



## Triveni Engineering & Industries Limited

### Q2 & H1 FY10 Earnings Conference Call

May 11, 2010

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**Moderator**

Ladies and gentlemen good afternoon and welcome to the Triveni Engineering Q2 & H1 FY10 Earnings Conference Call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference, please signal an operator by pressing \* and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rishab Barar of Citigate Dewe Rogerson. Thank you and over to you Mr. Barar.

**Rishab Barar**

Thank you Rochelle. Good day everyone and a warm welcome to all of you participating in the Q2 & H1 FY10 Conference Call of Triveni Engineering & Industries Limited. We have with us on this call Mr. Dhruv Sawhney, Chairman and Managing Director of the company along with other members of the senior management team.

I would like to mention before we begin that some statements made in today's discussion maybe forward looking in nature and a statement to that effect has been included in the conference call invite which was mailed to everybody earlier. Also I would 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 would start this conference with opening remarks from the management followed by an interactive Q&A session where you can discuss your views and key issues. I would now like to hand over to Mr. Dhruv Sawhney to share some perspectives with you with regard to the company's operations and the results for the quarter under review. Over to you Mr. Sawhney.

**Dhruv Sawhney**

Thank you very much indeed. Good morning everybody and welcome to our quarterly investor conference call. I am not going to go through the detail numbers because I know all of you have the investor brief which has the details of the numbers and the breakups and of course we will be there to answer specific questions in the Q&A.

I thought I would spend a little more time on the perspectives of where we are growing in the future, where we are today especially in our engineering businesses, but to start things off, the first half year saw sales up by 31% and our PAT growth has also been good for the first half year. It has grown by 42% including the performance in the last quarter and the board has been encouraged by the results to declare and enhance interim dividend of 40% for the current year. I think I would like to start this by our moves since our last call in the engineering line. We have an extremely strong order book today of around Rs. 854 crore and that is really reflective of the mood in all our 3 businesses, steam turbines, high-speed gears, and water; and we expect this to be even better in the coming quarters. We expect orders on hand by end of this quarter to go up over Rs. 1,000 crore to somewhere around Rs. 1,050 crore. Our EBIT in the first half in engineering had also gone by 33% and for the balance we expect margins to be the same as what we have achieved in our businesses historically. We are looking at about 40% growth for the

year in engineering of which steam turbines will be around 28 to 30% and water will be more.

Our basic focus is on the growth sectors of the economy today, and our increased focus on servicing and on exports, is paying off in both the steam turbines and the high-speed gear segment.

I would like to take a few minutes to run you through the demerger and our announcement of the joint venture with General Electric. I think these have been two landmark events in the progress of your company. The turbine unit has achieved a size where it can stand alone as a separate entity. Though our engineering businesses have a common threat and sort of product philosophy which uses technology as a differentiator and service as an advantage, we believe that they have separate organic and inorganic growth opportunities and this is why we have one of the key drivers for having separated the steam turbines business alone for demerger. We also feel that we do not like to have a situation which would accord a conflict of interest between competitors and customers and technology providers. In steam turbines for example, Siemens is a competitor and in gears they are our customer. They are also a technology provider in our water business while here; they are competitors to General Electric globally.

So, this is one of the key rationales why we split the steam turbines business into the demerger and not the other engineering businesses. The equity holding by Triveni in the demerged business, which we would be calling Triveni Turbines Limited, TTL will enable flexibility for fund raising for our future growth and expansion and it will also create a structure which is geared to take advantage of these growth opportunities especially in the other two engineering lines of high-speed gears and water. We are having dialogues with GE partners in our high-speed gear business and we will be continuing these efforts as you know our talks with General Electric took almost 30 months to come to fusion and these partnerships which are solid and global in nature with a very long-term growth perspective do take time to mature.

I would like to spend some time on what is happening with our retail venture because Triveni Turbines is really this company which will be demerged. Multi-brand retailing especially in the rural and semi-urban areas is a different ball game and contrary to our initial estimation of market and growth in these markets, the actual performance has not been encouraging. In 07-08 and 08-09 on account of the lower sugarcane pricing and lower earnings in the rural areas our businesses did not grow as we had anticipated. Even though various models has been tried to revamp the business which we shared with you in the last few calls, we felt that the results were not commensurate with our efforts and as it was not a significant business, it had very little capital employed and we were following a lease model as against our competitors which had large CAPEXs. The board says that it was advantageous right now to concentrate management resources and management focus and attention on our growth areas and on our core activities where capital and time would be needed rather than on this business and so we decided to close down this business.

As you are all aware the demerger process is a court driven process and requires various approvals under the court supervision. We have already set the ball rolling and we believe by the end of the calendar year, we would be able to list the turbine business as a separate entity. The appointed date for the scheme of demerger is the first of October 2010 and this will be effective upon approval from the High Court. The demerger will be taxed neutral and accordingly all assets and liabilities of the de-merged entity on the appointed date will be transferred.

With your indulgence, I would like to spend a few minutes on our joint venture with GE. This is a very key aspect to us and it gives you an idea of the direction of your management in terms of its partnership and where it is going in all its businesses.

The JV will give us access to world class technology and it is really quite unique in India with a quick access for this higher megawatt market. We will use GE's global foot print for marketing distribution and we will be optimizing the manufacturing capability of Triveni. The supply chain of Triveni will be in great use by the JV and is one of the key reasons why GE has decided to partner with us. We are fortunate that while we have 50 plus one share and we are still having the access to the GE brand for sales of the JV products globally. The rub off on existing 30 megawatt business, both in the domestic and especially in the export market will be fairly substantial and we have done this in a way that Triveni's profitability will not be affected. The JV will be a subsidiary of Triveni Turbine and will have the benefits of consolidation.

We have had the name as GE Triveni Limited rather than limited to steam turbine because we believe this association has many growth opportunities in the future and this is what both partners wanted. Our discussions as I said had been going on for the last year and have been at a very high level in GE, all the way from the chairman downwards. So we have a complete buy in in terms of vision for this business both in the short and the long-term and we have prepared very detailed 5-year plans and a long-term 10-year plan. We expect the regulatory approvals for the JV to be over in the next couple of months and from that, we will expect to start up very shortly. We expect to get our first orders in 2010 for delivery in 2011 calendar year. We believe the potential for distributed power generation both globally is USD 2 billion and in India, it would be around Rs. 15 - 18 billion.

And the spectrum of industries that we will be covering are almost all industries from metals to paper, to sugar, to textiles, to the renewable energy, and the key areas of biomass and municipal solid waste. The investment in the JV will be light as manufacture will be done in Bangalore and it will be outsourced to Triveni turbines and therefore the funding will be in a very gradual manner. To give you an idea of the global perspective of this JV, in the next 3-4 years, we believe the turnover of JV will only be about 25-30% from India.

Our facilities in Bangalore were going to 3 shifts for assembly and some with balancing equipments, will allow us do the manufacturing for the JV for the next 3 to 4 years definitely. Beyond which, plans will be drawn up for how to augment capacity whether in the JV or through Triveni.

I have taken a little longer because I would like to share with you and you being so patient in being with us in our perspectives of this demerger and the JV with GE.

Our gear business has had a record second quarter and probably one of the highest margins on very high-speed gear business globally and it is an exciting future with the lot of development carrying on indigenously in hydel and other areas and these are as I said in the opening remarks, growth areas of the future and we are looking at expanding this very rapidly in the next year.

In water, we have had a growth of over 100% and we are looking at some extremely substantial orders in the next few months which is why I was able to give you a projection of orders on hand going over Rs. 1,000 crore in the next few months. This business itself is keeping in tune with what has happened in the last 3-4 years and we expect the next two years to be even better because of the extreme shortage of good water and effluent both municipal and industrial areas.

I would now like to come to our sugar business and give you a quick idea of where everyone is. As this is one of the last investor calls in the sugar sector, I am sure all of you being given a good idea of the world situation and the Indian situation, but I will put my management thoughts on it. The world price has also taken a very steep downturn in the last few months, but we believe it has stabilized and it is now going to be in a stable to may be a slightly improved mode in the next 4-5 months. In India, production is now expected at around 18.5 million tons and next year

production will be around 24 to 25 million tons. We believe this will be matching with consumption and accord a better opening stock for 2010 October and 2011 October which will necessitate no further imports in our view of either raw sugar or white sugar. We are actively lobbying with government that this is the need of the hour where we should do this and that will accord us the opportunity of having a stable cane price and a long-term cane plantation so that we do not go through this import and export regime in sugar again and again.

Our own sugar price at the moment is over Rs. 30 now and we expect that possibly this will go up by another rupee or two in the next few months till the end of the current financial year. We crushed 23% more cane in the current year and sugar production was 4.18 lakh tonnes from cane sugar of course we had raw production of 86,700 tonnes. Of which 82,600 tonnes of production was upto March. 23% increase in cane production and 25% increase in sugar production from domestic cane. So along with our sugar from raw, we have produced over 5 lakh tonnes of sugar this year.

We have taken a decision of write down in inventory and our inventory has been valued at net realizable value which is lower than the cost of production and therefore the impact of this has been Rs. 51.2 crore. As you know this is at a levy, we have valued levy at its current levy price which is Rs. 13.40 paisa which we expect to go up to around Rs. 18 very shortly. This is under revision not just because the FRP has been increased by government already officially, but also because of other cost increases that have been there. Free sugar is valued at net realizable value and our cost of production is at Rs. 28.70 and if we take out our offseason expense of Rs. 2.1, it is Rs. 26.6. So that is our cost of production today.

As I said, we expect the situation in the future to be much better in the half year for sugar than it has been in the last quarter. Our cogeneration is operating now on the bagasse for the month of May. One of our units will be using coal which will be converted by the first of July and we expect to run this at about 18 megawatts for the offseason for 2.5-3 months and here the power tariff which is currently at Rs. 3.9 per unit, we expect this to go up to around Rs. 5 per unit. From our distillery, we are privileged to be one of the key suppliers to UB Spirits and we will be getting a good price of around Rs. 27 per liter in the past and currently as well. We actually got a higher price than that. We got Rs. 28.25 for the first half and we expect this price to remain for the next quarter or so.

I really would like to now turn the floor over to you for questions.

- Moderator** Thank you very much sir. Our first question is from the line of Nirav Vasa of Gupta Equities. Please go ahead.
- Nirav Vasa** My first query relates to your water business. Would it be possible for you to share the orders under the bidding stage for the water business?
- Nikhil Sawhney** As of now, it could be in excess of about Rs. 600 crore.
- Nirav Vasa** On a bidding stage?
- Nikhil Sawhney** Yes, with bids already in and we would expect to get may be 50% of those.
- Nirav Vasa** If you can just throw some light on the possible losses that could result due to the shutdown of the retail venture?
- Dhruv Sawhney** They have been provided, there are no further losses that are expected.
- Suresh Taneja** In the case of retail ventures, the total accumulated losses are in the region of about Rs. 20 to Rs. 25 crore and because of this demerger, we would be doing the little bit

of tax planning and therefore will be able to get the tax benefit in respect of those accumulated losses. As far as the balance sheet of Triveni is concerned, there is no impact of those losses in the Triveni balance sheet.

- Nirav Vasa** And sir if I can just ask a last question that relates to the proposed entity that is of Triveni Turbine, would GE be having any equity stake in that proposed entity?
- Dhruv Sawhney** The demerged entity at the moment, is as per what we have put to you has got Triveni and our existing share holders.
- Nirav Vasa** Are there any plans where in GE would we be increasing capital in this proposed entity?
- Dhruv Sawhney** At the moment, there is nothing under consideration. When it does come under the consideration, we will inform the stock exchange and yourself, but nothing is under consideration right now.
- Nirav Vasa** Okay and if I can ask a question related to the technology ownership. I believe the stake of GE in that joint venture is 51%.
- Dhruv Sawhney** No, I said it is the stake of Triveni Turbines in the joint venture will be 50% plus one share and GE will be 50% minus one share.
- Nirav Vasa** Okay sir, thank you very much. All my queries have been answered.
- Moderator** Thank you Mr. Vasa. Our next question is from the line of Darshan Dodhia of SBI Caps Securities. Please go ahead.
- Darshan Dodhia** Sir you mentioned the cost of production will be Rs. 28.7. Is that at EBITDA level or EBIT level?
- Suresh Taneja** That is at EBIT level.
- Darshan Dodhia** So then if I assume the sales price of Rs. 31 minus Rs. 27.8, then I should be getting EBITDA of profit. In your segmental revenues, you have shown a loss, so I want the confirmation for that.
- Suresh Taneja** The reason for the loss is that apart from the fact that there is a profit at the EBIT level, there is a write down of inventories which have taken place because we valued inventories at net realizable value which is mainly on account of the levy sugar.
- Darshan Dodhia** You just mentioned that there is 18 megawatts which will be ready for 2-3 months. Have you imported any coal for that?
- Sameer Sinha** It will be on coal. We are evaluating both imported coal versus indigenous coal and whatever is more beneficial; we will go for the same.
- Darshan Dodhia** And have you signed any PPAs till date for this 18 megawatts?
- Sameer Sinha** We are in the process of obtaining the clearances from UPPCL.
- Darshan Dodhia** Okay and the price expectation is around Rs. 4.5/unit to Rs. 5/unit?
- Dhruv Sawhney** Correct.

**Darshan Dodhia** When do you expect the ethanol pricing to go forward in the next two quarters as there has been a talk but there is no concrete decision. And if that happens what amount of alcohol will be used for this ethanol blending program by Triveni?

**Dhruv Sawhney** As you know, we are privileged to be one of the key suppliers to UB and other such IMFL producers so we are not that dependent on the ethanol program as other and I will ask my colleague to fill in.

**Sameer Sinha** As Mr. Sawhney just mentioned we also believe that once the ethanol program takes off, we will be giving a part of our alcohol for this program to diversify our customer base, but at the same time we expect that in such a scenario with the amount of alcohol going out of the system, the pricing of ENA to UB would also increase, so we will look at the ratio of the two and then go ahead and finalize the quantities for ethanol.

**Dhruv Sawhney** We are concentrating on ENA because of our quality. Our quality is of a much superior nature, so we are able to get this price premium in the market from places like UB and that is why we are not concentrating that much on ethanol as we get a much better value add.

**Darshan Dodhia** One last question regarding this demerger of this Triveni Turbines, what is capital employed and what will be the amount of debt and equity in this new demerger entity?

**Dhruv Sawhney** As I mentioned to you, this is a very low capital JV and manufacture of turbines is going to be in Triveni in the demerged company Triveni Turbines Limited, so debt and equity is going to be quite negligible.

**Darshan Dodhia** Okay sir, thank you..

**Moderator** Thank you. Our next question is from the line of Sanjay Satpathy of Merrill Lynch. Please go ahead.

**Sanjay Satpathy** I am trying to understand that Rs. 500 million losses that you reported on the inventory reevaluation, is that only relating to the levy sugar part or is it on all kinds of sugar put together?

**Suresh Taneja** It is on the total basket.

**Sanjay Satpathy** Can you tell me what is the basket in net sugar price that you have taken into account?

**Dhruv Sawhney** The net sugar price we have taken into account is Rs. 29.90 including offseason expenses of Rs. 2.10 for free sale and it is Rs. 13.14 for levy.

**Sanjay Satpathy** And this delay that has happened in case of announcement of levy sugar, do you think that it will be possible for it to be done before the fiscal 2010 is over?

**Dhruv Sawhney** Yes definitely.

**Sanjay Satpathy** And sir lastly just wanted to understand from you that what is the total price of cane that you paid and while the sugar prices started falling during the crushing season, what is that made it difficult for you to reduce the price of cane even though it was higher than the minimum support price?

**Dhruv Sawhney** Our final price of cane including all cost of purchase tax, transport, loading labor, and everything worth Rs. 252.6 or Rs. 252.7 and actually it is a good question. We moved with our colleagues in West UP definitely and parts of central UP that they

should reduce by at least Rs. 20 if not Rs. 40 in the month of March when the price has started falling. We did not get much success. We ourselves reduced some prices by Rs. 10 to Rs. 15, but in a fragmented industry like ours, the unfortunate thing is that everyone does not do it; you have the farmers who then get a little militant and stop things and that was the unfortunate situation. We could have reduced prices and as we know next year sugar pricing is not going to be anything near this level and is not expected to be at this level.

**Sanjay Satpathy** My next question is that going into the next year, will you be able to bring down the price to the minimum support price level or will you have to continue selling or paying at this level?

**Dhruv Sawhney** As many people might have told you that the state advice price was Rs. 160. Now, there will be a new state advice price for next year. So the minimum support price of the Government of India really has no bearing on cane prices in UP and we do not expect the state advise price to be completely out of line with sugar prices because if that happens then the farmer does not get paid and we do believe that the UP government will also be looking at the price that will get paid by the factories in time because that is the bottom line. It has to be paid within 14 days. So we do not expect an unreasonable price next year.

**Sanjay Satpathy** Do you see any increase in incidence of cane areas that are already building up?

**Dhruv Sawhney** There has been incidence of cane areas building up already and that will be the pressure for the cane price to come down. .

**Sanjay Satpathy** Okay, so my last question is that in the current quarter, your average realization for sugar was at around Rs. 31 odd which was much lower than some of the other UP mills that announced their sugar prices. I wanted to understand what is the amount of levy sugar that you have actually sold during the quarter and was it 20% of your production or how is the actual dispatch is happening?

**Dhruv Sawhney** Very good question and I did not mention it in my opening remarks, so I am thankful to you for having asked that question and the answer is in the levy sugar, we want to give you some figures of our dispatches.

**Suresh Taneja** In Q2, the total dispatches were approximately 9.48 lakh quintals. Out of which, the levy was 1.46 lakh quintals and our free sale realization was over Rs. 3,500, leading to that average.

**Dhruv Sawhney** Percentage of levy, 21% that is the figure, we have our dispatch of around 20% of levy.

**Sanjay Satpathy** Okay and while assuming that net realizable price of Rs. 29.9, you have taken the average to be 20% levy sugar.

**Dhruv Sawhney** No, Rs. 29.9 is the free sale price.

**Sanjay Satpathy** Okay, Rs. 29.9 is the free sale price for the 80% of the sugar and remaining 20% for Rs. 13.14.

**Dhruv Sawhney** It is Rs. 13.14 and that is why the write-down of stocks has been being there.

**Sanjay Satpathy** So the average cost of inventory is now at what levy sugar?

**Dhruv Sawhney** Well, you can work it out; our inventory has about 20% of levy sugar. So it will be  $29.9 \times 0.8$  and  $13.14 \times 0.2$ , Rs. 27.

**Sanjay Satpathy** Okay. Thanks a lot for answering my questions.

**Moderator** Thank you. Our next question is from the line of Shipra Pandey of HSBC. Please go ahead.

**Shipra Pandey** Sir my first question is regarding the refined sugar. What is the cost of the refined sugar that you have produced?

**Suresh Taneja** Our cost of production is a blended cost of raw sugar processing as well as cane sugar.

**Shipra Pandey** Yes that is Rs. 28.7.

**Dhruv Sawhney** Yes, so that is the average cost of both and Rs. 28.7 includes Rs. 2.1 of off season expenses.

**Shipra Pandey** So then at Rs. 26.6 till Q2 and effectively you will increase it.

**Dhruv Sawhney** No, this is the cost for the half year for the whole, not just Q1, its Q1 and Q2.

**Shipra Pandey** But you will not be having the breakup of refined separately?

**Dhruv Sawhney** No, we do not have. We do not give the figures of refined separately.

**Shipra Pandey** Sir by any chance did you sell any refined sugar during the quarter out of this 94 crore?

**Dhruv Sawhney** Our dispatch of sugar converted from raw up to 31<sup>st</sup> March is about 1 lakh bags.

**Shipra Pandey** Okay. My next question is regarding the inventory write down of Rs. 512 million. Now in case the levy price is revised to Rs. 17 or Rs. 18 whenever it happens, what kind of write back do you expect to take on this 512 million, the hit which you have taken on this?

**Suresh Taneja** Our levy obligation is roughly about 8.4 lakh bags assuming that there is an increase in levy price by Rs. 500, so you are getting about Rs. 42 crore.

**Shipra Pandey** Okay, alright. So effectively out of these Rs. 52 crore, it may so happen that you are able to write back this amount, Rs. 42 crore?

**Dhruv Sawhney** That is right.

**Shipra Pandey** Okay, alright. And lastly regarding your engineering business. In the gears business this quarter specifically the margins are very high. I think this is historically the highest margin the gears business has ever recorded 43%, any specific reason for that?

**Tarun Sawhney** Two reasons, the percentage of our spares and refurbishment increased as a basket of sales and the second reason is that we were able to achieve significant reduction in material prices with better management for the supply chain.

**Shipra Pandey** Okay, so what is the contribution of spares and refurbishment in this quarter?

**Dhruv Sawhney** About 10%.

**Shipra Pandey** Okay, so we do expect the refurbishment revenue to eventually increase at the rate of 15 to 20% every year on going forward?



**Tarun Sawhney** Let me just rephrase actually spares and service is 10%, refurbishment accounts for almost 30% of our business.

**Shipra Pandey** 30%, that is quite high. Okay, alright. The case is the same with the turbines business also the refurbishment have been going up?

**Dhruv Sawhney** In turbines our refurbishment and spares is definitely going up, but it is at the level of about 15% to 16% right now that is another huge scope that we have. As you know, we have been getting refurbishment orders going all the way up to 200 megawatts. So, we are already doing that and that refurbishment business will be continued to be done by Triveni Turbines even in the range of 30 to 100 megawatts. The JV has allowed Triveni to continue doing this.

**Shipra Pandey** Okay, alright. Sir there has been a slight decline in the water business order book and any reason for that or is it just that the orders are supposed to be bulky now?

**Dhruv Sawhney** I think my colleague Mr. Nikhil Sawhney has just mentioned to you that we have Rs. 600 crore of orders under active consideration of which we expect 40-50% to be coming in our favor. So, this is just a timing question. These are big orders and they take long time to negotiate but our orders on our hand are way above our turnover for the year.

**Shipra Pandey** Right. Lastly right now at the end of this quarter, you have a huge inventory of sugar which includes refined from raw as well as you manufactured. Now in the first half, you have been able to sell approximately 190,000 tonnes of sugar. So what is the guidance for the entire year and do you think you will be carrying over inventory next year since there is ample availability of sugar in the market right now?

**Dhruv Sawhney** It depends on the government release policy, but obviously there will be sugar, there is always on the first of October. The government policy is to have 3-month stocks, but it will not be 3-month stocks, it may be 1.5 months stock, so that sort of pro-rata will be there for us also and we expect a stock situation to be fairly similar to what was in the opening stock.

**Shipra Pandey** Can you give us some numbers of your guidance for the entire year of our sales volume for sugars?

**Dhruv Sawhney** It is difficult to give guidance on that because it is not dependent on me. When you go for guidance to Infosys they are in control over there, here we have no control.

**Shipra Pandey** But will you be selling the entire refined sugar, is that what it indicates?

**Dhruv Sawhney** We would be selling the entire refined that we can say and we are looking for a price realization may be Rs. 1 to Rs.2 higher than where we are today.

**Shipra Pandey** Okay, thanks a lot sir.

**Moderator** Thank you Ms. Pandey. Our next question is from the line of Khadija Bohra from Marwadi Shares & Finance. Please go ahead.

**Khadija Bohra** I would like to know the order inflow during the quarter for the engineering segment?

**Dhruv Sawhney** We can send that to you, but I have given you the order-on-hand at the end of the quarter is Rs. 850 crore.

**Khadija Bohra** I have the information with me, but I wanted to know the order inflow?

**Nikhil Sawhney** It is not readily available, but if you go through our investor brief of last quarter and minus the sales out of which you will be able to get a picture yourself.

**Khadija Bohra** Okay and I would like to confirm the market size of steam turbine in India in the 30 to 100 megawatt segment?

**Dhruv Sawhney** It is about Rs. 1,500 to Rs. 2,000 crore.

**Khadija Bohra** Thank you sir. That is all from my side.

**Moderator** Thank you. Our next question is from the line of Sunil Jain of Nirmal Bang Securities. Please go ahead.

**Sunil Jain** Sir, two-three questions. One is about this Rs. 854 crore total order book size. How is the timeline for that?

**Dhruv Sawhney** Water is beyond one year and gears is less than one year. So as I said we are expecting a 40% increase in turnover in the engineering business versus the last year, so that pretty much covers it.

**Sunil Jain** Okay and about this sugar business. Can you throw some light on the current policy going on as of now for the import of white sugar in India?

**Dhruv Sawhney** Well, the current policy is well known to everybody. We feel that we are very strongly taken up with government so there have been a number of media reports that there is no need for this policy now to continue. It is time for reversal of this policy when there is a problem of cane price payment to the farmers, so we expect government to take hit of it fairly soon and to stop the import at zero duty of sugar because this is very anti-farmer. So we expect this to happen fairly shortly.

**Sunil Jain** And what is the landed cost of imported white sugar right now?

**Dhruv Sawhney** For white sugar, the premium is gone up by Rs. 25 to Rs. 26.

**Sunil Jain** This will be the landed cost including freight and everything.

**Dhruv Sawhney** Yes.

**Sunil Jain** And sir one last question. For all sugar businesses, that is including power related and ethanol, what could the replacement cost be for Triveni?

**Dhruv Sawhney** To give you an off the cuff reply of that sort is really quite difficult.

**Sunil Jain** If we can say about 7000-TCD plant?

**Dhruv Sawhney** We have not got these market figures right now and we do not go in that direction.

**Sunil Jain** Suppose the new plant needs to be set up?

**Dhruv Sawhney** We actually do not go into the direction of looking at replacement cost today. So the management is not evaluating the figures.

**Sunil Jain** Okay, thank you very much.

**Moderator** Thank you Mr. Jain. Our next question is from the line of Saurabh Shah, an individual investor. Please go ahead.

**Saurabh Shah** Yes my questions will be related to the demerger. Currently, the new company Triveni Turbine Limited has 10 crore of capital?

**Nikhil Sawhney** Exactly.

**Saurabh Shah** Yes So is the retail business is into this company?

**Dhruv Sawhney** The Company was called Triveni Retail Venture; the name has been changed to Triveni Turbine.

**Saurabh Shah** Okay, so there is no business currently in the company?

**Dhruv Sawhney** That is correct.

**Saurabh Shah** And the new business, current manufacturing business will be transferred to this company, not to the JV?

**Dhruv Sawhney** Correct.

**Saurabh Shah** What would be the capital structure of the demerged business?

**Dhruv Sawhney** It will be one-for-one shares, so it will be 10 crore plus capital right now 25 crore..

**Saurabh Shah** Will there be any debt of the current business?

**Suresh Taneja** It will not be substantial at all because all the assets and liabilities of this business will be transferred as per the income tax. So, there is a split in system of allocation but it is not expected to be substantially at all.

**Saurabh Shah** Okay and the other JV would be doing the spares and the marketing business, or is the manufacturing going to Turbine?

**Dhruv Sawhney** Spares and marketing, the JV is doing engineering, marketing globally which is a huge affair. The turbine is only 45-50% of the total turbine island, so the balance of plant would be ordered and like the alternator and oil system, etc., would be done by the JV.

**Saurabh Shah** Okay, so Triveni Turbine will be transferring its manufactured products to the JV and then JV will add value to it and then sell?

**Dhruv Sawhney** Correct.

**Saurabh Shah** The capital would be bought by GE in the new JV business?

**Dhruv Sawhney** No, I gave you the idea of the share capital split already which is 50 plus one share for us and 50 minus one for GE.

**Saurabh Shah** Yes, can we have the amount?

**Dhruv Sawhney** The amount will be decided as per our joint decision.

**Saurabh Shah** Okay, but as there will be no business, will the amounts be equal?

**Dhruv Sawhney** I will give you the share holding percentage, so you can work that out and the accordance to the share holding percentage.

**Saurabh Shah** And we will be listing the Triveni Turbine business by the year end or something or immediately after demerging?

**Dhruv Sawhney** Yes correct.

**Saurabh Shah** Okay, thank you very much.

**Moderator** Thank you. Our next question is from the line of Sandeep Somani of HSBC. Please go ahead.

**Sandeep Somani** What is the execution cycle for the turbine order and water business?

**Dhruv Sawhney** As I said, the turbine varies from 8 to 12 months as some going in and the water business also is between 12 to 15 months and gears are 6 to 9 months and some goes to 12 months. So, it is a mix.

**Sandeep Somani** Sir my second question is in regards to the sales growth which we have seen in the first half of the execution ramp up when we look at the Y-on-Y increased at the start of the year on the order book that was not substantial apart from water business, so is it fair to say that there has been a huge ramp up and their projects which were delayed or were on hold has started execution at a very fast pace?

**Dhruv Sawhney** Absolutely right. I would not say not at very fast pace, but there have been many customers who were in the process of reevaluating and refinancing and all and they had given us some advances and they are all came into high execution mode and more are expected in the next quarter.

**Sandeep Somani** Right thirdly is regards to your water business which you are anticipating that there could be a substantial order inflow in next quarter per se because of your confidence on the bidding, does it indicate that your water business can substantially be bigger for the next year and would be a huge growth driver because currently it could be around Rs.150 to Rs. 200 crore in a single quarter you are expecting Rs. 300 crore order which will mean that if I look at the execution cycle next year could there be another substantial increase on Y-on-Y term?

**Dhruv Sawhney** No, actually these execution cycles in some of the projects go to two years and over.

**Sandeep Somani** If I understand correctly could the incremental orders have a long gestation execution?

**Nikhil Sawhney** But to give you an idea in terms of growth rates we still believe that on an compounded annual basis that it will grow in excess of 50-60%.

**Sandeep Somani** Water business per se?

**Nikhil Sawhney** Yes for the next 3, 4, 5 years.

**Sandeep Somani** Right. My question again on water business part is being the margin size has eased up a bit, it was like 13-14% last year that come up to 11%; I am trying to understand that.

**Nikhil Sawhney** It is cyclical but I think from an expectation view point as an investor, this is a business that will necessarily operate at lower margins than our turbines and gears business. I have just given you the sheer number bought outs that have to be bought by this business. So, if it is within the range of 10 to 15%, I think that is where we would stay or if it goes from 14 to 11, it is question of quarter-on-quarter, we believe that the margins should reflect an improvement in the coming quarters.

**Sandeep Somani** Right, so we can treat this as one-off at 11% but it can be higher than this margin going forward?

**Nikhil Sawhney** We are hopeful of that, yes.

**Sandeep Somani** Lastly, just a bookkeeping question, you shared the levy part of it as far as your quarter 2 is concerned, can I ask for the first half levy component sold in the total volume sold?

**Suresh Taneja** I think the total levy sale has been 1.65 lakh bags

**Sandeep Somani** 1.65 lakh bags for the first half?

**Suresh Taneja** That is right.

**Sandeep Somani** And for the current quarter, it was 1.46 lakh bags?

**Suresh Taneja** That is right.

**Sandeep Somani** Okay, thanks a lot sir.

**Moderator** Thank you Mr. Somani. The next question is from the line of Anup Ranadive from Tower Capital. Please go ahead.

**Anup Ranadive** Could you give us number of your closing stock inventory at the end of H1?

**Suresh Taneja** Total inventory we have is 35.04 lakh quintals and out of which levy is about 6 lakh quintals.

**Anup Ranadive** And the balance is white sugar, refined and cane sugar?

**Dhruv Sawhney** 35 lakh quintals includes both converted raw sugar and cane sugar.

**Anup Ranadive** Okay perfect. You are expecting the levy price could get revised upwards from Rs. 13.5 to about Rs. 18 odd, so would that be applicable for the current sugar season FY10 or would that be for the next season starting October?

**Dhruv Sawhney** No, this is for the current season from 2009-10. This is for the season for which the FRP has gone up, minimum support cane price has gone up and that is the driver for the revision in the levy price.

**Anup Ranadive** But the FRP of Rs. 129 odd was announced for the current year and FRP which has gone up to Rs. 139 point odd that is for the next year right?

**Dhruv Sawhney** Yes.

**Anup Ranadive** My question comes to the same thing, if you are expecting the levy price to go up and then wouldn't that be for the next season?

**Suresh Taneja** No, this revised levy price which we are talking about is corresponding to FRP of Rs. 129.

**Anup Ranadive** This is for the current season, so that means of all the companies which have already dispatched the levy sugar, would government give them a retrospective effect in the change in the levy price?

**Tarun Sawhney** Only for this year in a petition that was filed by the industry, the government made a counter that they will be increasing levy price for this current year. Yes, certainly we can expect further increase in levy price next year whenever that happens, but for this year's crush the government is expected as they have mentioned in the courts.

**Anup Ranadive** Again that would be a retrospective effect?

**Dhruv Sawhney** For this year's sugar only. If we had sold any sugar belonging to 2007-2008, that will not be applicable.

**Anup Ranadive** Right and do you expect that the 20% levy can again go back to 10% next year?

**Dhruv Sawhney** We are hoping that it will be decontrolled.

**Anup Ranadive** Okay perfect sir. That should be all from my side.

**Moderator** Thank you. Our next question is from the line of Sangam Iyer of Alpha Accurate Advisors. Please go ahead.

**Sangam Iyer** Sir, just to reconfirm the total capital employed in the steam turbine segment is around 34 crore, right?

**Dhruv Sawhney** That is right.

**Sangam Iyer** I was just trying to reconcile with the last year and last quarter numbers, our capital employed has gone down from around Rs. 75-80 crore. Could you just help me out with that?

**Suresh Taneja** It is mainly to do with the advances from the customers. Advances from the customers are much higher at this quarter leading to low capital employed.

**Dhruv Sawhney** This is in connection with the increase in business and the increase in business going forward. The earlier question on whether order on hold will come through is really fructified in these increased advances in the last quarter.

**Sangam Iyer** Okay and could you also help me out with the orders that you have bid for in the steam turbines, is there anything in the pipeline that one would look at?

**Dhruv Sawhney** Absolutely. We have got orders-on-hand for 1000 megawatt and more importantly I think it is a good question. We have our technology that we developed on going to higher pressure, higher temperature, 85 bars and 515 degrees centigrade moving up to 525-530 and 105 bars. We have had a lot of success in these lines. So we have been able to both upgrade our technology into these high pressure, high temperature turbines and also expand the size of turbines to 25-30 megawatts. These are actually the reasons for the increase in our confidence level of orders going forward and the current orders that we have today.

**Sangam Iyer** Thanks a lot for that. But could you provide some visibility on the pipeline also other than the orders that we have in hand?

**Dhruv Sawhney** Are you talking about the steam turbine?

**Sangam Iyer** Right and for the engineering segment as a whole as well that could be very helpful. Like you indicated that we have bid for Rs. 600 crore in the water segment of which we are confident of 50% kind of strike rate over there, something similar with the steam turbine and gears as well.

**Nikhil Sawhney** Like we said earlier, where we believe that the engineering business should grow as a whole by at least 40% in this current year, we are looking to sustain those growth rates in the next year if not exceeding that.

**Dhruv Sawhney** You look at where India is going in terms of both biomass, other industries, industrial growth rate for the country as a whole and also the increase in domestic consumption in all the areas that we are looking at whether it is steel production, cement production, these are all industries that are pretty much on the anvil and needed for the sustaining growth of 8% in India. So, it is a good line that we are in. Competition in our line up to 30 megawatts is virtually absent from the Chinese now. Siemens and we have driven them out of the market, so there is very little imported competition of turbines.

**Sangam Iyer** The 40% growth in the engineering segment as a whole, would it be proportionate from the steam turbine, gear, and water or which particular segment do you see would be the larger contributor?

**Dhruv Sawhney** Water.

**Sangam Iyer** Thank you.

**Moderator** Our next question is from the line of Anshul Saigal of Kotak Portfolio Management. Please go ahead.

**Anshul Saigal** I would like to now what the consideration is from GE for that 50% stake which is being transferred to them?

**Dhruv Sawhney** No, there is no consideration, this is an equity capital. This is the share holding in the company.

**Anshul Saigal** Correct, that unit was in Triveni Turbines.

**Dhruv Sawhney** No, this is a new business.

**Anshul Saigal** Correct, but that unit was already in Triveni Turbines?

**Dhruv Sawhney** No, you got it wrong. Let me just tell you. This is a new business from 30 to 100 megawatts, a new business. Triveni Turbines is investing 50% plus one share and GE investing 50 minus one share and the capitals that new venture has.

**Anshul Saigal** But the Bangalore facility is being transferred to the JV or is it?

**Dhruv Sawhney** It is not. And it is still in Triveni Turbine.

**Anshul Saigal** Alright, I got the point. Thank you.

**Moderator** Thank you Mr. Saigal. Ladies and gentlemen due to the time constraints that was the last question. I now hand the conference over to Mr. Dhruv Sawhney and the management for closing comments.

**Dhruv Sawhney** Thank you. It has been a very wide ranging Q&A and thank you all for being there and I thank you for these stimulating questions on our engineering group and also on our potential venture for expanding our businesses not just in the joint ventures which we are going in for with GE. I think there were a lot of stimulating questions on our water business. We are also keen on our diversifications in our gear business. So we are very bullish on the two areas of water and power that our company is focused on along with the technology that we have happened to

develop and our partnership. So with that, I look forward to having you again on our next call. Thank you very much.

**Moderator**

Thank you Mr. Sawhney. Thank you members of the management team. Ladies and gentlemen on behalf of Triveni Engineering that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines.