



Investors / Analysts Conference Call Transcript

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Moderator: Ladies and gentlemen good afternoon and welcome to the Triveni Engineering & Industries 9 Months FY'08 results concall. 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. Welcome to the Triveni Engineering & Industries Ltd. Conference Call for the 9 months ended 30th June, 2008. We have with us Mr. Dhruv Sawhney, the Chairman and Managing Director of Triveni Engineering, along with the Senior Management team. I would now request Mr. Sawhney to address the conference and give some perspectives on the performance of the quarter and 9 months after which the floor will be open for interactive Q&A session, Mr. Sawhney.

Dhruv Sawhney: Good afternoon everybody; thank you Gavin. Welcome to the 9 months results. We have a packed agenda to cover both sugar and engineering, so I am not going to be very long winded in this.

For the 9 months, sales are up 15% and we have had turnaround in our PAT as you might have seen from the handout, so Profit After Tax for the 9 months is now at Rs.85 Crore, which is a growth of over 10 times over last year, last 9 months. In engineering, we have an outstanding order book of Rs.668 Crore as on the 1st of July, a growth of almost 24% from last year and we made significant breakthrough in our water business with a single order more than our turnover for the last 12 months. There has also been an improvement in PBIT margins of about 3.5% year-on-year.

To stay with the engineering business for a minute, as you know turbines and water projects, we cannot really forecast dispatches quarter-on-quarter, because very often a customer takes it in the first week of the next month rather than for the June quarter and that's what happened in the period, in the quarter under review. But I can say that, for the year, which we are fairly confident about the 12 months' period ending September '08 versus the 12 months' period ending September '07; our engineering sales will be about 20% higher and profit will be over 30% higher than the year before, which we feel is an extremely satisfactory performance. We are also finding that what is talked as a general slowdown in the capital goods or the engineering space has not really hit us because we have managed to expand into a higher range of turbines, we have got letters of intent for higher pressure turbines now in the month of July. So, we focus that in '09 we will still continue the growth in

the engineering division by 20% and profits by around 25% over '08. So, the engineering sector is looking extremely good, it's continuing its robust performance that it has had in the last 3 to 4 years.

This is after taking into account factors such as steel price increases, the recent hike in interest rates, some project which may not be coming off etc. But the reason for our positive outlook is because of the priority of power and water. These two businesses being in the two very vital sectors is what is carrying today for our engineering business, vis-à-vis others in the industry.

If I can come on to our sugar operations, there has been a turnaround in the sugar operations and we are now seeing much better realizations than what we have had in the past. Current realizations are at an average of about Rs.1680 and it should be touching Rs.1700 on an average in August for the group. This is substantially more than what they were in the quarter April to June and even July. We do not foresee any drop in realization, in fact we expect realizations to go up gradually all the way from now till about March. This is after accounting for the fact that the buffer stock of 2 million tonnes, which was given out earlier, has been partially dispatched by many companies. And the 3 million tonnes buffer stock has also been released, so the pricing in the market is after taking these two factors into account.

One of the things that you might look at while reviewing the sales for the last quarter is our stock position. We are in a very fortunate position of having one of the maximum amount of sugar stock in the Northern Sugar Industry. We had about 40 lakh quintals of sugar on the 30th of June, which is almost 68% of our current year's production and that's very high even compared to others. This will augur very well for us with the upturn in sugar prices. And we had actually planned to release our buffer stocks later because we had forecast slight increase in sugar prices. This year country's production is fairly well-established at 26.5 million tonnes, but next year's production will be substantially lower and figure of 21 million tonnes is not something that won't happen and it is primarily because of the cane area in Maharashtra, Tamil Nadu, and parts of Karnataka and Andhra going away from cane to wheat and other crops. This has happened in UP also. The drop in Maharashtra sugar production maybe substantial, from over 90 lakh tonnes of sugar last year to around 55-60 lakh tonnes in the coming season.

The rainfall pattern in the last few weeks has not substantially helped Maharashtra and in Tamil Nadu. As far as UP is concerned, we find that after our final surveys, the area under cane has gone down more so in Central and East UP and less so in West UP, where our main factories such as Khatauli, Deoband, and Sabitgarh are situated. But this has been compensated by the very good rainfall, so yields on ratoon crop are much better than it was last year. We are also expecting to start crushing operations some 30 to 40 days earlier than last year, but as against the production of sugar in UP and the country going down 15% to 20%; we expect to have a slight increase in sugar production or at least the same as current year, this will all go well for our sugar operation's profitability looking at the sugar pricing mechanism which will be there in the next year.

Prices of our byproducts, especially the alcohol are extremely good. As you know, we are one of the few companies, which have actually not gone in for ethanol sales, so we have not had any ethanol

sales at Rs.21.50 and that is coming very useful now, because what we are getting for our ENA is now Rs.29 – 30 and we are getting over Rs.24 - 25 in industrial alcohol. So, we are getting substantially more than the ethanol pricing of many of our peers, this will augur well for the next year as well, as we are not bound in any long-term contract to supply ethanol to the oil companies.

Bagasse prices have gone up, so the units, which do not have cogeneration will also be doing extremely well in terms of realizations from byproduct sales, both from molasses, which is now touching levels of Rs.400 to Rs.450 a quintal and Bagasse where pricing has gone to Rs.1200 - Rs.1400 per ton, which is substantially more than it was a year ago.

One overhang, which I am not going to spend too much time on but I will briefly cover, is the litigation going on in the sugar industry. To put it very briefly, there was a judgment on '06-'07 cane price by the Allahabad High Court, which said it should be the statutory minimum cane price announced by the central government. For the current year '07-'08, an interim order of the Lucknow Court gave a figure of Rs.110 versus Rs.125 and in the final order, it gave Rs.125. So, right now we have filed a SLP in the Supreme Court as there are two conflicting judgments of different benches of the same High Court that's the first point. Also there was a mechanism in the state government of having a sugar board to go into the sugarcane pricing, this was abolished 2-3 years ago and no mechanism had been set up to decide the cane prices, neither has a rationale been put out very transparently and that is the plea before the Supreme Court, not the right of the State Government to announce the cane price, but that there should be a proper justification, considering the interest of the farmers, the industry, and the consumer mainly the linkage between cane price and sugar price as also the cost of production with the farmer. We do believe that there will be some action in the Supreme Court in the month of August as well.

Our accounts have been prepared on the basis of Rs.110; we have paid all cane prices at Rs.110 without any deduction for transport. We are one of the companies, which for the year '06-'07, has paid Rs.125, so we have very good relation with our growers right now and they are eagerly looking forward to supplying us with cane in the season '08-'09. That clarity on the sugar industry after this litigation is something that will augur well for the long-term stability of the sugar industry in UP, in fact in the North. There is another litigation in front of the government on cane transport, which another company, The Bajaj Group, had received the judgment in the Allahabad High Court increasing the deduction on cane transport to some Rs.10.60 or Rs.10.58, that matter will still have to be decided, there is a lot of justification for it, looking at the increases in pricing in the last 4-5 years on diesel and other costs.

There is also a judgment on levy price, where it has been ruled by the Supreme Court in the case of Mahalaxmi Sugar that the government should take the SAP into account, while announcing the levy price. If they do that then levy price will be so high that it is much simpler for the government to decontrol sugar. However, to give any call on when this may happen is not easy. These legal processes are going towards liberalization of the sugar sector in areas of cane pricing, in areas of sugar releases and such other areas as cost of cane transport, these are all good factors.

In our area, the monsoon has been good, the cane is disease free and pest free and we don't expect any problems in operations, our factories are being well maintained. I would like to stop here now and open the floor for the questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Anyone who has a question may press * and 1 now. The first question is from the line of Mr. Sachin Kasera from PINC Research, please go ahead.

Sachin Kasera: Yes sir, good afternoon and congratulations for the good set of numbers. I am just trying to do little math on the guidance that you have given for the engineering division. I understand that because last year the financials was for 18 months, so you credit for 20% revenue close and 30% profit close for the current financial year? So, if I get the numbers right, you are looking at approximately Rs.700 Crore of top line and close to around Rs.150-160 Crore of profitability?

Dhruv Sawhney: No, I am comparing with the 12 months' period of last year ending September '07 to 12 months' period of September '08.

Sachin Kasera: Right, I am comparing that only. I am comparing the 12 months' period September '07.

Dhruv Sawhney: But you work out the numbers, they will be there, if you look at our quarterly figures in all those quarters, then you add them up, it will come to that.

Sachin Kasera: Okay, because if you were to look at those numbers, if you want add up in the Q4, it comes to a substantially large number compared to what you have done in the June quarter. I am just trying to get a gauge in terms of whether the September quarter will be very strong for engineering?

Dhruv Sawhney: Well, it will be around the figures I have given. We normally don't give them because one; we are already one and a quarter month into the quarter and two, there was some turbines and other equipments, which were ready but pending delivery because the clients took some in the first week and that's why the sales weren't that high in the June quarter, but these have already been dispatched now.

Sachin Kasera: Secondly sir, what is the progress regarding the tie up with GE for the gas compressors?

Dhruv Sawhney: Yes, as you know that this is really pending the gas supplies from Krishna-Godavari and the gas coming in is still in the air, so tenders, etc., have not yet come out either from Reliance or from the other oil companies as yet. It's under progress, what we are doing, you know, we are on board and we are in good dialogue with GE on it.

Sachin Kasera: Now because sir, what we understand, what we read in the press that most of the pipelines, while the gas has not flown in, because I think these are more linked to the laying down of

pipelines. So the pipeline work is more or less complete either for Reliance or by the end of the year for the major pipelines put up by GAIL, so well, I am just not able to exactly get a hang into where it is getting stuck?

Nikhil Sawhney: Sachin, these pipelines which are being laid are the main pipelines. Reciprocating compressors are used in branch pipelines and at point of termination and use. So these actually will come up once the user industries have been identified.

Sachin Kasera: Okay sir, thank you. And second question was regarding the CAPEX plan for FY'09, if you could give some numbers, if there is any planed CAPEX in FY'09?

Dhruv Sawhney: Well, we have some small capacity enhancement in our gears and turbines operation but nothing very much, nothing in sugar.

Sachin Kasera: Okay and secondly, sir if you could give a breakup of the term-loan, and the working capital, and the average cost for both of them?

Suresh Taneja: In respect of term-loans, we have total quantum of about Rs. 775 Crore, which includes Rs. 94 crore of excise loan as well and our working capital is approximately about Rs.550 Crore. Our total cost of funds is approximately 8.5% but however, if you take into consideration the buffer stock subsidy, it will come down to about 7.5% as the total cost.

Sachin Kasera: Could you give the break up between term-loan and working capital, the average cost?

Suresh Taneja: As I have told you, in the case of term-loan, roughly speaking it is about 8.20 as the average cost and in the case of working capital, considering buffer stock subsidy, it is around 7.25%.

Sachin Kasera: Considering, there is no major CAPEX in the next year and the outlook is good both for engineering as well as for sugar, can we expect some reduction in the interest & financial charges for FY'09, sir?

Suresh Taneja: Yes, it is very much possible.

Sachin Kasera: Would you like to throw some light on the level we are looking either in terms of reducing the working capital or the term-loans?

Dhruv Sawhney: You know, this is a very difficult question to take because the sale of sugar will also be depending a bit on the market and the forecasting where the sugar pricing will be and that also adds to your inventory build up and some interest cost, but frankly the rise the sugar prices that we have seen, we have done well by having incurred the extra interest and now going to take the benefit of the higher sugar prices. So, we will be watching this very carefully in terms of dispatching and interest.

Sachin Kaseera: Okay, just one last question regarding the subsidy or the incentive from the UP government. How much has been accounted for the quarter ending 9 months and how much of that is standing as debtor, sir?

Dhruv Sawhney: I want to make one clarification which a number of you well may like to consider. We are one of the few companies where all our projects has been given an eligibility certificate by the government of UP before they scrapped the policy, much before 4th of June, 2007, all projects had received eligibility certificates. As this may not necessarily be the situation elsewhere. So our case is quite strong and the case is coming up for hearing in the month of August. As far as the figures of reimbursements are concerned and incentives I will ask our CFO to tell you.

Suresh Taneja: During this 9 months period the total incentives were approximately Rs. 20 crore, which we have provided in the accounts, out of that Rs.12 Crore had been realized because these were by way of remission.

Sachin Kaseera: Okay, Rs. 8 crore is outstanding.

Suresh Taneja: Yes, that's right.

Sachin Kaseera: What about the capital subsidy sir, is that also outstanding?

Suresh Taneja: That's outstanding at the moment.

Sachin Kaseera: And anything that is outstanding for the previous year that is September '07 year-ending, is there anything?

Suresh Taneja: Capital subsidy and some reimbursement.

Sachin Kaseera: Yes, how much would that be sir that would be outstanding as receivable from the government?

Suresh Taneja: Very roughly speaking, they were about Rs 110 Crore as of 30th September, '07 including capital subsidy.

Sachin Kaseera: What would be the share of capital in that sir, around Rs. 50 Crore?

Suresh Taneja: Rs. 105 Crore.

Sachin Kaseera: Rs. 105 Crore would be capital subsidy of Rs.110 Crore?

Suresh Taneja: That's right.

Sachin Kaseera: No but sir, you just said that Rs.20 Crore first for the 9 months, officially Rs.12 Crore will be realized so that itself is Rs.8 Crore?

Suresh Taneja: This is for this year.

Nikhil Sawhney: Now; we are talking about '06-'07.

Suresh Taneja: I am talking about the position as of 30th September, 2007.

Sachin Kasera: Rs.110 Crore was including Rs.105 Crore subsidy, okay sir thanks a lot.

Moderator: Thank you Mr. Kasera. The next question is from the line of Mr. Kaushik Poddar from KB Capital Markets Private Ltd, please go ahead.

Kaushik Poddar: Yes sir, whatever I could make out from your management discussion and analysis, next year your production of sugar and molasses and power will be more or less in a same level as this year. So, in that case will the incremental gain be coming just from the increase in sugar price or there is something more to it?

Dhruv Sawhney: It will be coming from the increase in sugar price and the increase in the alcohol price.

Kaushik Poddar: And on the power front?

Dhruv Sawhney: Power front, there is not much because escalation given by UPPCL is about 3% a year or something. The amount of carbon credits would be about the same as in the current year.

Kaushik Poddar: You haven't talked anything about retail initiative, so I mean where do you see this 5 year down the line, do you want to sell it off or grow bigger, I mean, if you can give a sense of where you see it 5 years down the line?

Dhruv Sawhney: We haven't really taken a full stock of the situation, it's under consideration and we are at the moment expanding with the few new stores that are coming up. We have revamped about 12 stores in the last 3 to 4 months, which have been extremely successful in terms of going in more for apparels and FMCG items, so we are getting a good increase in sales and we are actually opening few stores now and they'll be opening in the next 2 to 3 months; for a more macro strategic basis that still is going to be considered by the Board as to what exactly are the objectives for the next 3-5 years and CAPEX for that.

Kaushik Poddar: And when can we get to hear something firm on this issue?

Dhruv Sawhney: Maybe in next 6-7 months because we are testing out our various models of different product mixes in Class 2 and Class 3 towns and other parts of Northern India and not just in UP.

Kaushik Poddar: What was the closing sugar stock you had on 30th June?

Nikhil Sawhney: 40 lakh quintals.

Kaushik Poddar: Okay, your annual production is in the range of 60 lakh quintals, is it?

Dhruv Sawhney: It was 58 lakh quintals.

Kaushik Poddar: Next year it will be in the same range?

Dhruv Sawhney: Yes, slightly higher.

Kaushik Poddar: Okay thank you.

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

Achal Lohade: Yes, congratulations on good set of numbers.

Dhruv Sawhney: Thank you.

Achal Lohade: Just couple of questions, just wanted to know the cost of production for our sugar?

Suresh Taneja: The cost of production of our sugar for this season has been about Rs.1410.

Achal Lohade: At Rs.110?

Suresh Taneja: Yes at Rs.110 cane price.

Achal Lohade: Yes and how much would be the incidental expenditures like transport cost?

Suresh Taneja: This is all inclusive. This is all inclusive cost of productions. Our landed cost for cane works out to about Rs. 121.

Achal Lohade: Okay and conversion cost would be how much sir?

Suresh Taneja: Our net conversion cost taking into consideration the income from the byproducts, approximately about 2000 to 2050 per ton.

Achal Lohade: Okay, I was just wondering on the valuation, closing stock valuation, can we understand at what price we have valued the closing stock.

Suresh Taneja: Rs. 1410.

Achal Lohade: Same price?

Suresh Taneja: That's right.

Achal Lohade: Okay and just wanted to know the principle of valuing the closing stock, which all expenses do we consider in that?

Suresh Taneja: We do not consider certain administrative expenses and also we do not consider the finance cost.

Achal Lohade: Okay, admin meaning, other than factory location whatever expenditures, correct?

Suresh Taneja: Exactly.

Achal Lohade: And just wanted to check the current prices of sugar, alcohol?

Dhruv Sawhney: Our current prices of sugar vary from just about Rs. 1700 in West UP Khatauli to Rs. 1670 in some parts of Central UP.

Achal Lohade: That's ex-factory?

Dhruv Sawhney: Ex-factory without duty.

Achal Lohade: Okay and alcohol?

Dhruv Sawhney: Rs. 24-25 for SDS and Rs. 28 to Rs. 29 for ENA.

Achal Lohade: Okay that's great sir, thank you very much.

Moderator: Thank you, the next question is from the line of Pranika Jain from HDFC Securities, please go ahead.

Pranika Jain: Yes, hello sir if you can just explain again, if I have heard right, you said that for the going year, you will have an increase in your production in sugar, if you can just explain the reason?

Dhruv Sawhney: I will explain it to you; it's a very good question. While there will be a drop in cane area, less so in West UP than in Central and East, the yield of Ratoon Cane, there are two types of cane, one is Ratoon Cane, which is about 60% of total cane. That is a cane that you had cut last year and it's not freshly planted it goes for another year, that yield is some 15% better than last year, so it's neutralizing for the decline in area and we are starting about 30 to 40 days earlier than we started last year, so there will be less diversion. So, with these two factors in our major sugar plants Khatauli, Deoband, and Sabitgarh, we expect at least this year's sugar production, if not higher. I would like to have said higher, but I want to be a little conservative, I think we will definitely get last year's production.

Pranika Jain: Sir, one thing more what was our average sugar realization for the distillery and Cogen?

Dhruv Sawhney: Of which period?

Pranika Jain: For the 9 months period, if you can just provide me?

Dhruv Sawhney: It's in the document; I will just take it out. Yes, so the average of free and levy for the 9 months period is Rs.1430 per quintal.

Pranika Jain: How many days after crushing we had for this year?

Dhruv Sawhney: On average, it varies from 120 to 140 days.

Pranika Jain: Okay sir thanks a lot.

Moderator: Thank you Ms. Jain. The next question is from the line of Jehan Bhadha from Darashaw & Company, please go ahead.

Jehan Bhadha: Good afternoon, this being an election here, the government might check prices at 125 for this season and say around 140 for the next season, to benefit farmers, so in such a situation, the upturn in the sugar cycle will not be sustainable, as you know more and more farmers will go in for cane production, so is this scenario possible?

Dhruv Sawhney: There is a possibility of enhanced cane price next year, because of the election year. However, there are two caveat to this, one is that we do expect the Supreme Court to have given some judgment on the methodology of how State Government will announce the price next year, this is pretty clear, that it cannot just be, it is a completely arbitrary price. Secondly, a higher price with the sugar prices going up is not a bad thing for us, because we have large capacities and our capacity utilization currently in '08-'09 is not what we would like it to be, so we are not averse to more cane being grown in our factory areas as long as the cane pricing is in conjunction with the sugar prices, as long as that link is there, it will be a benefit to us, so that's the second fact. The third is that on an all India basis Maharashtra has a 15 month crop, so '09-'10' in Maharashtra and Tamil Nadu is going to be pretty bad regardless of what happens to the sugar cane pricing next year, it's too late for them to remedy the '09-'10 crop. So, while next year maybe 21 million tonne, I don't expect 2009-2010 to be anything more than about 18 million tonne, now by the way 18, 19 is 5 to 6 million tons less than the consumption, which is quite large.

Jehan Bhadha: Okay and where do you expect the prices to revolve in the next season? Sugar realizations?

Dhruv Sawhney: That; where one has to be a bit of crystal ball gazing. As I said in my opening remarks I expect them to go up gradually, I wouldn't like to hazard a guess of where they would be.

Jehan Bhadha: Okay, thanks.

Moderator: Thank you Mr. Bhadha. The next question is from the line of Falguni Thacker from Jet Age Securities, please go ahead.

Falguni Thacker: Yes good afternoon; sir.

Dhruv Sawhney: Good afternoon.

Falguni Thacker: Just wanted to know the conversion cost for each of these three segments separately and in sugar after considering the net off in cogen and for distillery ?

Suresh Taneja: You know in the case of sugar, the net conversion cost is about Rs. 2050 per ton taking into consideration the byproducts.

Falguni Thacker: I mean, excluding or the transfer to the byproduct right?

Suresh Taneja: Yes and in the case of distillery, very roughly speaking excluding the cost of molasses, which is raw material, it is about Rs. 6.5 per liter including all fixed variable expenses including finance cost.

Falguni Thacker: Okay, how much would it be excluding the finance cost and including the molasses cost?

Suresh Taneja: Roughly speaking, it will be about Rs.1.7 per liter on counter finance cost and in the case of cogeneration our conversion cost would be approximately Re.0.60 per unit.

Falguni Thacker: Okay sir, what is the transfer cost of molasses to distillery unit?

Dhruv Sawhney: You know it varies, we look at the market consideration and up to now it's been...

Suresh Taneja: Roughly we have been doing it at an average cost of about Rs.175.

Falguni Thacker: Thank you, that's all sir.

Moderator: Thank you Ms. Thacker. The next question is from the line of Raunak Nagda from Value quest Research, please go ahead.

Raunak Nagda: Yes sir, what was the volume growth in this quarter? Volume of sugar production and sales?

Dhruv Sawhney: I will just give you the figures in our handouts, volume growth in the dispatches is higher by 35% quarter-to-quarter, this quarter versus last year same quarter. Our sugar dispatches were 35% higher than they were last year.

Raunak Nagda: And sir, what is your debt in balance sheet?

Suresh Taneja: The total term-loan is approximately Rs. 775 crore including the excise loan and the working capital is about Rs. 550 cores.

Raunak Nagda: Okay and sir, what was the capacity utilization in this quarter?

Dhruv Sawhney: This quarter there was no crushing, there was almost no crushing, very little crushing in April to June, so you know it's not even relevant, because we only worked for 10 days and some factories worked for 10 to 15 days of the whole 90 days. This year the season ended earlier than normal.

Raunak Nagda: Okay thank you sir.

Moderator: Thank you. The next question is from the line of Mr. Mitul Mehta from Lucky Securities, please go ahead.

Mitul Mehta: Yes good evening sir. Sir, can you elaborate little bit more on your GE tie up and what part of the value chain are we present on the gas side, are we at the midstream, downstream, or at the upstream? And, how do you see this opportunity growing forward? I understand that the Government of India has appointed a regulator, so most of the CAPEX on that side is on hold at this point, sir your take on that?

C N Narayanan: Tie up with GE is in the gas transportation, wherein we will be supplying the reciprocating compressors, which is used for transportation of gas from the main pipeline through the trunk pipeline to the end-users, so we are in that part of the value chain in the whole business. As regards the investment, I think Chairman has already told in the beginning that the main pipelines are getting laid right now, so the trunk pipelines will come subsequently and no major tenders have come up so far. We are just waiting and watching and as and when they come up, we will be approaching those companies with our tenders.

Dhruv Sawhney: We don't expect any major businesses for the next 6 to 8 months.

Mitul Mehta: And sir, can you please tell me, would we also be present at the dispensing point?

C N Narayanan: This equipment is used in dispensing point as well.

Mitul Mehta: Okay; means at the pump station right?

Dhruv Sawhney: Yes, you are right.

Mitul Mehta: Is it an exclusive tie up, is GE tie up exclusively with you?

Dhruv Sawhney: Yes for India and the surrounding area it is exclusive.

Mitul Mehta: Would you have any ballpark numbers sir, how big the traceable market would be in India?

Dhruv Sawhney: We have given it earlier. It's about Rs. 100 or Rs. 200 crore at the moment, the forecast for the market, annually.

Mitul Mehta: Okay, thank you very much.

Moderator: Thank you Mr. Mehta. The next question is from the line of Aditi Taneja from HB Stock Holding, please go ahead.

Aditi Taneja: Hello sir, my question pertains to the industry scenario regarding the country wise production if we look at for 2008 with the opening stock of about 8 million ton and then production of 26 million considering exports also of 3 to 4 million tons, we are still left with the closing stock of about roughly 3 to 3.5 months period, so in that scenario, I mean I don't understand what is leading to such a high rise in prices, is it primarily because of the company is stocking a lot of inventory at their end presently or what is the primary driver leading to high sugar prices?

Dhruv Sawhney: Good question. Actually the closing stock, because exports are now going to be over 4 million tonnes, they might even go to 4.25 million tonnes. Consumption is not always very well forecast, we believe it's around 22 million tonnes for the current year and the opening stock also was varying between 8 million tonnes or 10 million tonnes as you said, so we don't expect any addition to the stock on the 30th of September 08, in fact, there might be a slightly lower inventory. But the pipeline was absolutely dry, the pipeline takes 2 to 3 million tons of sugar, 2 to 3.5 million ton, people say, and when people are forecasting a higher price, then the pipeline stocks starts getting filled up. So, this adds to the off take and most importantly is the fact that next year's production, which we will start in October-November is not forecasted more than 21 to 22 million tons, which will be lower than consumption even without exports.

Aditi Taneja: Alright sir, I mean considering the historical period when we had such levels of closing stock in the past also in 2005, we had roughly about 3 months of closing stock, even in that scenario the maximum price of sugar was not more than 17; I mean the average price for the year?

Dhruv Sawhney: Yes, but average price for the year, we at Khatauli, in '06 sold at Rs.20, but our ex-factory price has gone over Rs.20-50 without duty. I am giving you the scenario where just one of our factories have sold in January of 2- 2.5 years ago.

Aditi Taneja: Sir, it is normally, 3 to 4 year upturn and 3 to 4 years downturn. But 2006 was a peak season and now in 2008, we are again seeing the prices so high, so I mean and do you think it's temporary or is it a sustainable feature this time?

Dhruv Sawhney: See, the 3 to 4 years is historical, it's now turned to 2 to 3 years, because of the dynamics of the world situation have also changed; very important point, which I may not have

covered in my opening remark is the crude price, which has touched level of over \$140, we have Brazil, which in the last quarter, last month, has over 61% of cane and has gone to ethanol production and are now at about 59% or so. There is a lot of pressure in the US on ethanol production and with the high freight rate because of the crude prices, international sugar prices have also substantially gone up from what they were and there are also the futures price in March 2009 and in March 2010 is much higher than what it is today. You know currently the raw sugar prices are about 14.1 cents per pound and they have gone up by about 18% in the last 10 days. White is about \$400 the ton.

Aditi Taneja: All right. Do you really think whatever happens to the sugar price in the international market is really going to impact the prices in India? Because normally here in India export market is also being controlled by the government. Whenever they want, they allow export and whenever they want they restrict it so as to control the prices in the domestic market. So do you really think that international price is going up? Are the domestic prices are linked to international prices in anyway?

Dhruv Sawhney: At the moment, the international prices even with zero duty are higher than what they are in India landed, so you know and at the moment, custom duty is 60%. They do have a sentiment, you know commodity is also is on sentiment on future productions, on global pricing and you have supply bottlenecks and you have regional sentiments as also sentiments amongst the countries.

Aditi Taneja: My next question pertains to the capacity addition. We have seen that the most of the companies have been adding capacity in the UP region which is the Northern Part of India, so considering that UP is politically regulated in terms of cane pricing per se so why are not these companies looking at Southern regions like Karnataka or anywhere in the South because there you need to go for SMP-based pricing for the cane. Any particular reason why companies are not considering that part of the country?

Dhruv Sawhney: Well some companies actually look at UP for two reasons; one is that the rainfall patterns and the irrigation is much better in the North, especially in the western UP than what is in Maharashtra or Karnataka. So, the cane availability overall is much better in UP than it is in the other regions and we were hopeful which we still are, that the Court now bring about a rational formation of cane pricing, once that is done then the margins will be much more stable.

Aditi Taneja: Okay and sir lastly, are you also considering to get into refining or trading because that seems to have good margin per sales?

Dhruv Sawhney: Well, consideration of changes in the quality of sugar is always before us and they have been continually evaluated.

Aditi Taneja: Sorry sir I did not get that.

Dhruv Sawhney: I said we are continually evaluating changes in the quality of sugar, so we will look at that on a continuing basis as of refining sugar or producing different types of sugar.

Aditi Taneja: Alright and sir regarding ethanol, you think that producing ethanol directly from sugarcane juice is a viable proposition?

Dhruv Sawhney: At the moment no, and especially not with the high molasses price and the sugar pricing.

Aditi Taneja: Okay, so what kind of price do you think will make it viable like going forward?

Dhruv Sawhney: I think that in India we will have to really look at class B molasses for ethanol rather than sugarcane juice and in any case we need a much higher sugar cane production in the country to really sustain 10% ethanol blending. At the moment I do not feel that there is enough for 10% ethanol blending and we are in any case as a group, our distillery is not selling ethanol.

Aditi Taneja: Alright and sir what is the growth rate for the sugar consumption, .If we consider it overall country wide?

Dhruv Sawhney: 4-5%.

Aditi Taneja: All right sir thanks.

Dhruv Sawhney: Thank you.

Aditi Taneja Thank you Ms. Taneja. The next question is from the line of Nirav Shah from PINC Research. Please go head.

Nirav Shah: Yes, good afternoon sir.. My questions are related to the recent order that you won on the water treatment Division Rs.60 Crore order, so what is the execution period for that?

Dhruv Sawhney: I'm glad you brought up water, as you know in the water field our turnover has been increasing by 100% and in the year '09 we are expecting the increase in sales in the water division to be over 100%. And regarding this particular order, I will give it to Nikhil to give you the details.

Nikhil Sawhney: This order is to be executed within 18 to 20 months and we are confident that it will be executed within that time period.

Nirav Shah: Okay and the balance orders meaning our order books for Rs.150 odd Crore? So balance Rs.90 Crore execution is around 6 to 7 months?

Nikhil Sawhney: No, it all depends on the type of order but what Mr. Sawhney has given in terms of guidance. So far our turnover is something that we are confident that we will meet.

Nirav Shah: Can you share the execution date for the other two divisions, turbines and gears?

Dhruv Sawhney: Turbines is about 12 months, 10 to 12 months, because it could be even some orders are executed in 9 months. But, generally not over 12 months and gears is 5 to 8 months.

Nirav Shah: Just one question on the announcement of SAP, announcement for SAP for the season, by when does it come?

Dhruv Sawhney: October.

Nirav Shah: Okay. Actually , I was certain because in one of the years it was around August or September, if I do not remember correctly.

Dhruv Sawhney: You can't say anything.

Nirav Shah: But can it get delayed? because even the government may get a lot of clarity regarding the sugar price, so they can come up with logical cane price based on the formula at the SAP level.

Dhruv Sawhney: I think we will have some intervention and some guidance from the court before that, which would provide the guidelines for them to do it. Secondly, the factories will be starting earlier so there will be pressure on this issue to get resolved.

Nirav Shah: But when do we expect the season to commence?

Dhruv Sawhney: By middle of October.

Nirav Shah: Regarding the Cogen and distillery, how many days are to be expected in the next season to operate with?

Dhruv Sawhney: Same as this year.

Nirav Shah: Same as this year would mean Cogen should be around 220 days and distillery may be 250 days.

Dhruv Sawhney: No, distillery may be about 220-250. There are people who are not operating the distillery and selling the molasses . We will just see what the economics of doing this is, we will see at that time.

Nirav Shah: But Cogen should be on 220 odd days.

Dhruv Sawhney: Correct.

Nirav Shah: Okay sir, thanks a lot sir.

Moderator: Thank you Mr. Shah. Ladies and gentlemen before we take the next question we would like to request that you limit your question to two per participants. The next question is from the line of Mr. Brazil Gonsalves from KR Choksey. Please go head.

Brazil Gonsalves: Yes hello, good evening sir.

Dhruv Sawhney: Good evening.

Brazil Gonsalves: Sir this regarding your steam turbine business

Brazil Gonsalves:, It is mentioned here that the plant was shutdown for 26 days in the first quarter.

Dhruv Sawhney: Yes.

Brazil Gonsalves: So sir can I know was there any specific reason for that?

Dhruv Sawhney: Yes, there was an industrial dispute in the first quarter. We had an industrial action which was resolved satisfactorily.

Brazil Gonsalves: Okay fine sir and sir the order book as on March 31st is Rs. 5.06 Billions for 748 megawatts right?

Dhruv Sawhney: Yes total order book for engineering business increased to Rs.6.64 billion on 1st of July.

Brazil Gonsalves: Actually I joined late so I did not know this thing. So can we conclude that per megawatt it comes to around Rs.67 to 70 Lakhs?

Dhruv Sawhney: It varies, the higher you get you are going into the higher range so that the realization would come down.

Brazil Gonsalves: Is there any specific formula, like can you assign weightage for the steam turbines like?

Dhruv Sawhney: No, that will be very difficult because these are tailored orders depends on the customers for the same megawatt the value can be very different. It is not a standardized product. This is engineered to order; these are all engineered to order that is why the margins are high.

Brazil Gonsalves: Okay, so we cannot say that the one megawatt will be is equal to X tons ?

Dhruv Sawhney: No, unfortunately as an average you cannot do that.

Brazil Gonsalves: Okay, fine sir that is it sir from my side, thank you sir.

Moderator: Thank you Mr. Gonsalves. The next question is from the line of Mr. Sachin Kasera from PINC Research. Please go head.

Sachin Kasera: Yes sir, if you could give us the breakup of the order book, between domestic & exports?

Dhruv Sawhney: Yes, good question. Our exports have gone up to 13% but I need to look at the order book I know that our export sale is 13% for the nine months.

Sachin Kasera: That I have seen from looking at the data.

Dhruv Sawhney: I can say that the export order booking is 17%.

Sachin Kasera: Is that only for turbine or that is including gears and water?

Dhruv Sawhney: Yes, only turbines.

Sachin Kasera: What was the number of units sold as carbon credit sold in the 9 months and for the quarter?

Dhruv Sawhney: It is approximately 83,000 units which we have provided in respect of our Deoband Cogeneration Plant for the period of 1st of April 2007 to 31st March, 2008. However, we still need to provide for the carbon credits for our Khatauli Sugar Plant, which would most probably come in Q4.

Sachin Kasera: For the nine months period I think we have booked close to around Rs.21Crores, Rs.21.5Crores as carbon credits. In respect to this Rs.21.4Crores what is the number of units that was sold?

C N Narayanan: It's approximately 183, 000 units.

Sachin Kasera: How do you see that for the next year ,will it more or less be at the same level, at close to around 2 Lakh units or we have come down substantially?

Dhruv Sawhney: On a sustained basis, from all the three units put together we will have 200,000 units annually.

Sachin Kasera: Secondly, for the quarter ended nine months if you could provide the third party sales of molasses and bagasse revenue and the average realization?

Dhruv Sawhney: Third party we do not have it available here but I can give it to you offline.

Sachin Kasera: Okay sir, thanks a lot sir that is all from my side.

Moderator: Thank you Mr. Kaseera The next question is from the line of Mr. Sanjay Satpathy from DSP Merrill Lynch. Please go head.

Sanjay Satpathy: Sir ,my first question is on the impact of higher sugarcane cost that you have arrived at for the 9 months period, if you can just let us know how you have arrived at it and what can one expect of it in fourth quarter?

Dhruv Sawhney: Yes. The High court order said to have Rs.110 with no deduction for transport and no premium for early variety. So, certainly we have taken the cost at Rs.110 flat without deducting Rs.5.75 or Rs.10.58 for transport and not adding the premium for the early variety. But actually in the final pricing we will have that Rs.5 premium.

Sanjay Satpathy: I want to understand in terms of your closing stock, how have you valued it and whether you feel that after almost 60-70% of liquidation of your stock in fourth quarter we will see a significant change in the result that you have estimated for the first 9 months?

Dhruv Sawhney: Are you saying because of the change in cane price if required?

Sanjay Satpathy: Yes.

Dhruv Sawhney: No. I think what we have done for this quarter is very clear that to the extent we have the sugar available in the inventories there would not be any impact of the increased cane price because it would be carried forward as a cost of production and that is how we have given the impact on the profits. Similarly as of 30th of September also based on further liquidation that may take during the quarter, this figure of Rs.20 Crore impact will further go.

Sanjay Satpathy: .The last question is on the engineering business what could be the reason for order books position declining during the quarter?

Dhruv Sawhney: No, orders on date are higher than they were a year before.

Sanjay Satpathy: No, I am just talking quarter on quarter.

Dhruv Sawhney: As I mentioned in my opening remarks, it is very difficult in this engineer to order business either for dispatches to be looked on a quarter or for orders because order finalization takes about four months or five months and some happen in two months, some happen in six months so you know quarter to quarter it is not easy to predict or analyze but the 9 months results both for order bookings and for dispatches are good.

Sanjay Satpathy: Is it the reflection of your of moving up from smaller size turbines to bigger size turbines which are big ticket items which is why we will see more swing from quarter to quarter?

Dhruv Sawhney: This is a good point. It is a little bit because unit values have gone up because we are going into higher range and once you go up, if one turbine goes in this month than another month then it has more impact than it had if you were having a lower megawatt turbine.

Sanjay Satpathy: Okay. Thanks a lot.

Moderator: Thank you Mr. Satpathy The next question is from the line of Mr. Rajesh Prabhudesai from Deepan Mehta Stock Brokers. Please go head.

Rajesh Prabhudesai: Good afternoon sir, on the sugar cane crushing capacity and the corresponding capacity of distillery and power projects. Is there any scope for increasing capacity of power and distillery going forward based on our crushing captivity?

Dhruv Sawhney: Yes, there is, but we will see the viability given in the current scenario of molasses pricing and the supply demand supply situation of alcohol in the state of UP before taking any further decisions on expansion in the distillery area.

Rajesh Prabhudesai: So at this point of time, do you find it more profitable than doing a complete integration?

Dhruv Sawhney: At the moment the pricing of the byproducts is very good in the open market, so there is no driver to do a value addition in either distillery or Cogen plant.

Rajesh Prabhudesai: Okay sir, thank you very much.

Dhruv Sawhney: Thank you.

Moderator: Thank you Mr. Prabhudesai. The next question is from the line of Mitul Mehta from Lucky Securities. Please go head.

Mitul Mehta: Yes, sir a follow up question to my earlier question. This Rs.200 Crore market that you spoke about, how sustainable is this market and how big you can get in three-four years' time?

Dhruv Sawhney: It is difficult to forecast now. I wouldn't put too much on it but is growing very fast at this moment but these are such large projects and there is not so much public information, so I would not like to give any guess on where this market may expand to.

Mitul Mehta: Okay and sir in terms of the CNG expansion, how many cities are coming up and would you have any data on that particular?

Dhruv Sawhney: We do not have done that much research on it ..

Mitul Mehta: Okay, thank you very much sir.

Dhruv Sawhney: Thank you.

Moderator: Thank you Mr. Mehta. The next question is from the line of Bimal Sampat from Radha Sons International. Please go head.

Bimal Sampat: Good afternoon.

Dhruv Sawhney: Good afternoon.

Bimal Sampat: On the water division, we have some working relationship with Siemens is it, is it right?

Dhruv Sawhney: Yes.

Bimal Sampat: Yes, I mean can you give some more information on that, what sort of relation do we have ? Is it a one time one or?

Dhruv Sawhney: We have a license agreement with the company for many products.

Bimal Sampat: Okay, so it is for exclusively for all of India. We have a license agreement with the company for a particular technology.

Dhruv Sawhney: Yes, that is right.

Bimal Sampat: Okay and second thing is that both our divisions; engineering and sugar will be cash positive in the coming year '08-'09. So are you thinking of unlocking value?

Dhruv Sawhney: The Board will keep considering this on a continuing basis and I really cannot say about the future but as and when the situation changes the Board will take this into account.

Bimal Sampat: Okay, thank you.

Dhruv Sawhney: Thank you.

Moderator: Thank you Mr. Sampat. The next question is from the line of Raunak Nagda from Value quest Research. Please go head.

Raunak Nagda: Can you give me the breakup of the revenue in terms of sugar, distillery and power Cogen?

Dhruv Sawhney: That is available in the published result. In the segments we have provided all such details.

Raunak Nagda: Okay and sir what will be your CAPEX next year '08-'09?

Dhruv Sawhney: Fairly negligible.

Raunak Nagda: Okay thank you sir.

Dhruv Sawhney: Thank you.

Moderator: Thank you. The next question is from the line of Pranika Jain from HDFC Securities. Please go head.

Pranika Jain: Yes, hello sir just a question. If I have understood right, in FY07 you have paid a cane cost at Rs.125.0 per quintal, I was just wondering , has the company paid such prices because of any strategic move or it was just because the payment had already been made before the interim judgment of Supreme Court had come up? And if you can provide me with the landed cost the company had for FY07 and FY08 again?

Dhruv Sawhney: Definitely, you are right. We have paid Rs.125 in time before the Supreme Court judgment of Rs.118 has come out, you are correct and the landed cost for '07 –'08 at Rs.110 was Rs. 121 and you also wanted for the last year.

Suresh Taneja: Last year it was Rs.137.

Pranika Jain: So, you mean that the higher cane cost was paid because we had already paid that, it was not due to any strategy or something?

Dhruv Sawhney: Our strategy is to pay the farmers in time because of this relationship and getting cane supplies. The strategy is to preserve the relationship with the farmers so we had a fair amount of cane availability and most factories in western UP area have paid 125.

Dhruv Sawhney: In our surrounding areas, all the companies have paid.

Pranika Jain: Okay sir, thanks a lot.

Moderator: Thank you Ms. Jain. Ladies and gentlemen due to time constraints that will be the last question. I would now like to hand the floor over to Mr. Sawhney and the management for their closing comments.

Dhruv Sawhney: Yes, there were been some questions on the engineering, I like to thus end with the order booking figures of 31st July in the engineering business. We had as on 30th June 2008, Rs.4.64 Billion in turbines, well actually I will give for the whole of engineering business from 6.68 billion which has now gone up to approx. Rs. 7.22 billions as on the 31st of July. So, that is a good increase we had good order in take in July which is a little different from the engineering industry at large. I like to end on that note if I may. Thank you very much for having joined us.

Moderator: Thank you Mr. Sawhney, thank you gentlemen, and thank you the management and Mr. Desa. Ladies and gentlemen on behalf of Triveni Engineering and Industries Limited that concludes this afternoon's conference call. Thank you for joining us on the Chorus Call Conferencing Facility and you may now disconnect your lines. Thank you.