we are writing a price of Rs.1400 and Rs.1450 subject to the court order on the 'purchies' given to the farmer. This was similar to what we wrote in the year previously when we had also gone to Court. We are finding no problems in cane supplies in the units which started a few days ago and have now stabilized. We expect stabilization in all the units in the next 4 to 5 days. As far as our cogenerations are concerned, we have started in Deoband and we will be starting in Khatauli shortly. Average realizations in the distillery have been good and they have shown a significant growth in Q4 over Q3 by about 34%. The average ENA price is now at Rs.29 against Rs. 24 previously. Molasses and Alcohol prices are expected to remain firm in the next year.

In our engineering division, orders on hand have grown by 28% and currently are at Rs.7.1 billion as against Rs.5.54 billion same time last year. While the current liquidity crisis has many firms postponing their expansion plans, your company has adopted two strong strategies in the engineering businesses to lessen this impact. The first is a concentration on exports, while the global market is also engulfed with this liquidity crisis we feel because of our extremely low market share in exports in the past that there are significant growth opportunities. Our value proposition is even better today versus our competition in the west and we offer quality and delivery along with our dedicated service. The second major area we are concentrating on is the refurbishment business; it is also showing good potentials. Customers in the current financial situations prefer to refurbish their old turbines rather than order new ones and we are focusing in the segment for not just our model of turbines but for other turbines as well. This is also the situation in the gear business.

Our water business has shown the growth that we had projected and we foresee in 2009 a similar growth of almost 80% to 90%. The major breakthrough in our water business has been the desalination plant for the power industry and sewage treatment plant, a municipal sewage treatment plant doing tertiary treatment in Hyderabad.

You have the debt equity ratios with you, total debt is slightly higher at Rs.1169 Crore versus Rs.1000 Crore last year and while the total debt to equity is 1.53 versus 1.59. All our lines of credit are comfortable, we have drawn down and we find no problems of liquidity in the sugar or the engineering businesses or meeting for our debt obligations of repayment and interest, in fact there is some cushion. The farmer loans in sugar which we are taking, help us to mitigate the high interest cost and while overall interest cost will be higher this year than the last year, the impact to us is not as much as it might be on many other companies.

In the sugar units we expect production this year to be on the same basis as last year. And this is unusual as there will be rapid fall in production in the country as a whole and in the state of UP. The reason for this is our cane development programs which we had undertaken in the last three years for enhancing farmer relations and yield enhancement as well as stabilization in the operations of our new units. Currently with the reservation orders having been given out for five of our units we have reaffirmed these targets and we will have a better appreciation in January when the season is midway through. But these are our estimates after looking at the dropping yields in different parts of UP. The dropping yield in Western UP where three of our units are present is only about 10% to 15% versus about 30% in Eastern and Central UP. I won't take anymore more time and I would rather answer any questions that you may have, thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. At this time participants who have questions may press * and then 1 on their phone. The first question is from the line of Mr. Nirav Vasa of Gupta Equities. Please go ahead.

Nirav Vasa: Hello Sir, I wanted to know the order book that we have in the engineering division, what will be the execution period for the same?

Dhruv M Sawhney: The execution period for 90% or maybe even 95% is in 2008/2009. A very small percentage is carried over to the next year. In the water business some part of it goes into 2009/2010 but that also is about 20%.

Nirav Vasa: Would it be possible for you to throw some light on your metal hedging strategy?

Tarun Sawhney: In order to take maximum advantage of all the fall in prices of commodities, basic commodities and including commodities that we consume in our sugar business for example sulphur, we have employed a multi-prong strategy; firstly of course we have always had open lines of communication with our vendors. We conduct negotiations and our rate contracts that have been previously established are under the guidelines of any material changes in the basic costing having a benefit to us directly. Therefore, whenever we have a rate contract they have upper and lower bars which if breached trigger a renegotiation, under an open contract we can benefit from any rise and fall because those are negotiated as and when required; for example sulphur. Therefore we are employing multiple strategies and we are benefiting from declines in these, you mentioned iron ore but in also other products as well.

Dhruv M Sawhney: Sulphur has come down by some 80% to 90% which is an unbelievable change versus last year.

Nirav Vasa: Could you throw some light on the rate of interest which the company is borrowing as of now for its working capital requirement.

Suresh Taneja: Roughly speaking in respect of working capital requirement from the banks is approximately 11.5% to 12% as of now, but we make use of the arbitrage opportunity and we bring it down by at least 2% as are result of those arbitrage opportunities.

Nirav Vasa: Recently there has been rainfall in Uttar Pradesh; do you think the impact of that would be felt on the recovery rate for the coming sugar season.

Dhruv M Sawhney: No, actually the rainfall is quite good, it has helped the yield. While it might dampen recoveries for a few days, our recoveries in Western UP where our factories have already started are at the projected levels. And Deoband is on date with recovery of 9.1 so it is 9.0 to 9.1 it was quite clear, the rainfall has not really impacted it, where it has is in Central and East UP in flooding that was sometimes ago.

Nirav Vasa: And in the engineering business would it be possible for you to give a breakup of the order book that you have in terms of the orders that are there for your turbines and for your water management business?

Dhruv M Sawhney: Yes, it is in the investor sheet that I have given, but I will review it very quickly, TBG is Rs. 5.15 billion, Gears Rs. 534 million, and Water is Rs. 1.42 billion. Yes, and that is against Rs. 5.54 million last year which was TBG Rs. 4.68 million, Gears Rs. 408 million and Water Rs. 448 million. And these are all at as of 30th September.

Nirav Vasa: Yes sir thank you very much, majority of my doubts are clear. Thank you.

Dhruv M Sawhney: Thank you, I just wanted to I take this opportunity, our board which also approved the results has, subject to shareholder approval, appointed Mr. Tarun Sawhney and Nikhil Sawhney as Executive Directors so that will take place as on the 19th of November subject to the shareholders clearance at the AGM at the end of December.

Nirav Vasa: Thank you sir.

Moderator: Thank you Mr. Vasa. The next question is from the line of Devang Patel of Avendus Capital. Please go ahead.

Devang Patel: Good morning sir, you mentioned earlier that there was some slowdown in the engineering division, could you throw some more light on this. And quantify what kind of growth you were expecting earlier and what kind of growth do you see now, especially what is the severity of the slowdown?

Dhruv M Sawhney: No, I never said there is a slowdown; I said there may have been a slowdown in the market. There has not been a slowdown in Triveni's performance for the year. So I would like to clarify that if somehow what I mentioned as 'the market' you have taken as 'the company'.

Devang Patel: Right.

Dhruv M Sawhney: So there might be a slowdown in growth rate, but it does not mean there is a slowdown in sales, there is a distinction between slowdown in growth rate and as you know we have had for the last 4 years a growth rate of some 35% to 40%. Now you are not expecting that today, so while we are positive on growth per se in the year 2008/2009, it is difficult to say what that growth rate will be, we know our orders on hand, they might be a slight delay in the dispatches to our clients, but they are all taking them, it is a question of a month here or there, so quarterly figures may vary from forecast but in general we are not thinking of that. Now, I want to give you the growth rate in the 3 engineering segments, you know in the last 3 years we have had 30% in TBG, 33% in Gears and 84% in Water, so overall we have grown at 34% and in the last year itself we still had 10% growth in Turbines, 27% in Gears and 67% in Water; these are as per the published results which are before you.

Devang Patel: Right, thank you sir do you state that these growth rates will continue?

Dhruv M Sawhney: I am saying these growth rates may not continue as it is, but we do, with the orders on hand foresee a growth in both the top-line and the bottom-line.

Devang Patel: Sir is there any pressure on margins in the business.

Dhruv M Sawhney: As you have seen our margins in the last year have actually gone up; in 2008 our margins for total engineering went up from 20.7% to 22.6% which is an extraordinary increase. Two years ago the margins were 18% and now they have gone up to 22.5%. So, while we may not have the same margins and there might be some slight dip in the margins, we do expect it to be way above industry norms. And in absolute terms we expect our margins to be higher than in 2008.

Devang Patel: Fine that is all from my side, thank you.

Dhruv M Sawhney: Thank you!

Moderator: Thank you Mr. Patel. The next is question is from the line of Ram Hegde of Primus Investments. Please go ahead.

Ram Hegde: Hi, good morning gentlemen. I have a couple of questions, first is what is the estimate of sugar production for this season in UP?

Tarun Sawhney: Our estimate is on a fairly conservative side, we estimate a production of 5.7 million tons in the state of Uttar Pradesh. Now clearly this is subject to our second estimate which will be in January when we will start seeing plant cane being crushed. The real factors that change this estimate, the caveats that I would like to place before you are actually recoveries of plant cane that we will only be able to tell in January and of course the yield of plant cane because these are estimates as of this time.

Ram Hegde: So what would be the sort of crushing days that you would operate?

Dhruv M Sawhney: We are expecting crushing days at about 130 days-135 days.

Ram Hegde: And how does this compare with last year?

Dhruv M Sawhney: In fact in our case we might even have 5 to 7 days more or maybe a week more because we are starting 2 weeks earlier or 10 days earlier.

Ram Hegde: You just said that the government has announced their estimates of 20.5 million tons, have they also given a sense of what is the closing inventory that they are looking at last year.

Dhruv M Sawhney: Yes, 10 million!

Ram Hegde: 10 million. There is no change in that number?

Dhruv M Sawhney: No, that is after the consumption and production estimate and of course buffer stock release.

Ran Hedge: And coming to cane, what are the cane arrears that are payable assuming that you know there is a loss on the court case filed, because one of the parties in UP has agreed to pay the current prices.

Dhruv M Sawhney: No, you see, at the moment we have zero cane arrears. And we do not expect any cane areas.

Ram Hegde: So you have booked at Rs.110, right?

Dhruv M Sawhney: No, please let me clarify; Rs.110 is for cane of the last season.

Ram Hegde: Correct, yes.

Dhruv M Sawhney: Not for this season!

Ram Hegde: This season is Rs.140.

Dhruv M Sawhney: Yes, Rs.110 is what the Supreme Court has judged so when the final judgment of that comes out we will see it, which has to do with both 2006/2007 and 2007/2008. Now if you know in 2006/2007 the Supreme Court had given an interim price of Rs.118 even though we have paid Rs.125 and put it in the books. We have actually got Rs.7 extra on 2006/2007 and 2007/2008 we have booked it at Rs.110 which is exactly what the Supreme Court has mandated as an interim price.

Ram Hegde: Thank you very much.

Moderator: Thank you Mr. Hegde; the next question is from the line of Mr. Ankit Jain of Mata Securities. Please go ahead.

Ankit Jain: Good morning sir, congratulations on good set of numbers! Sir on the distillery side, I would just like to know how many days were operational.

Dhruv M Sawhney: Yes one minute, I have Mr. Sameer Sinha here.

Sameer Sinha Last year we operated for about 220 to 230 days.

Ankit Jain: As per my knowledge you were operating at 98%.

Sameer Sinha: Right!

Ankit Jain: And if you look at the amount of cane you crushed, if you have enough of capacity you can produce around 60 million liters from the sugarcane crushed of alcohol so...

Dhruv M Sawhney: We do not have our distilleries in all the factories.

Ankit Jain: So sir do you sell molasses?

Dhruv M Sawhney: We have our distillery in Muzaffarnagar which caters mainly to the production of the Deoband and Khatauli sugar unit and in the other sugar units we sell the molasses in the open market. It's too far and not economic to transport.

Ankit Jain: Thank you.

Moderator: Thank you Mr. Jain. The next question is from the line of Kaushik Poddar of KB Capital Markets. Please go ahead.

Kaushik Poddar: In the result notes you have mentioned that the carbon credit, you have not taken credit of in the results. So I want clarification on that issue and what is the kind of carbon credit that is expected. And secondly, while you had put up expansion, UP government has given you a lot of incentives. Has that incentive also been taken into account for computing these results?

Suresh Taneja: Yes, first of all, let me address this question of carbon credit. As per the earlier accounting policy we were accounting for income from carbon credit based upon approved third party verification of the carbon credits. And from this year onwards we have changed the accounting policy and we will account for this income only upon sale of the carbon credit. So it is a conservative policy. And this was for the period ended 31st March 2008. So as and when this carbon credit would now be sold it will be accounted for in the financial year 2009.

Kaushik Poddar: What is the annual income you expect from the carbon credit?

Suresh Taneja: Roughly speaking our generation from two registered plants is about 150000 carbon credits.

Kaushik Poddar: How much does it transfer into in monetary terms?

Suresh Taneja: I think it translates into approximately Rs.15 crore. And the third plant which is also yet to be registered with UNFCCC will give us another 50,000 carbon credits.

Kaushik Poddar: So you expect 200,000 carbon credits?

Suresh Taneja: Yes.

Kaushik Poddar: And on the UP government incentive front?

Nikhil M. Taneja: Yes, you know the case is going on in the High Court and so far the proceedings have been pretty favorable. The High Court has said that until the time the final decision takes place in the matter whatever other remission which have been specified in the incentive scheme would continue to be available. So we are still enjoying that.

Kaushik Poddar: So are you accounting for it?

Suresh Taneja: Yes we are accounting for it, and in the accounts we have accounted for approximately 20 crore of incentives.

Kaushik Poddar: And the other question I had was, there has been a fall in the raw material prices, so do you expect your margin to go up in your engineering business because of that?

Dhruv M Sawhney: I think this is also because the customers are very agile and they are negotiating so we are not looking to increase margins right now, we are there to push sales and preserve margins.

Kaushik Poddar: I also want to draw your attention to this newspaper item which has talked of Triveni selling off Triveni Haryali to various other retail groups. Could you throw some light on that?

Tarun Sawhney: See, first it is Triveni Khushali Bazaar and it is a wholly owned subsidiary of Triveni Engineering and Industries Ltd which we had mentioned in a previous conference call when a question was asked on our retail business that we are looking at partnerships with both the strategic investors and financial investors, we continue to do so. Again this was a press article which did not take the company in confidence when it was released so I cannot really comment on the validity of the information that you read. So net-net it is a partnership and not a sell off.

Kaushik Poddar: Thank you.

Moderator: Thank you Mr. Poddar. The next question is from the line of Aditya Chandak of ICICI Prudential AMC. Please go ahead.

Aditya Chandak: Yes Good morning sir, my question is on the global front, what is happening in Brazil where 60% of the cane is diverted towards making of ethanol, could you just throw some light on at what prices of sugar would it make more sense for them to divert more cane for sugar production and how could that impact the global scenario in the sugar industry?

Dhruv M Sawhney: Well two things, one this 59% to 60% the figure varies between 58% to 60% is what is been used for ethanol in the last quarter, but 90% of the expanded capacity in the last year in Brazil went in only for ethanol, i.e. the cane crushing plants were used only for the production of ethanol. So this new capacity that has come on cannot at the moment be switched to sugar. They will have to put in extra equipment to be able to switch that cane use into sugar production from ethanol production. Now we do not foresee that happening in today's financial market and the farms that have done it are large multinational firms quoted and they are not saying that they want to do it either. Number two, a substantial amount of the ethanol production of Brazil is used domestically and over 90% of new cars are flexi-fuel cars well almost 100%, and that growth has been there. So the only slowdown will be if the automobile production slows down then to that extent ethanol consumption domestically will slowdown, but otherwise it has been on a very substantial rise and that is why in fact they could not export as much as they had thought.

Aditya Chandak: But sir just to clarify, at what sugar prices suppose if they utilizing their capacity of making sugar, they could increase number of days of crushing to some extent and make more sugar of their existing capacity, at what prices of raw sugar would that shift be happening?

Dhruv M Sawhney: I understand what you are saying, but what I am trying to say is that it is not very easy to workout that price because the domestic price of ethanol has to be taken into account; it is not just the global price of ethanol. You have to take the percentage of the ethanol going for the domestic market then you have to see how much is going for an international market then you have to see the domestic sugar price and the international sugar price. And the crude price which has come down is further consideration, at the moment. Both USDA, the International Sugar Organization having taken all these things into consideration are talking about Brazil in the current scenario, with the current crude price increasing sugar production by something like 2 million tons only. And that is where we are going down by 5 million and EU is going down by 1 million something that is why you have a deficit of 7 million in the next year after accounting for an increase of sugar production of almost 2 million tons in Brazil next year.

Aditya Chandak: These two million tons would be because of crude going down and surplus production of sugar would be, only because of this switch.

Dhruv M Sawhney: Yes. They have increased their area under cane quite substantially.

Aditya Chandak: And sir presently if you are importing sugar, what would be the landed price in India?

Tarun Sawhney: Well you cannot import white sugar. Well you can but it is subject to 60% duty so clearly no white sugar/crystals have been imported. There has been some raw sugar import because at this time there still exist the grain for grain import policy which does not affect clearly the domestic balance sheet because once it is imported it is processed and then exported from the same facility, it does not touch the domestic markets. At current currency levels in terms of US Dollar to Indian rupee, we are looking at a landed price of I think about Rs.1600 FOB per quintal.

Aditya Chandak: And you would add local transportation cost to it that as also port handling and other charges and freight as well?

Suresh Taneja: You know Rs.1600 is only the FOB value you take the sea freight it come to approximately about Rs. 1700 then there are port charges, duties, transportation to local warehousing, the cost would be very high around 2000.

Aditya Chandak: Thanks a lot.

Moderator: Thank you Mr. Chandak. The next question is from the line of Vipul Arora of Aadhar Securities, please go ahead.

Vipul Arora: Could you give us please the sugar inventory you hold for the last fiscal?

Suresh Taneja: About 256,000 tons!

Vipul Arora: It is two and half lakh tons and what are the current prices you are selling at?

Suresh Taneja: Rs.1800 per quintal!

Vipul Arora: You have given the estimated production for UP, could you give us the estimate production for your own company, I am sorry if I missed earlier.

Suresh Taneja: Now we are saying about the same as last year.

Vipul Arora: Thanks.

Moderator: Thank you Mr. Arora. The next question is from the line of Achal Lohade of JM Financial, please go ahead.

Achal Lohade: Yes good morning, just couple of questions, first on the cane price you said you are paying Rs.140 cane price. I just wanted to know would you be deducting the transport cost for this, or this transport cost would be additional to this Rs.140?

Dhruv M Sawhney: Yes firstly I would like to clarify that we are not paying Rs. 140. We are marking a price of 140 subject to the court order so we are waiting for the court order. No cane price has been distributed as yet. The cane price is only distributed at least 14 days after you have it and we expect the court judgment before that. And secondly at the moment we will be deducting Rs. 5.75 till we get clarification on the Rs.10.58 per quintal which was put out in a case in Allahabad High Court on certain sugar factory.

Achal Lohade: Right, and the second question was on the landed cost of imports, you just said that the landed cost, the FOB price is Rs.16, I just wanted to know is it raw sugar or refined sugar?

Dhruv M Sawhney: This is refined sugar.

Achal Lohade: What would be the freight element sir, in Dollar terms what is the current freight rate?

Suresh Taneja: \$25.

Achal Lohade: And just wanted to know did we do any refining in 2004.

Suresh Taneja: This is not including duty this is FOB only.

Achal Lohade: Yes of course.

Suresh Taneja: And import duty, freight and port charges would be over and above that

Achal Lohade: Right, the other thing was I wanted to know did we do any refining in 2004-2005 when India imported 2.4 million tons of raw sugar for domestic consumption.

Dhruv M Sawhney: You mean Triveni Group?

Achal Lohade: Yes Triveni Group.

Dhruv M Sawhney: Yes we did about 15000 tons.

Achal Lohade: And just wanted to know what kind of margins did we have at that time?

Tarun Sawhney: There were very significant margins, it is difficult to recollect, and it was two and half years ago....

Dhruv M Sawhney: The sugar price was very erratic and the import raw prices at that time were at a fairly low level....

Tarun Sawhney: But we had margins somewhere around 30% to 40% on the raw sugar that we had imported.

Achal Lohade: And do we see any kind of raw sugar imports happening going forward; it may not be in 2008-2009 but given the case that we are expecting further low production, do we see that taking place?

Dhruv M Sawhney: In 2009 -2010 there are possibilities but then it would probably happen more in the coastal sugar companies; there are some refineries that have come up and they will have to also do it on a basis of projected exports you know. Anyhow that is quite far in the future so I would really think that these things would be open for consideration sometime around June, July or August next year talking about the planning of after September-October so till then for the next 9 months I do not see anything in the horizon and you know one has to assess the world situation then.

Achal Lohade: Right and just wanted to know your sense on the refinery business, couple of mills have setup refineries for export as well as maybe for domestic consumptions, just wanted to get your sense on that business, do we see Triveni also getting into a refinery business say two years down the line or something like that?

Dhruv M Sawhney: No we do not, firstly these are port based refineries, and we do not foresee great market for refined sugar coming in from inland. And at the moment the policies are with the payment of full duties for any sales to the domestic markets. So we do not see the refinery as an input for the domestic markets, it is mainly for tolling whether it is on a grain to grain basis or any other way.

Achal Lohade: Could we just understand what the difference is besides grain to grain import, what is the other thing and how do we see that you know what is the impact of that?

Tarun Sawhney: There really is not, the current government policy, central government policies for grain to grain import which means that the sugar, raw sugar that is imported into India and approximately 400,000 tons has been contracted for this sugar year, a small portion of it is been delivered. It means that the sugar that arrives get tolled at that facility and is held in bond and is then exported. So it does not touch the domestic sugar balance sheet that is grain for grain import. What you were alluding to earlier which is the scenario three - four years ago under the advanced license scheme that was a ton-for-ton which basically meant that the sugar did impact the domestic balance sheet and that scenario does not exist as of today.

Achal Lohade: That is all, thank you so much.

Moderator: Thank you Mr. Lohade. The next question is from the line of Sandeep Somani of HSBC Securities, please go ahead.

Sandeep Somani: Thanks a lot for taking the question, two questions from my side first historically have we seen any cancellation in the engineering orders more specifically in the turbine order from the parties we have already contracted? And secondly out of the sugar inventory what we have, do we have a buffer stock inventory as well as in sugar?

Dhruv M Sawhney: Fine, good question! Fortunately we have not seen any cancellations right now, as I said in my opening remarks some of the customers have there asked for slight delay in the delivery and in fact those turbines have gone, we have held them for a few months more, but they are all and most of them have paid heavy advances so we are working with the clients. We have sort of in some ways of extra services, etc., but we have not see any cancellations and at the moment we do not foresee that either.

Sandeep Somani: As far as our Rs. 500 odd crore of order books, how much advance do we have and do you think that there are possibilities that there might be a few orders which might get cancelled? I know you said it may not but is there any possibility that it might happen?

Dhruv M Sawhney: I do not see that, they are 10% to 20% advances as I said these are projects that already are underway and for them to drawback is a heavy, these are not Greenfield projects you know they are all mainly Brownfield ones. And power is still very crucial you know fortunately for us, our businesses are in the lines of water and power, and if you know while they maybe a slowdown in the economy, water and power you might say lesser open to these downturns and if people had to do priorities and even if we had to on our own that is the place that you will have to come back to. So there is this thing of postponement and as I said earlier fortunately for us we are cash liquid so there is no problem in helping out our customers for a few months.

Sandeep Somani: Regarding the turbine business again would it be possible to get a broader order book breakup between say various industries like sugar, cement, steel, and paper if it is possible?

Dhruv M Sawhney: No we do not have that right not, it is you know it is very market-oriented information.

Sandeep Somani: Thanks, secondly my question was as far as inventory of 258 million or 256 odd million Kilograms' of sugar is concerned, do we have a buffer stock inventory in this and if yes then what is the policy regarding that?

Suresh Taneja: You know the buffer stock is already dismantled on 31st July. You know that the Government has stipulated that so much part of the buffer stock would be liquidated in a certain manner over the next one year that is all; I mean if you do not have any buffer stock as a big errand.

Sandeep Somani: Thanks a lot for taking the questions.

Moderator: Thank you Mr. Somani. The next question is from the line of Nirav Shah of PINC Research, please go ahead.

Nirav Shah: Yes, sir just a couple of questions, first that is you said that you have accounted for around 20 crore of incentives from the UP Government this year so I just wanted to know how much is actually received?

Suresh Taneja: None of these incentives are received because there is a litigation going on in the High Court. And the court has allowed us to avail those remissions which were prescribed in the incentive scheme.

Nirav Shah: But sir I believe that there were some parts of the incentives which were exempt and some parts which were reimbursed, as the matter is going in the court, we can spend the portion which is reimbursed that is not remissioned. But whatever is exempt, I mean that is still we are not paying so that is accounted as cash inflow.

Suresh Taneja: That is right you know when I give the total impact of Rs.20 crore it takes into consideration reimbursement as well as remissions. So remissions were about 7 crore; we have already received them, about Rs.14 crore is outstanding from the government.

Nirav Shah: That was my question sir. And sir second question is how much of our debt is due repayment in this year FY2009?

Suresh Taneja: Roughly speaking it is approximately Rs.165 crore that are due for the next year.

Nirav Shah: What is the average recovery we are expecting this year because last year we had done I think around 9.9%.

Dhruv M Sawhney: About the same.

Nirav Shah: So a recovery should improve going forward, I mean from the current 9.1%.

Dhruv M Sawhney: Now well, when we are saying production is about the same, we are saying same crush same recovery at the moment.

Tarun Sawhney: This is a caveat the factories have just started so in terms of stabilization of cane arrivals it does seek time for recoveries to raise, this is an annual trend and it has existed for 70 to 80 years. Recoveries continue to improve as you go into the winter and then of course when you crush plant canes into the following year.

Nirav Shah: That was my question sir, thank you sir, thanks a lot.

Moderator: Thank you Mr. Shah, the next question is from the line of Mr. Vinod Bhalla and Senthil Kumar of Systematix Shares, please go ahead.

Senthil Kumar : Sir good morning, gentlemen good set of numbers, and what sort of improvement in realization do you foresee, do you foresee that the rise in cane price could negate the realization going forward.

Dhruv M Sawhney: Now these are calls that are not possible to take right now but as I said we expect overall sugar operations to be better in the next few quarters to what they were in the last year. So overall we are expecting the scenario and you know one can just give you the supply-demand situations and the stock situation and one advantage we have in financial year 2008-2009 is for the first three and half four months we are selling sugar of the previous year where the cost of production is with the cane price of a Rs.110 that sugar we are still selling and we will continue selling till sometime in December, January.

Senthil Kumar: And what sort of segmental mix do you foresee for the current year do you see the sugar being inland the last year or do you see the engineering segments you know keeping up much into the overall segmental revenues?

Dhruv M Sawhney: We expect sugar as a percentage to go up slightly so while I am saying that, we do see growth in engineering, there will be much more growth in the sugar bottom-line.

Senthil Kumar: But what sort of growth rates you have foreseen for the engineering segments?

Dhruv M Sawhney: Difficult to forecast exact figure right now.

Senthil Kumar: Are you getting your receivables on time for the balance of the 500 crore, 20% you have got the advance so for the balance and despite you know it is the major part of Brownfield projects, are you getting the payments in times?

Dhruv M Sawhney: Yes but we do not dispatch till we are fairly sure of the payment you see so that is why we keep it till they are ready to pay.

Senthil Kumar : Sir that's fine but what I must say is are you getting things in time right now because of this global price happenings right now, our concern was whether the companies are....

Dhruv M Sawhney: Within a very reasonable timeframe!

Suresh Taneja: You know either we receive the payment before the dispatch of material or alternatively we received some security in terms of instruments like LC, etc., say now but before we deliver the material.

Senthil Kumar: Thanks a lot sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Sachin Kasera of PINC Research, please go ahead.

Sachin Kasera : Yes good afternoon sir; just wanted to get a quick update I think we had two large orders for the 30 megawatt turbines, and I think you had mentioned in last couple of conference calls that you are waiting for them to stabilize and then demonstrate to customers. That was a very promising area; could you give an update on what is happening on that front?

Dhruv M Sawhney: Yes we have got some orders for high pressure, high temperature turbines in the lower range of megawatts. And the order of 30 megawatts is being delivered in this month, so we have a number of inquiries in these areas; which is one of the things that we had fortunately looked at this diversification of going into the higher power range and going into the higher pressure range, which has helped us make these predictions of growth even though the overall economy is looking in a different manner, so that is working. It has spread our customer base much wider.

Sachin Kasera: Sir, do you have any updates on the Latin American company for higher megawatt turbines?

Dhruv M Sawhney: That is in the process of discussion right now.

Sachin Kasera : So no major update there?

Dhruv M Sawhney: No

Sachin Kasera : And secondly, if you could help us with the share of export in the current order book for all the three divisions especially gears, especially turbines, please?

Dhruv M Sawhney: We have it here; in the last year it went up from 6% to 12% and at the moment exports as a percentage of our total order book is now about 19%.

Sachin Kasera: Sir is that is for the whole of engineering or only turbines?

Dhruv M Sawhney: Turbines. So we expect some good rise, I mean we may not get 12 to 19 but we certainly expect the percentage of exports to be higher in 2009.

Sachin Kasera : What would be the execution period for this order book of approximately 140 crore in the water business?

Dhruv M Sawhney: About 13 to 14 months would be for Rs.140 crore.

Sachin Kasera : Sir, are you confident of sustaining this almost 400 basis points increase in margin in both water and the gear business that we had in the current year?

Nikhil Sawhney: The margin should be sustained in all the businesses, they maybe somewhere around the same figures, there is no reason that we can see right now why margins should come down. As far as input cost going down some customers will renegotiate and actually try to capture some of the benefit themselves so we see margins seem quite similar.

Sachin Kasera: And you had mentioned regarding some updates happening on the hydal gear front, could you just throw some more light as to what is exactly happening.

Tarun Sawhney: If we commercialize productions as of January of this year of the gearboxes up to 6 megawatts for mining/ micro hydal project, we have an approximately 50% market share here today.

Sachin Kasera: Could you give an idea in terms of the market price or the type of revenues for the market share they have been targeting next 12 months from the segment?

Tarun Sawhney: Actually it is marginal because it is a very small portion of our gears business and I do not have an estimate for you unfortunately over the total market size.

Sachin Kasera: And sir any further update on the tie up with GE for the compressors, because last time when you talked about some delays from GAIL any movement that have you seen the last three to four months from that front?

Dhruv M Sawhney: There is some slight movement in Oil India but that also depends on when they can manage to get this gas and Reliance also is little bit in the future so it is the next 6 to 12 months, but we are well on with the clients and with the GE and our to-be packagers so we are on the ball but this really depends on when it comes about.

Sachin Kasera: So sir initially when you announced the tie up we have talked about for revenues of close to 100 crore you know in the medium terms, so would that timeframe probably get a little pushed forward in terms of achieving those numbers?

Dhruv M Sawhney: I think, yes, the values are alright, but I think it has been pushed back by some 18 months or so.

Sachin Kasera : And can but, can we expect any revenues from these in FY2009?

Dhruv M Sawhney: I have the orders only when the tenders are out, it is difficult to say, I mean if it has gone to someone else, I can and then say what happens but you know the tenders are not out as yet.

Sachin Kasera : But any sense we are getting contacting with them as to when we can expect the tenders.

Dhruv M Sawhney: As I said next nine months or so. But that dispatch will not be in this current year, the dispatch will not start till financial year 2010.

Sachin Kasera: Could you just give a breakup of the total borrowing as of September 30th between working capital and term loans and whether all of them are on fixed or floating rates.

Suresh Taneja: Yes roughly speaking our working capital is Rs.400 crore, our term loans were approximately 760 crore so that makes the total of Rs.1160 crore. And in the case of working capital by and large we take the limit from the banks which are on a floating basis, 'floating' means it's linked to the PLR. So with the decline in the PLR rate, we will have some kind of benefits and in the case of the term loans, some of them are sugar development funds which are at very soft rate of about 4%. And we have excise duty loans from the government which was at 0% interest because there is a complete interest subvention. And we have ECBs which are at fairly low rate of interest and the rupee term loans again are by and large linked with PLR.

Sachin Kasera: So sir when you mention that average cost of debt in the previous question you had taken into account the lower cost of debt for SDF and 0% excise duty or was it only rupee debt and the working capital debt?

Suresh Taneja: No, I had given in the weighted average interest cost.

Sachin Kasera : You mentioned regarding repayment close to around 160 crore in the current year so does it mean that we can expect a decent reduction in the interest cost for FY2009 or is it that there is one of you fresh CAPEX for first debt that you may would be take for the operations?

Dhruv M Sawhney: There is no significant CAPEX we have this year and this Rs.160 crore would be repaid progressively during the year it will definitely have some impact, not a very major impact and but real benefit you will find in financial year 2010.

Sachin Kasera: And do you expect the working capital to remain at Rs. 400 crore or that could also come down for the full year?

Dhruv M Sawhney: You know since we are expecting to have same production for sugar productions, so by and large our working capital would be at the same level.

Moderator: Thank you. The next question is from the line of Sreesankar of Tata Securities, please go ahead.

Sreesankar: Good morning, two questions from my side, the first question was, could you please throw some light on what was the average number of days of crushing you had in sugar season 2007 and 2008 please?

Dhruv M Sawhney: 126 days

Sreesankar: That was for 2007 or 2008?

Dhruv M Sawhney: 2008. 2007/2008 that is for sugar year ending September 2008!

Sreesankar: Yes what was it September 2007?

Dhruv M Sawhney: around 150 days

Sreesankar: 150, and if I take your saying, as of one of you said earlier, that you expect 30% drop in sugarcane production in central and Eastern UP, and 15% in Western UP. Is it safe to assume that probably you may have not more than probably 120 days of crushing?

Dhruv M Sawhney: No we expect about a 130 to 135 days in our mills, this year we expect 7 to 8 days more as I gave you the general region, not our factories. The cane in our factories is a little better than what it is in the region as a whole.

Sreesankar: I appreciate that sir, but as a general scenario, do not you think that it is a bit aggressive to assume that?

Dhruv M Sawhney: No, we, see areas are all fully surveyed, you have a full survey team which goes out so those areas are fully surveyed before the season starts, I mean the total of approx 280,000 hectares has been surveyed, what you do not know is as we mentioned here as a caveat is the yield on plant canes, which you will know more in January. So there is a caveat on the full cane crushing because otherwise one could be absolutely confident but you do have some idea of the cane area now, you have an area of the yield of ratoon cane, but you do not have an idea that the yield of plant cane because it is fairly small right now.

Sreesankar: The next question is of whenever we see sugar prices tending to move up, then a lot of discipline among sugar producing companies go haywire and it will start paying the people more then even the SAP. And we have had the same story couple of years back, will it repeat this year in your estimate?

Dhruv M Sawhney: No, I do not think, the sugar industry today especially in UP where it did happened earlier is in a pretty bad scenario and that is why you have all the factories who are writing this cane price subject to court order and there is a fair amount of discipline now that it does not effect because here now nobody is sure of the sugar prices in the future that has hit people very badly that they paid high for cane and then suffered with the dropping sugar prices. I think it is not going to happen and certainly not among the big players.

Sreesankar: And my last question, from your engineering side it has been a comfortable ride in the last couple of years that is basically because the demand was strong and you are on a negative working capital environment out there, how has it changed and if I really look at it your capital employed in engineering has actually gone up, doubled in the last one year and has not started seeing that working capital scenario which is very comfortable also starting to change?

Dhruv M Sawhney: You know one of the reasons of positive capital employed has been, there were some turbines which were dispatched towards year end and hence they will be appearing as receivables at the end of the year, and the position has been corrected in the following month.

Sreesankar: Thank you.

Moderator: Thank you, the next question is from the line of Phalguni Thakkar of Jet Age Securities, please go ahead.

Phalguni Thakkar: Hello, good afternoon sir, couple of question, Central UP and at Eastern UP you expect a cane drop of 30% if so is it due to shift in acreage completely on account of shift in acreage or there could be some other cause as well?

Dhruv M Sawhney: No, there have been substantial floods in Eastern and Central UP which has affected the growth of cane there.

Phalguni Thakkar: So how much would it be attributed to roughly to floods and how much due to a shift in acreage?

Dhruv M Sawhney: Difficult to say but both are affected.

Phalguni Thakkar: What is the conversion cost of power for Triveni inclusive of transport price of Bagasse?

Sameer Sinha: The full cost for the transfer of power is about Rs.2.30 PBT and this is after considering a transfer price of Rs.750 per ton of Bagasse.

Phalguni Thakkar: Power realization would be around Rs.3 per unit?

Sameer Sinha: Yes you are absolutely correct in one mill it is Rs. 2.97 and in the other one it is three rupees one and a half paisa.

Phalguni Thakkar: Sir that is all. Thank you.

Moderator: Thank you Ms. Thakkar, the next question is from the line of Anshul Sehgal from Kotak PMS, please go ahead.

Anshul Sehgal: Hi, I would like to know the breakup between private and government turbines business that you have received?

Dhruv M Sawhney: Nothing from the government

Anshul Sehgal: And the water is completely government's.

Nikhil Sawhney: No, it's 60%

Anshul Sehgal: Total 60% government.

Dhruv M Sawhney: Yes and then Lanco desalination order for example.

Anshul Sehgal: Then you said ethanol prices are going to be stable next year, does that mean that there will be a greater capacity addition?

Dhruv M Sawhney: I never said that ethanol prices are going to be stable. No, I said that the ENA price because we are fortunate that we do not have to supply ethanol so our ENA price was Rs.29 versus Rs.24 earlier and I expect the prices to remain firm, yes they are stable in that way you are correct we do not expect them to go down there, so we expect this rather high price of ENA to remain.

Anshul Sehgal: Will that mean additional capacity in the sector?

Dhruv M Sawhney: I doubt it this year. It takes some time and first see there is a shortage of molasses also. You know that because the sugar production the raw materials is molasses.

Anshul Sehgal: Alright, thanks.

Moderator: Thank you Mr. Sehgal. The next question is from the line of Ashish Gupta of Kotak Securities, please go ahead.

Ashish Gupta: Can I have your cost breakup sir, in case you are going to account Rs.140 per quintal of sugarcane, can I have your cost breakup on per kg basis?

Dhruv M Sawhney: No, at this moment we are not going to account for Rs. 140 so really I cannot answer your question on something that is in the court right now.

Ashish Gupta: Fine sir, not an issue, thanks a lot.

Dhruv M Sawhney: Thank you.

Moderator: Thank you Mr. Gupta. Ladies and gentleman due to time constraints we are unable to take further questions from participants. I would now like to hand the conference over to the management for their closing comments.

Dhruv M Sawhney: Thank you very much, I am sorry if we have not been able to answer any more of your questions but you can always get in touch with C N Narayanan at our Investor Relations Department and he would be more than happy to answer your queries. It has been an interesting hour and thank you very much for having participated, goodbye.

Moderator: Thank you gentlemen of the Triveni Management, thank you Mr. Gavin Desa; ladies and gentleman on behalf of Triveni Engineering that concludes this afternoon's conference call; thank you for joining us and you may now disconnect your lines, thank you.

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