Triveni Engineering & Industries Limited
Q1 FY 22 Earnings Conference Call
August 16, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Triveni Engineering & Industries Limited Q1 FY 22 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishab Barar from CDR India. Thank you, and over to you, sir.

Rishab Barar: Thank you. Good day everyone and a warm welcome to all of you participating in the Triveni Engineering & Industries Limited Q1 FY 22 earnings call. We have with us today on this call, Mr. Tarun Sawhney – Vice Chairman and Managing Director, Mr. Suresh Taneja – Group CFO, Mr. Sameer Sinha – President Sugar, as well as other members of the senior management team.

Before we begin, I would like to mention that some statements made in today's discussion may be forward-looking in nature and the statement to this effect has been included in the invite which was sent to everybody earlier. I would also like to emphasize that while this call is open to all invitees, it may not be broadcasted or reproduced in any form or manner.

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

Tarun Sawhney: Thank you very much. Good afternoon, ladies and gentlemen and welcome to the Q1 Fiscal '22 results for Triveni Engineering & Industries Limited.

The overall performance of the Company during the quarter has been quite satisfactory, especially in view of the challenges that have been posed by the second wave of COVID-19. For the Company, while the sugar and distillery business have been less affected, the operations of the engineering business are prone and were prone to some supply-chain disruptions and reduced availability of manpower at the contractor level at sub-contractor levels, etc. While the power transmission business was relatively less impacted, the operations at project sites of our water business were impacted because of the supply of labor and local lockdown restrictions. As a result, the gross revenue from operations of the Company stood at ₹ 1,111 crore, a decline of 9%. The profit after tax however showed a growth of 10% and stood at ₹ 92.3 crore.

Few highlights of our businesses:

For our sugar business, the operations during the quarter were completely stable. The recent estimates for sugar season 20-21 indicate a diversion of 2.1 million tonnes of sugar for ethanol production. While the push by the Central Government on the Ethanol Blended Programme (EBP), it is estimated that next year we will see a diversion of 3.4 million tonnes of sugar approximately towards ethanol. This is of course quite encouraging and very much in line with the planned target of EBP-20 by 2025 approximately. The estimated sugar production of the country stood at about 31 million tonnes for the sugar season. International sugar prices, of course have continued their positive run and remained extremely buoyant and firm in view of deficit projections from around the world. On Friday, the number 11 contract ended at 20.52, that's raw sugar traded at 20.52 at the close and white sugar traded at $514 per metric tonne. Just to give you an example at the very end of July, the similar numbers for raw sugar were 18.45 and for white it was $474. This is the March '22 contract, that I've just shared this data for. There's been a substantial increase and there's clearly a lot of concern about the availability of sugar across global markets and other challenges for the foreseeable future. This does bode well of course for the domestic sugar market which has seen a similar amount of buoyancy in domestic prices.

I'm happy to report that the distillery segment showed extremely good promise and a revenue growth of 23% in Q1 FY 22. We are well on our way to set up the additional distillation capacities of 200 KLPD which will be operational in the last quarter of this fiscal year. Our target of course is by the very beginning of Q4 of this fiscal year. So, we will be able to capture some amount of production from our two new plants, 160 and 40 KLPD plants to be coming up.

The Company is enthused by the Central Government's commitment to the EBP and the recent media reports with respect to ethanol-based flex engines which are being tested as we know in Maharashtra. All of this is very encouraging for the ethanol industry and bodes very well for planned investments from across the country. The planned expansion of the balance 140 KLPD is expected, I'm happy to report by summer of '22. That is expected at least 3 months in advance of what I had reported on the last earnings conference call.

Turning to the engineering business:

Some of the highlights are that COVID-19 did have an impact. However, turnover was higher by 2%. There's a strong performance for the power transmission business. However, the operations of the water business were impacted by COVID-19. This is because of the disparate sites we operate that across the country and the paucity of manpower. We received a new order for ₹ 170 crore for the water business and we expect the order booking for the water business and power transmission to increase quite dramatically in the coming few quarters, primarily due to a buoyant market domestically and in international waters. The outstanding order book stood at ₹ 1746 crore for the combined engineering businesses.

Turning to the financial highlights:

Our revenues from operations declined by 9% and stood at ₹ 1111 crore. However, the profit after tax as I mentioned was 10% higher at ₹ 92.3 crore and the EPS rose from ₹ 3.38 in Q1 of FY 21 to ₹ 3.82 in Q1 FY 22. The tax incidence and the effective tax rate for the Company in this quarter under review is lower as the Company has opted for the lower tax rate under the new regime. The total debt on a standalone basis on the 30th of June stood at ₹ 1074 crore, 14% lower as compared to the previous corresponding quarter. It comprised of just under ₹ 350 crore of term loans. The interest on these term loans of course is at subsidized rates or with subvention.

The average cost of funds for the Company had declined quite precipitously from the preceding corresponding quarter and stood at 5.27% which is very encouraging and it's reflected in our results.

A more detailed review, let me talk about our sugar business:

During the quarter under review, we crushed 1.64 million tonnes of cane at a gross recovery of 12.55% producing 186,000 tonnes of sugar during this period. It's quite encouraging actually. Our total dispatches stood at 214,000 tonnes which was substantially lower than the previous corresponding quarter. Due to the variances in the quota mechanism, as you know the country is subject to a quota mechanism which is decided by the Ministry of Food and declared on a monthly basis. And the quotas at Northern millers have received over the past year have been lower than the previous year. This is simply because the quantum of sugar available in other parts of the country has increased. Therefore, there's been a natural balancing since it's on a proportionate basis that the quota is declared by the Government of India.

During Q1 the sugar revenues and segment profits are lower, primarily due to the lower sugar sales, about approximately 26%. Export subsidies of ₹ 57 crore pertaining to exports made in FY 21 were recognized in the quarter and the recognition of export subsidies of ₹ 11.69 crore could not be made in this quarter. Sugar inventory on the 30th of June stood at 45.12 lakh quintals and which is valued at ₹ 29.50 per kilo. The co-generation operations which we now report as part of the combined operations of the sugar business, achieved sales of ₹ 14.23 crore during Q1 FY 22. This was slightly lower than ₹ 14.94 crore in the previous corresponding quarter.

I'm very delighted to report that the Company is one of the few firms that has absolutely no sugar cane arrears at this point in time. Looking at the industrial scenario as per our estimate the total acreage for sugarcane in the country is expected to increase to over 54.50 lakh hectares, approximately 3% higher than the previous sugar season. For sugar season 21-22 the production, as I mentioned is going to be approximately 31 million tonnes. This is very similar to this season's production. However, next year we're anticipating a higher diversion towards ethanol of 3.4 million tonnes of sugar versus 2.1 million tonnes sugar for the sugar season ending 30th of September 2021.

In the following sugar season, sugar season 21-22 Uttar Pradesh is estimated to have a sugarcane acreage of approximately 23.12 lakh hectares which is broadly speaking, the same as the year that is closing up just now. However, we do see that because of excellent rainfall and dispersed rainfall for the last few months there are very strong possibilities of higher yields, especially in the areas where Triveni has its sugar factories. The sugar production is expected to be just under 12 million tonnes for season 21-22 in Uttar Pradesh.

In Maharashtra, it's expected to be just over 12 million tonnes and Karnataka we are anticipating a production of 4.9 million tonnes. These are very encouraging numbers for the next year as well and quite substantial. And it really points to the fact that we will need some form of export to take place. Therefore, the buoyant prices that we have in international markets are very encouraging to be able to absorb sugar. We are seeing quantums of sugar already being absorbed under Open General Licence (OGL). I'm going to talk about that in a minute or two. This year 7 million tonnes of contracts have been entered into; this is higher than the MAEQ of 6 million tonnes. All the additional quantity is under OGL as I was mentioning.

With an opening balance on the 1st of October '20 of 10.7 million tonnes if we look at the balance sheet for the country, the estimated domestic consumption is 26 million tonnes with 7 million tonnes of export, closing balance is anticipated at 8.7 million tonnes which is approximately 2 million tonnes lower than the opening balance. Again, this is reflected in present sugar prices that we're seeing across the country. For the marketing year 2021, ethanol contracts for 344 crore liters have been entered into. The ethanol manufactured from sugar cane juices B-heavy molasses is anticipated at 230 crore liters, a substantial portion coming from B-heavy and juice. We see this trend only getting more aggressive towards B-heavy and juice as time goes by and as the EBP levels start rising. This year we're anticipating a blending just higher than 8% for the country. Next year I think we're very much on target for having a 10% blend across the country which is very encouraging. That will be a record for the nation.

Looking at international quarters:

We've seen that major sugarcane producing regions of Brazil are facing some hurdles with respect to their sugarcane production and the preference for ethanol versus sugar. In addition to that, the drought that has been faced which has been quite significant as far as Brazil is concerned and potential frost impact as well, have had a reduction in terms of the quantum of sugar that is estimated for production from Brazil, a fairly substantial reduction. This has led to a fair amount of buoyancy in international prices. In Thailand according to industry reports, local cane prices have risen quite substantially. However, there is a forecast for ample rains suggesting a recovery in Thailand for sugar season 21-22 after a very poor previous season. I think going forward as far as international sugar prices are concerned, we're pretty much in unchartered waters. It's very difficult to ascertain where these prices will be headed but there are certainly big changes in demand supply, big changes in the quantums of sugarcane that are being produced and will be produced. Therefore, it is a very exciting time for the global sugar trade. India will play a critical role in terms of meeting any deficits for sugar season 21-22.

As far as the alcohol business is concerned over the quarter under review, we produced ~ 26,800 kilo liters and we sold just a little higher quantity of ~ 27,300 kilo liters at an average realization of just under ₹ 54 per liter at ₹ 53.98. As a result of very high operating efficiencies, we've seen a substantial increase in our PBIT of this business quarter-on-quarter. During the current quarter the Company produced 75% ethanol through B-heavy molasses which was compared to 48% for the corresponding quarter in the last fiscal year. The higher profitability in the current quarter is driven by higher sales volumes and higher realizations and a very strong focus on cost control and operational efficiencies.

The Company has its alcoholic beverages vertical started producing Indian Made Indian Liquor (IMIL) towards the very end of Q3 FY 21 at its bottling facility in Muzaffarnagar. This has continued quite well over the quarter under review and has substantially increased. We've seen substantial increases on monthly sales and we see this new business for the Company proceeding at a very healthy pace and growing at very healthy pace. The Company is also in process of expanding its distillation capacities, as I've mentioned upfront, we're looking at 200 KLPD coming up by January ‘22. We're looking at the balance 140 KLPD coming up by summer of ‘22 which is three months ahead of what we had forecasted the last time that we had spoken.

Looking quickly at our engineering businesses; I'd like to comment that our power transmission businesses had a very successful quarter with a substantial increase in revenues and in profitability and a handsome growth in our closing order book stood at ₹ 165.8 crore. During the quarter the business did witness some supply chain disruptions which are certainly normalized as we speak today. But despite that we were able to increase our revenues. There were some orders that were actually pushed out into Q2. We are very well on track with respect to our budgeted numbers going forward and the catch up that will happen in the following quarters.

As far as the water business is concerned; the revenues fell slightly to just under ₹ 44 crore. However, the PBIT has total increased due to project cost savings at all of our sites and stood at just under ₹ 6 crore. The closing order book stood at ₹ 1580 crore which was substantially higher than ₹ 912 crore when we spoke few months ago, for the quarter ending March '21. Of course, it was substantially higher than the previous corresponding quarter where the number was ₹ 947 crore. The consolidated results include our wholly owned SPV, executing the Mathura project under the NMCG, the Namami Gange Program. The second wave of COVID-19 started towards the end of FY 21 and continued during the quarter, did have a substantial impact on our business. We had to take precautionary steps to safeguard our manpower. There were some disturbances in the supply chain at our vendors and of course the reduced availability of labor and the non-supply of oxygen for industrial purposes. However, we see a lot of that getting ironed out in this quarter and going forward and our hope is that we do not see the third wave which could potentially have an impact on all industrial activity.

Just very briefly, as far as the future projections of the sugar business and future highlights of the sugar business are concerned; the Government has announced 20% ethanol blending. We're fairly certain that we will achieve 10% as I had mentioned. This augurs very well for integrated sugar companies like ours. We are well-positioned to capitalize on this opportunity and various new distillery expansions are on their way and others are being contemplated by the Company. We are also looking at incremental enhancement of our crushing capacities at very low levels of CAPEX. Those projects are underway as we speak. When we have some more details, we're happy to come back to you in terms of what kind of balancing we can do at very low levels of capital expenditure.

The engineering business looks fairly solid when we look forward. Power transmission business has been focusing on business opportunities from Defence and we're looking at the conclusion of several tenders over the next couple of quarters. We feel that we're well positioned in a lot of these tenders. We've seen strong economic recovery so far in FY 22. This is primarily from demand from sectors such as steel, cement, oil and gas, thermal power plants and fertilizer and this bodes well for the PT business.

On the water business, the Company has participated in a very large number of tenders which are as I mentioned earlier and in increasingly final stages of completion. We have won a substantial tender recently and we look forward to positive results out of the many tenders we participated in. Again, the renewed focus on the water infrastructure and water map of the nation by the Central and State Governments augurs very well for our water business.

Thank you very much ladies and gentlemen, I'd like to open the floor to questions.

Moderator: Thank you, ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Shanti Patel from Shanti Patel Investment Advisors.

Shanti Patel: My question is, what you're thinking about realization per kg in Quarter 2 and Quarter 3 and Quarter 4 of this accounting year? And what will be the scenario of ethanol as far as the industry is concerned and where our Company is concerned in terms of profitability?

Tarun Sawhney: Well, let me take the second part of your question first. I'm afraid we don't really give any forward-looking projections for profitability. However, in terms of quantums we see a higher quantity in the upcoming sugar season, we see a substantially higher quantity of diversion towards ethanol. We will be operating a new distillery at Muzaffarnagar when its commissioned in January '22 on the sugarcane juice and syrup, on specifically in syrup and therefore we're seeing a larger quantum of cane being diverted towards ethanol for the Company. Of course, the profitability numbers are dependent on the announcement of the new ethanol prices and on sugar cane prices. Therefore, it's impossible to give you a projection of profitability. With respect to sugar prices over this quarter and the next two quarters of this fiscal year, sugar prices have gone up a fair amount over the last 15 to 20 days. We've seen sulphitation sugar which is approximately just over 50% of the sugar that is produced by Triveni, trading at ₹ 36 per kilo as of today and refined sugar would be higher at ₹ 37 per kilo. Frankly speaking if these levels are maintained for the remainder of the year, I think that would be a very successful outcome and balance of Government policy and our export programme. It's important to mention that we do need to have sugar exported to international markets because we are going to be producing about 31 million tonnes of sugar next year with consumption this year at 26 million tonnes, next year perhaps maybe a half a million tonnes higher. We will have a substantial amount of excess sugar. Plus, you must remember that Triveni's projection for our closing balance is 8.7 million tonnes which is certainly higher than 2 months consumption and I've said that in the past also, what we typically need at the end of any sugar year. Therefore, we have substantial excess sugar in the country and if we are able to evacuate this sugar into international waters and export the sugar then we should be able to maintain the prices that we are seeing at this level. So, there's a lot of contingencies. There are lots of ifs but my personal perspective is that we should be able to maintain the sugar prices that we have seen and the levels that we have today for the remainder of this year.

Moderator: We have the next question from the line of Ashutosh Chaube from Centra Advisors LLP.

Ashutosh Chaube: I just have questions regarding the guidance with respect to what will be the cane crushing that is expected in the Company this year?

Tarun Sawhney: The sugar year is very different to the fiscal year because the sugar year and the season runs from October through to May. It's not a number that we typically give an advanced estimate towards. It's also very difficult for us to do this because we still have rains and weather conditions that we need to see in the remainder of August and September which is the monsoon period which is absolutely vital for sugarcane growth and the grand growth period of the crop. The hope is that with the amount of work that we have done, if we do not have any unpredictable weather conditions, we should be able to see an improvement in our yield. We've had a small improvement in terms of area under cane for Triveni that I'm happy to report. We've seen a single digit growth in area under cane for the Company. We hope to see some increase in yield. Of course, that is contingent on a variety of other factors. It's impossible for us to even estimate that at this particular point in time. We'll be in a much better condition to provide you with more information on this subject when we speak next in three months.

Ashutosh Chaube: I have another question with respect to cane crushing, but like you said the new distillery capacity would be functioning in January FY22, right? I just need to know that out of the entire distillery capacity, how are we going to go about it? Let's say what percentage would be from B-heavy molasses, what specifically would be from C and sugarcane juice etc.?

Tarun Sawhney: So, a lot of it is contingent on when the new distillery capacities come up. Of course, there will be 40 KLPD of the new distillery capacity that's coming up that will operate on grain. It's a blend of 5 or 4 different feedstocks. So, we will have C-molasses. This typically comes from our factories in east UP where we don't have a distillery. It also meets the requirement of country liquor which is required by the UP State Government. The other factories in Western and central Uttar Pradesh will be focusing primarily on B-heavy. Of course, we will have juice that we will have at our factory in Milak Narayanpur and we will have grain at the 40 KLPD plant in Muzaffarnagar. So, it is a balance. If you contact us offline, we can share with you some numbers in terms of what will be the percentages of all four.

Moderator: We have the next question from the line of Karan Agarwal from Tusk Investments.

Karan Agarwal: My question was around the international sugar prices, considering that the prices have now shot up to more than 20 cents per pound. My question is that will we be able to liquidate our inventory at this price? I mean we enter into say future contracts for later date and then liquidate our inventory because as you mentioned India is a sugar surplus country, so the rise in sugar prices is a good opportunity for us to liquidate our excess inventory, would like your comments on that?

Tarun Sawhney: Absolutely. So, firstly, while there has been an increase in international sugar prices, they are lower than domestic prices. So there's no reason for liquidating sugar from Triveni where our factories are landlocked, they're all in the state of Uttar Pradesh. And export of sugar internationally, there is a delta in our favor for sale domestically a substantial one. The second thing is that under OGL you have the ability to be able to export that sugar. The question that you ask is more relevant for factories from coastal states from Karnataka, from Maharashtra and we've seen a million tonnes, we're projecting upto a million tonnes of OGL export for this sugar year. Going into the next year, I think that certainly it will happen, there will be a requirement for some form of assistance from the Government of India certainly and I know that it has been contemplated as we speak the quantum of which is completely unknown but there will be firms that are cash strapped that will utilize this opportunity to be able to evacuate some quantity of that sugar. I don't see that as a possibility at this point in time with the current prices for Triveni.

Karan Agarwal: Could you please repeat what are the current domestics right now?

Tarun Sawhney: Current domestic prices are ₹ 36 for plantation white sugar and ₹ 37 for refined sugar for Triveni but that may be different for other groups.

Karan Agarwal: My next question was, I was going through your investor presentation where you mentioned that you're working on a new variety of seed to reduce dependence on the 0238 variety which everyone in the industry uses. So, could you comment on the development?

Sameer Sinha: We have developed a structured program, a 3-year program for significantly reducing the dependence on 0238. We have identified the varieties and we are already working on this substitution for the past year and we are happy that we have reduced that dependence by at least 7%-8% in the coming year which will significantly get enhanced in the next 2 years. We have identified a variety which is already been planted and also an upcoming variety. I would not be in a position to divulge the varietal percentages or the names of the varieties for obvious competitive reasons, you will understand that.

Karan Agarwal: So, is the new seed more profitable to grow as the yields are higher?

Sameer Sinha: The answer is that the farmer also knows that some diseases have been getting observed in 0238 is also aware of that and the new varieties give him similar yields and recoveries and the absolutely new variety which I just mentioned to you which is under observation in our nurseries etc. may give us a higher recovery even than 0238.

Moderator: The next question is from the line of Rajesh Majumdar from B & K Securities.

Rajesh Majumdar: I had a few questions on the sugar business industry. My first question was on the cane crushing. So, we've seen a 24% kind of decline in 1Q is that due to some kind of crop patterns or red rot or anything like that or is just due to the lockdown?

Tarun Sawhney: It was because that's the fag end of the season. So, you should look at the entire sugar year as in its entirety which stretches from October through to May. The previous sugar season was a longer sugar season, there was more cane that was available. The last sugar season for that has just completed in May of this year we had a lower crush but the comparison for quarter on quarter while those are absolute numbers and we represented them is not significant for the full sugar season and the difference in crush of the entire sugar season. You should also note that for sugar season 20-21 which has just completed we did start our sugar factories earlier than we did in the previous sugar year.

Rajesh Majumdar: So, there is no impact like you saw in Eastern UP in terms of the red rot and on the Western UP mills?

Tarun Sawhney: No that is absolutely correct. We have a mill in Eastern Uttar Pradesh where we did see a decline in terms of the crush. However, the incidence of red rot even out of our seven factories one is in Eastern Uttar Pradesh and our factorY in East Uttar Pradesh did not see a significant amount of red rot or incidence of red rot. I would also like to mention even you are asking but since you're asking about red rot, for this year we have seen no incidence of red rot in Central and Western Uttar Pradesh and in East UP, the incidence is minute, so that's absolutely negligible amount this year and that's because of very stringent control over seed and over cane development by the teams at Triveni.

Rajesh Majumdar: My second question was regarding the area under cultivation. We have not seen much consolidation in the industry and the largest player has just 4% market share. While there are so many standalone sugar mills who really don't have the wherewithal to expand into distillery business, is there not any opportunity in terms of increasing our cane acreage by taking over these mills?

Tarun Sawhney: Your question is an economics-based question. Everything has a price to it and a return to it. I'm not in a position to be able to comment because each mill is different. The area of each mill is different but the ecosystem is such that I think that with the focus on ethanol and the focus on biofuels that's happening and the recognition that has been received through public markets and equity markets I think we're coming to some sort of point where we could see potentially some consolidation in the years to come. However, I would say that we are dependent on Government policies for enormous impacts on the profitability of the industry. If we see the impact of policy reducing, I think that it will augur very well for consolidation in the industry which definitely needs to happen. You have raised a very important point, with over 500 sugar factories in the country and so many different people, so many different companies operating single units across the country, there should certainly be scope for consolidation. There should certainly be scope for efficiencies that come through consolidation as well.

Rajesh Majumdar: So, will we move to that eventually, over a longer period of time, some more consolidation from the industry?

Tarun Sawhney: I think it's very difficult to tell. As I mentioned some of it is contingent on Government policy and that clearly is not in our hands. But the Government has, I should mention been very supportive of the industry both the Uttar Pradesh Government and the Central Government in terms of recognizing what the areas of concern are and recognizing the areas where a push can be given, for example the entire ethanol sector.

Rajesh Majumdar: My other question was regarding the sugar prices that some people have been asking. So, given the fact that international prices have risen in the traditionally weak quarter where there is no swing for us, how much realistically can the industry export without sacrificing internal product to give the real benefit of this because we are going to next season, just about two months left and the prices you don't know whether they can hold or not till that time. So, how much can the exports realistically increase in this short timeframe given the fact that domestic quotas have also to be fulfilled and when inventory position was already quite low?

Tarun Sawhney: Right, you should note the domestic quotas are guided quantity of the maximum that you can sell. You can certainly sell less than what you're allotted. The next thing is that there is a price difference for domestically traded sugar. Classically in Uttar Pradesh you get it ₹ 2 per kilo premium over Maharashtra and therefore Maharashtra prices are closer to internationally traded prices and there can be spot premiums not everything is traded on the tape and not everything is traded at international prices. Sometimes destination sugar can be traded at a premium if there's any demand and so Maharashtra miller could certainly find could find opportunities for exporting their sugar. However, I will say that there is anticipated increase in FRP for next year sugar that is coming right now and I think a lot of people will be a little cautious and cautiously optimistic but cautious nonetheless in terms of placing unrestricted orders for export. So, we'll see a balance, I think that quite a lot of sugar can be exported but it will certainly need some amount of Government assistance that we've got this year and the previous year, in terms of the MAEQ and the previous MIEQ subsidies from GOI.

Rajesh Majumdar: My question was that this year there have been unusual weather conditions in Brazil which have exacerbated the overall demand supply scenario globally. It has coincided with the fact that we also have some additional sugar diversion in India. However, going into sugar year say 22-23 and beyond and given the fact that cane pricing will increase with additional area under cultivation, will we again see things normalize back to what we have seen earlier because as per the WTO regulations India cannot go back to the subsidy levels that it had enjoyed earlier say ₹10+ (per kg)

Tarun Sawhney: I got your question, so you see what your argument is there are four or five things that you need to consider. The first thing is the quantum of ethanol and where you're getting the ethanol from. You threw out a number of 6 million tonnes of diversion, where 6 million tonnes of diversion can certainly be higher, it can also be lower at the end of the day. It's dependent on what comes from grain and what comes from sugarcane juice etc. from sugar factories. So, those numbers can also change. The numbers that you're talking about are Government reports that have been talked about and those are the approximate numbers and coming up with one scenario. There can be many other such scenarios. You are correct that the Government of India subsidies will have to end that we have just over a year for that compliance. However, we do have the opportunity for diverting more sugar cane or excess quantities of sugarcane towards the ethanol blending program.

Next you mentioned sugar cane prices. Yes, they may go up but there's no necessity for them to go up continuously over periods of time. In fact, there's been increasing debate to have some mechanisms in place by the Central Government in terms of linkage and bringing about linkage. And the hope is that when you do have compliance with WTO regulations. it is met with a linkage of some form to ensure that all constitutes in this value chain farmer, factory, consumer all have an equal benefit coming out of the system, so that's another point. Then you also mentioned that increasing acreage, well acreage goes up and down by a few percentage points I mean land in India is fairly limited. So, I see any increase coming only from increases in yield per hectare, which of course has its own challenges because you have a smaller and smaller plot sizes across the country. But the total quantum of area under cane is not going to certainly increased by 20% to 30% that's not going to happen.

Moderator: The next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas.

Kaustubh Pawaskar: I have two questions one on your consolidated debt, so it stands now at around ₹ 1,126 crore. So, do you expect it to reduce by end of this fiscal considering your ongoing CAPEX program?

Suresh Taneja: As far as the debt is concerned, in respect of the new distilleries which are coming up, we will be contracting above ₹ 160 to 170 crore, so therefore the total debt as on 31st March 2022 may not come down.

Kaustubh Pawaskar: Now 200 KLPD are coming up by the end of this fiscal and another 140 coming by FY23, so can we expect the ethanol production to be around 13 to 14 crore liters for FY22 and around 17 to 18 crore liters by FY23?

Suresh Taneja: Good question that you asked, yes of course ethanol production will be higher. We will see for this year because we're only going to get less than a quarter for the 200 KLPD that is coming up. We will see about 12.5 crore liters, so just about approximately for this year and next year we will see somewhere between 19 to 20 crore liters.

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

Sanjay Manyal: Just a few things about the exports specifically, if I'm not wrong or you're still about to export approximately 35,000 to 40,000 tonnes for this sugar season?

Tarun Sawhney: No, we have exported our entire quota that we have received from the Government of India. It's already committed and all exported. There is some subsidy of ₹ 11 odd crore that we are yet to receive which is happening in this quarter.

Sanjay Manyal: Given the prices where we write to the prices are above $ 500 per tonne, it translates to somewhere around Rs 38 in terms of the current prices and given that fact that you have a sufficient sugar production this year and the domestic quota you will probably exhaust by January, so is it not viable to sort of contract export for the March contracts?

Tarun Sawhney: Let me just say that, no it's not, not from Uttar Pradesh. I just answered the same question. The prices that you're referring to for the number five contract, for the London contracts, are for EC grade sugar 45 ICUMSA sugar and it's also FOB. These are not ex-factory real prices. There is a quantum of transportation and handling that needs to be also deducted from these prices to be able to get an average-to-average comparison. So, right now, there is no parity as I had mentioned. Domestic prices for Triveni are higher than what the March contract has right now. Anything can happen, what we've seen over the last 2 weeks and that's why I'd given the comparison of pricing is that domestic prices have gone in line with export prices even more so of late. So, if there is a further bump up, I'm fairly confident it'll be reflected immediately in domestic prices.

Moderator: The next question is from the line of Ajay Jain, an individual investor.

Ajay Jain: My query is now that we know that in sugar season 21-22 moving forward opening stock would be 10. Does that mean that there was increase in production from 19-20 to 20-21 sugar by about 15% to 20%? Does that mean that it has been consumed totally and there was a query about the cooperative societies not completing their unsold quota, can you please explain this part of it?

Tarun Sawhney: Let me take the second part of your question. If any of the cooperatives sugar mills or Government sugar factories don't complete that quota, I can't comment on why they haven't. They may have a different strategy, different sales strategy etc. Frankly speaking if they hadn't and they have stock which is selling at a higher price, so you know they've done very well. It can't automatically be allocated to the private sectors just because one sector is not completing it that does not exist. That mechanism does not exist right now but I cannot comment on why they didn't complete. I'm sorry. You will have to rephrase your first question which I didn't quite follow what your first question was.

Ajay Jain: There was an increase in production from sugar season 19-20 to 20-21 by about 15% to 20% overall, has that been used up or you think the stock is much more than the 10 which we are projecting for sugar season 21-22.

Tarun Sawhney: For sugar season 21-22 we're projecting 8.7 million, so even lower. We don't think that there is hidden stock. I think your question alludes to is the hidden stock in the country because of X whatever production exists. I do not believe that to be the case at all. I believe the Governments reported data; the industry's report data is extremely accurate.

Moderator: The next question is from the line of Harsh Gupta, an individual investor.

Harsh Gupta: Actually, the first question that I have is basically in the distillery business in the investor presentation there's a difference between the revenue and the net revenue of about ₹ 50 odd crore. This was not the case in the last year, so is there any reason does this come up?

Sameer Sinha: I think this would allude to the state excise duties on the country liquor that we are manufacturing and selling over there, that would get reported in that number. I think you're referring to the number between ₹ 152 crore and the ₹ 227 crore. Is that what you're referring to?

Harsh Gupta: Yes. That's the exact number.

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

Sanjay Manyal: Just continuing my last question, you believe that probably the domestic prices will prevail at ₹ 36-37 for the entire year because what I understand that still at these prices no one will only be able to sell them limited quantity except domestic quota and given the fact that most of the millers probably will be thinking in this way and probably export may not happen for the quantities which we are required to evacuate 6-7 million tonne next year?

Tarun Sawhney: Sorry your connection is a bit poor, but I think from what you're asking is, will the export have happened next year? As I think that the export subsidy is being contemplated at GOI, I don't know whatever it will be it's very hard to tell but it's clear that all parties concerned know that a substantial quantity of frequent needs to be evacuated next year. Now just because a million tonnes or a part of a million tonnes will gone under OGL, which is only gone from some coastal millers and those that have found immediate opportunity. It doesn't mean that sugar can get exported just under OGL next year, there may be isolated opportunities etc. but you do need some sort of sustained and a planned export strategy because to evacuate several million tonnes of sugar, let's say 6 million tonnes for next year, you need a vast quantity of time as well. It’s a huge amount of planning, it is not that 6 million tonnes can go out in 1 month all of a sudden. We don't have that kind of port handling capacity as you are aware of. I do believe that our domestic prices at this point in time are very robust and they will remain so robust if we've got especially high prices prevailing in international markets. The quantum of sugar being exported under OGL from North India is going to be nothing because you do have that delta that is prevalent in North India.

Sanjay Manyal: Just one thing about the sugar cane crushing thing which you have mentioned that you're probably contemplating and increasing the crushing capacity, so is it that the sacrifice which we are assuming that will go for ethanol diversion may not be as high as the probably you were expecting earlier?

Tarun Sawhney: Again, your connection is very poor so we're not getting the accurate thing, but you talked about sugar cane crushing capacity. Any increase in our crushing capacity will be through very tiny, small CAPEX and it's really balancing CAPEX. The other thing that you should remember is that when we're producing juice or syrup, we will be able to pass through more cane at some of those factories where which have associated distilleries and get that benefit as well.

Moderator: The next question is from the line of Udit Gupta an individual investor.

Udit Gupta: My question is that after this expansion is complete in January or February so what would be our capacity for ethanol?

Tarun Sawhney: So, our present capacity 320 KLPD we have 200 KLPD coming online in January of 22 taking us to 520 KLPD and we have a further 140 KLPD coming along by summer of 22 taking our capacity up to 660 KLPD.

Udit Gupta: As I was talking in terms of liters like after the first phase and the second phase how many liters can we expect?

Tarun Sawhney: You operate 330 to 335 days. You can just do the arithmetic.

Udit Gupta: For the grain-based distillery, is the profitability much lower than some molasses or like how does it work out?

Sameer Sinha: No, I wouldn't agree with you that the profitability is lower. If I have to prioritize based on the current pricing mechanism, I will say that it is B-heavy followed by grain followed by cane juice. That would be the way and it's all at least grain and B-heavy are quite newer to each other in terms of the profitability as of now.

Moderator: The next question is from the line of Ritika Gupta, an individual investor.

Ritika Gupta: My question is pertaining to the engineering business. So, in the gears business we did ₹ 28 crore of revenue in Q1. Do we expect this run-rate to continue or improve in the balance part of the year?

Tarun Sawhney: We don't give a forward-looking statement in terms of our revenue projections, but in general I can say that we have a very healthy order book and the order book is increasing and the demand for our power transmission product for this year is certainly higher because there's a huge backlog of orders that have come through from the preceding 12 months and customers are awaiting a large number of gearboxes and other associated products during this fiscal year.

Ritika Gupta: The order-book has actually been range bound and around Rs.150 to 160 crore for the last couple of years. Do we expect this to improve significantly this year?

Tarun Sawhney: Yes, we do expect it to improve quite significantly this year.

Ritika Gupta: What are sustainable margins for the power transmission business? Like this quarter was an exception I believe.

Tarun Sawhney: I think you cannot take any one particular quarter; I would encourage you to look at fiscal averages going back 4-5-6 years for our power transmission business.

Ritika Gupta: So, about 25%-26%?

Tarun Sawhney: We have maintained a fairly consistent PBIT average and we anticipate that can certainly be maintained going forward.

Ritika Gupta: And pertaining to the water business. So, when do we expect like again revenues have been pretty muted but the order-book has been strong for the last couple of years? So, when do we expect revenues to cross ₹ 500 crore by?

Tarun Sawhney: I can't give you an answer to ₹ 500 crore. A lot of it is dependent on execution what we have in hand. But we are seeing more tenders coming to execution and if we win those tenders, you will see that reflected in our revenues and in our quarterly numbers. Frankly speaking there has been paucity in the number of contracts that have been finalized by municipal authorities and state governments and the central government as well. And of course, we've dealt with two major lockdowns across the nation and as you can imagine infrastructure projects getting backed at first because of supply chain issues and because of labor shortages and scarcity.

Moderator: The next question is from the line of Ashwin Motwani an individual investor.

Ashwin Motwani: Just wanted to understand the Power Co-Generation business, I believe it’s not been shown separately as a segment revenue, so if you just tell me what is the realization and what is the quantum that you have done?

Sameer Sinha: You see with the tariffs having come down, we are not really focusing entirely on the Co-Gen and trying for longer seasons etc. Therefore, the Co-Gen, the philosophy is that the moment the sugar factories close down our Co-Gen operations also cease to happen after that.

Tarun Sawhney: It is also important to mention that the tax holidays, the 80IA benefits that we had received, is no longer available for any of our co-generation plant.

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

Anupam Goswami: So, first question is on book-keeping, in the last presentation I found that you’re displaying realization is 57 that is Q4 whereas in Q1 you're displaying realization has gone down to 53. Where is that gap coming from?

Sameer Sinha: You see the gap is coming from because we are also producing ENA in one of our distilleries wherein the rates are reasonably, I would say quote unquote controlled over there and therefore that brings down the realization for that quarter.

Moderator: Thank you. Ladies and gentlemen that was the last question and we will now close the question queue. I would like to hand the conference over to the management for closing comments.

Tarun Sawhney: Ladies and gentlemen thank you very much for joining us today for the Q1 fiscal ‘22 results for Triveni Engineering & Industries Limited, where the Company’s positioned quite attractively across our various business segments. I think we're in a unique opportunity to take advantage of the changes that are happening in India today. The changes in policies that are happening in India today, it's a very exciting time. I look forward to speaking to you in three months’ time at which point the sugar season will be underway and we will have quite a lot to talk about on that and hopefully we will also have more positive news to share with you on our engineering businesses well. Thank you again and have a good day.

Moderator: Thank you gentlemen. Ladies and gentlemen, on behalf of Triveni Engineering & Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect.