

## Triveni Engineering & Industries Limited

### Investor/Analyst Conference Call Transcript

November 24, 2009

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**Moderator** Ladies and gentlemen good afternoon and welcome to the Triveni Engineering & Industries Limited FY2009 results conference call. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal an operator by pressing \* and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Gavin Desa from Citigate Dewe Rogerson. Thank you and over to you Mr. Desa.

**Gavin Desa** Thank you Melissa. Good day everyone and a warm welcome to all of you participating on FY2009 conference call of Triveni Engineering & Industries Ltd. we have with us on this call Mr. Tarun Sawhney and Mr. Nikhil Sawhney, the Executive Directors of the company along with Mr. Suresh Taneja the CFO and other members of the senior management team. I would like to mention before we begin that some of the 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 has been emailed to everybody earlier. Also I would like to emphasize that while the call is open to all invitees it may not be broadcasted or reproduced in any form or manner. We would start the 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 handover to Mr. Nikhil Sawhney to share some perspectives with you with regards to the company's operations and the results for the year under review. Over to you Nikhil.

**Nikhil Sawhney** Thank you Gavin. Welcome everyone to the FY2009 and Q4 results with Triveni Engineering & Industries Limited. We are very happy to have posted our best ever results of the company. Net sales were up by 19% at Rs. 1,895 crore. EBITDA went up by 42% to Rs. 453 crore and PAT stood at its highest ever Rs. 170 crore up 52% over the previous year. EPS for the year stood at Rs. 6.58 per share.

Our sugar operations achieved a growth in turnover of 41% with an EBITDA growth of 179%. This was based on a 45% increase in realizations while the increase in physical sales of sugar was 4%. Our cogeneration and distillery operations on account of the lower crush of the sugarcane has recorded a decline in turnover by 19% and 27% respectively however the sugar business (including co-generation and distillery) achieved a 30% growth during the year at the same time reflecting certain transfer prices between the two of the three businesses.

The engineering business, inspite of the global financial crisis registered only a marginal decline in turnover and EBITDA, though if you would look at our Q4 results our turnover and profitability rose substantially to recover from the first half of the year where we did see a slowdown in both order intake as well as dispatches. Profits before tax for the company as a whole stood at Rs 243 crore, an increase of 81% during the financial year.

And the company has proposed a dividend of 100% for the full year with an already declared interim dividend of 30%.

The order book for our engineering businesses stands at Rs. 748 crore out of which Rs. 495 crore is in our turbines business, Rs. 199 crore in our water business and Rs. 54 crore in our gears business. In our turbines business we have successfully expanded our range in terms of both pressure and temperature and have achieved success in the 20 and 30 megawatt capacity range which we have entered recently. We are optimistic in this business and our enquiry book reflects our optimism to the extent of projecting a 20% to 25% growth in the coming year. Margins should be stable in this business with an increased focus on the after sales business of turbines.

Our water business continues to grow very rapidly and we are projecting a growth in excess of 50% to 60% in the coming year, given the focus both from industrial and municipal clients in this sector. Our focus on the high technology end of this business has allowed us to get substantially higher margins that we believe exists currently in the industry. Though given the high growth going forward we think that margin expansion in this business would be difficult.

Our gears business has recorded a similar turnover to last year but given the focus on this business to the refurbishing and retrofitting business of gears and loose gears as well as certain value added niche low speed gear applications., we believe that this business will record a higher growth than 20% to 25% in the coming year. While margins were at 33% for the full year, it may come down marginally to about 30%. Having said that I would like to pass the conversation on to Mr. Tarun Sawhney to talk a little bit more about the sugar situation.

#### **Tarun Sawhney**

Good afternoon, as you all know Triveni is one of the largest players in the Indian sugar sector with a present capacity of over 61,000 TCD. We had manufactured 335000 tons of sugar in the past sugar season, which was a decline of 42% from the previous year. However, the improved sugar results as it was mentioned, a direct result of higher sugar realization and the average realization for the past fiscal year stood at Rs.21,590 per ton.

With respect to the industry scenario, the industry has passed through a difficult and challenging year. With respect to crush, last year saw some of the worst statistics in terms of yields per hectare and recovery of sugar from sugarcane was also the lowest in over a decade. To accentuate the situation the diversion of cane to alternate sweeteners was also the highest in comparison to other years. The country's and Uttar Pradesh's sugar production declined by 45% when compared to the previous season at 14.6 million tons and 4.0 million tons respectively.

There are several primary factors which contributed to this. The first of course was the lower area under sugar cultivation at a decline of 13%. Lower yields which also declined by about 12% last year and a lower recovery. Lastly, of course higher diversion to the extent of 55% to 60% in Uttar Pradesh to alternate sweetener manufacturers. However sugar prices rose continuously from January 2009 and a sudden rise in July 2009 on account of the total estimated lower production of the country, allowed us to achieve very favorable realizations. Subsequent to that, the Government of India has passed an ordinance regarding the fair and remunerative price for sugar cane. This ordinance has been withdrawn as you all know. And at the same time the Government of Uttar Pradesh announced a state advised price for the current crushing season of 2009/2010 at Rs.1,650 per ton for normal variety of cane.

Global sugar prices during the year have risen by about 70%. Furthermore the year also saw international sugar prices touching a 28 year high. We anticipate that sugar prices internationally going forward will remain robust for the next 6 months. Following that, the imponderables are significant with respect to crush from Brazil, crush from Thailand and other large sugar producing nations and of course the recovery in India to the extent of approximately 10% of production.

In addition, with respect to outlook, we anticipate a domestic production of 16 to 16.5 million tons of sugar for the following season. This will lead to a demand supply gap of approximately 6 to 7 million tons of sugar. We expect that over 3.5 to 4 million tons of sugar has been imported to meet this deficit. However there are significant imports pending in order to cover the demand supply gap.

The Government of India at the same time has increased the time period for the import of white sugar and raw sugar domestically, giving domestic manufacturers sufficient leeway to be able to support market prices. We anticipate an increase in sugar production of about 10% to 15% across India, however we believe that the production increase in UP should be more than the national average on account of the lower yields and lower recoveries last year and the anticipated higher yields and higher recoveries this year. Accordingly we at Triveni expect a better cane crush in comparison to last year. We anticipate growth of approximately 20% in our sugar production. In addition to that of course we will be processing 90,000 tons of raw sugar that was imported last year during this current crushing season.

**Nikhil Sawhney**

Let me add to that. 3 of our sugar factories have already commenced production and another one is expected to start today and the rest will follow soon afterwards.

Debt position as on 30<sup>th</sup> of September 2009 was Rs. 830 crore net of Rs.150 crore of cash we expect this to reduce by approximately Rs. 200 crore going forward. Our interest levels for the year were about Rs. 115 crore which is expected to go down significantly in the coming year by about 40%. With that I would like to now give it back to you for your questions.

**Moderator**

Thank you sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Mr. Nirav Vasa from Gupta Equities. Please go ahead.

**Nirav Vasa**

I had a query related to your levy sugar which was dispatched in FY2009. As you are aware, the change in levy quota from 10% to 20% was implemented in the last quarter of FY2009. I wanted to know what is the actual amount of sugar that was dispatched in levy quota for FY2009 and at what price?

**Nikhil Sawhney**

The levy obligation is for the crushing year and for the sugar produced in the crushing year 2009/2010. We sold 1,23,000 tons of sugar in the last quarter of 2008/2009 and have a carry forward stock of approx. 65,000 tons of which approximately 200 tons is levy.

**Nirav Vasa**

And the realization was Rs.31.30?

**Nikhil Sawhney**

the average free sugar realization for the quarter was 27.05 per kg.

**Nirav Vasa**

So when do you expect the price of levy quota to be implemented because I believe the talks are still on for Rs.20 per kg in levy quota. Would it be applicable in this year or the coming year? Or will it still take sometime for that?

**Tarun Sawhney**

The increase from 10% to 20% will be enforced for the current crushing season so we will be supplying 20% of the whole sugar produced from cane as levy. There is a discussion on with the government and the government is closely considering the increase in levy price. Given the recent ordinances however it would be imprudent to mention as to what that price point would be. People have of course spoken about a figure close to yours, however until that is announced by the Central Government it would be difficult to comment on.

**Nirav Vasa**

Any idea about the ethanol pricing contracts by the oil marketing companies? Has there been any hike from Rs. 21.50 in awarding new contracts?

**Sameer Sinha** The tenders are already out and they have been submitted. Looking at the lower crush of sugarcane and the molasses availability, we are estimating that there will be an increase in the ethanol prices. However, it will not be right as to comment on the exact price which we would get but people have been speaking about Rs. 26.

**Nirav Vasa** Can you give some idea about the inventories that you have of sugar?

**Nikhil Sawhney** We have 65,000 tons of inventory.

**Nirav Vasa** What is it valued at?

**Suresh Taneja** It is valued at about Rs. 2,050 per quintal.

**Nirav Vasa** As of now, what is the cane price that you are paying for the three factories where the operations have already begun?

**Tarun Sawhney** Excellent question, the UP Sugar Mills Association has announced a Rs.15 incentive towards cane development in addition to the state advised price. This would equate to Rs.180 per quintal of sugarcane for general variety. At our three factories and the fourth one started this morning we are paying exactly that amount.

**Nirav Vasa** Are the farmers still ready to supply to you at this price or they are still interested on getting higher prices because I believe the farmers are insisting at about Rs.200 per quintal for cane.

**Tarun Sawhney** Factories which have started are the ones in Central UP and Eastern UP. Our Western UP factories are yet to start. You are right in assuming that there has been a certain amount of agitation and are well publicized of course. We anticipate that we will reach a conclusion very shortly and we are hopeful to start the factories. With respect to price points, our goal is to focus on the current price being offered by the industry to the farmers. However, the situation is very dynamic.

**Moderator** Thank you Mr. Vasa. The next question is from the line of Sandeep Somani from HSBC Securities. Please go ahead.

**Sandeep Somani** First question is in regard to sugar. This year we see that across the board, most of the companies would be paying a higher cane price than last year. I just want to understand how it stakes up as compared to a competitive crop like rice and wheat and will these trends really mean that the swing for the next year on the acreage perspective can be substantial and what would be the breakeven between rice plus wheat crop? My second question is in regard to the turbine business. Where are the demands that you are looking at as far as new area and ramping of the order book is concerned?

**Tarun Sawhney** To understand the crop cycle, the sugarcane crop cycle is a two year crop cycle where you have plant and ratoon, followed by wheat that would be a two year crop cycle. Similarly the basis of comparison that you are comparing with rice and wheat and a rabi crop, a summer crop, would be the basis of comparison. Now to add the kind of price levels that we have announced, we anticipate that this would be attractive for farmers to bring more area under cane. Clearly if prices do rise in future the incentive to bring more area under cane will only increase.

**Nikhil Sawhney** Sandeep you have to look at it in the light of state history. In 2006/2007 India produced 28.3 million tons of sugar from 5.1 million hectare of cane area. Historically about 50% of cane acreage is in the state of UP and if you look at it, the availability of cane to sugar factories is significantly determined by the drawl rate. In 2006/2007 you had actually the highest recovery rates in the county for the past decade, you had the highest yield rates as well. Because the sugar prices fell dramatically the drawl rate was significantly lower and would be higher than the average. So considering all these factors you had the maximum cane availability to sugar factories, given the highest acreage that India has

ever seen. I think for you to postulate as to what the new crop will be sown for next year we will have to keep into consideration that these are the factors as well in determining what the total sugar produced in the country could be.

As far as turbine business goes, we are a dominant manufacturer of steam turbines in the range of below 20 megawatts and in the 20 to 30 megawatts we are slowly but surely developing as a rising competitor to the established players. The sectors in which we see demand of course are because we stretch from all process industries ranging from biomass which maybe IPP, cogeneration, sugar to other sectors be it chemicals, cement or other waste to heat demands.

- Sandeep Somani** Which are the industries which you think would be the frontrunner to improvement as far as the order book of turbine is concerned? When you look at the inquiry, which are the industries in which you see a pickup coming in?
- Nikhil Sawhney** The fact is because of the opportunity cost of power as well as a fact that the rates at which merchant sales are being done, most of the applications are for power generation. They maybe in different industries, maybe in steel or cement or paper or chemicals but the applications is for power generation even at a small capacity.
- Sandeep Somani** My last question on the turbine side is that after this proposal or a likelihood of open access being allowed for the UP based companies, do you see that the smaller factories in UP would be in a position to expand capacities below 20 megawatt and will bring in substantial business for turbine for Triveni in near future?
- Tarun Sawhney** Yes we do look at it in that way, but you would also have to see it in light of availability of raw material which is coal in that case. So in a longer term yes we do think that distributed power is the way forward.
- Sandeep Somani** Lastly from the sugar pricing perspective looking at the way the demand supply is panning out what kind of expectation do you as a company have?
- Nikhil Sawhney** What Tarun had said earlier was that we have a current production deficit of approximately 6 to 7 million tons with about 4 millions tons having either contracted or imported into the country already. We have a requirement of importing another 3 million tons into the country which will primarily go into building up a stock as of 30<sup>th</sup> of September 2010. So you would have to keep two factors in mind which will be firstly we will be determining prices on import parity basis, while we expect the market fundamentals to be strong for most part of the year, it is unknown for the second half of the year. We would anticipate a price on average of around Rs. 32 for Triveni.
- Moderator** Thank you Mr. Somani. The next question is from the line of Amit Dalal from Amit Nalin Securities. Please go ahead.
- Amit Dalal** I would like to ask two questions. One was that news has been going around that perhaps one of the leading sugar companies, your competitor is for sale and some bidding process is on in that regard. If there was such a consolidation taking place in which you may or may not participate, first, do you think it is a great opportunity to participate in or left to someone else to consolidate would that be a major threat to you, that is one question. And the second question is regarding turbines which I would like to reiterate from what I just heard the other participant speak. Do you see demand much better this year going forward or did you see demand perhaps better in the last two to three years, because CAPEX cycles have slowed down countrywide?
- Nikhil Sawhney** Well to talk about the news factors, we read in the paper as you did, we really do not have much comment on it. In terms of consolidation in the industry, we believe that it would make very marginal sense only on adjoining cane areas for the reason that given the capacity that people have there is very little bargaining power either on input cost as well as or output. On our turbine business the growth in CAPEX that we saw both



brownfield and greenfield in the years 2004/2005/2006 was actually significantly higher, but given the fact that we have been able to expand our markets through research and development we are going to be able to reflect the growth within ourselves.

- Amit Dalal** So what we concur is that if the raw material cost and the final selling price which really makes the difference and the diversification, rather than buying more sugar capacity through consolidation which can change the parameters for working is perhaps not the right case?
- Nikhil Sawhney** Well no, I cannot speak for other people I just do not think that we are evaluating it in that light and so while other people may have different considerations, we may have got it wrong, I do not know.
- Moderator** Thank you Mr. Dalal. The next question is from the line of Sanjay Satpathy from Merrill Lynch. Please go ahead.
- Sanjay Satpathy** Can you tell us what is the total amount of levy sugar was that you sold during fiscal 2009 and how much during the last quarter?
- Suresh Taneja** I think during the fiscal 12 months we sold approximately about 43,600 tons for the full year and 2,600 tons for the quarter.
- Sanjay Satpathy** This equation will change to 20% in fiscal 10 is what you are suggesting?
- Suresh Taneja** That is right.
- Sanjay Satpathy** I missed the answer on the amount which you said about your gross debt including working capital. Can you share what you said again?
- Suresh Taneja** You know what Mr. Nikhil said earlier was that our total debt level as of 30<sup>th</sup> September 2009 is at around Rs. 830 crore which is working capital as well as the term loan. And what he further said was that it is likely to reduce by about Rs. 200 crore next year.
- Sanjay Satpathy** Can you tell us how much the cash position or how much the inventory will be and how much is the working capital?
- Suresh Taneja** The working capital is about Rs. 90 crore out of the total debts and balance Rs. 740 crore is the term loan.
- Sanjay Satpathy** And how much is the cash in the book in the year?
- Suresh Taneja** Most of the cash is basically parked in the cash credit account to avoid the utilizations. Roughly as of 30<sup>th</sup> September 2009 it is about Rs. 150 crore.
- Sanjay Satpathy** About your result, there have been some extra ordinary expenses. Are you in a position to give some further clarification as to when one would get to know what the uses for these are?
- Suresh Taneja** As regards to the extra ordinary expenses there are basically two or three types. The first one was in respect of a total cost incurred by us in terms of exploring new business opportunities which are related to our existing engineering businesses and the cogeneration business. Now this is an expense we also have booked in Q3. Apart from that we have provided for approximately Rs. 10 crore in respect of our retail venture which is a fully owned subsidiary and because they had accumulated losses to the extent of about Rs. 22 crore up to 30<sup>th</sup> September, we are exploring certain options and pending that on a conservative basis we have provided for about Rs. 10 crore. And the third element was basically in respect of earlier businesses of sugar plant, machinery etc. and there were various for legal cases going on. So because of the fact that a lot of

time has passed by and based upon the legal position, chances of recovery etc. we have again conservatively provided for a substantial from there. So we are still pursuing the litigation route.

- Sanjay Satpathy** So are there any such items which are going to have a further negative impact going into the next year?
- Suresh Taneja** As far as whatever is the cost we have incurred on new businesses there is no further angle. Now as far as retail venture is concerned they have accumulated losses of Rs. 22 crore and we have already provided about Rs. 10 crore. Now it actually depends on how things pan out for the next year whether some of the options which we are contemplating would actually materialize or not. The third is in respect to the legal cases and we have to be patient as there is not going to be any overnight development on those cases.
- Sanjay Satpathy** My last question is regarding the way you treat your off-season expenses? In the sense how much of your cost will go up once we get into the next year because of the way you treat your off-season expenses?
- Suresh Taneja** It is exactly the same as any other company except that whatever is the cost we incurred during the off-season, we charge of that cost in the end swing season, so this is what we have been consistently doing for all these years and it has got no impact on the P&L actually.
- Sanjay Satpathy** No, we are just trying to understand it from a quarterly point of view. How much has it benefited and how negatively will it impact subsequent quarters?
- Suresh Taneja** Because of this accounting policy, right from Q1 sugar produced is stated at full cost of production. So basically in the case of Triveni our results are based upon the full cost of production, not based upon the progressive cost of production which some of the companies are following. So obviously as a result of that our Q4 is just like any other quarter, whereas in the case of many other companies Q4 is a little subdued.
- Sanjay Satpathy** Okay. Considering that you are guiding for a 20% higher sugar production then excluding raw material cost, what will be the cost per kg of the conversion cost for the sugar segment in fiscal 2010?
- Tarun Sawhney** It is very difficult to actually give you an answer for the following year because the sugar season has just started. We are paying a price of Rs.180 per quintal of sugar. We anticipate that this price may increase. However we cannot offer any guidance.
- Sanjay Satpathy** No, excluding the raw material cost and excluding sugarcane cost how much would be the cost of your conversion during fiscal 2010 be?
- Nikhil Sawhney** Well there are two things, one is if you looked at the sugar season 2008/2009 we had a substantial lower crush for this year we are projecting not only in terms of crush but as well as of blending of raw sugar in it. What this led to is two factors, one is balance sheet inefficiencies in terms of allocation overhead or a per bag basis and secondly operational inefficiencies in terms of operating our boiling capacity and centrifugal capacity at below capacity. This has led to our conversion cost of about Rs. 3,000 net which we expect it to come down into coming year.
- Sanjay Satpathy** Okay. So one can safely say that it will come down by 20%?
- Suresh Taneja** I think one actually does not know because since you would be processing raw sugar also, I think it will be safe to assume that the conversion cost would be the region of about 3,000 tons.

- Moderator** Thank you Mr. Satpathy. The next question is from the line of Achal Lohade from JM Financials. Please go ahead.
- Achal Lohade** Couple of questions, one on the cane pricing as you said you are paying Rs.180 per quintal. We have been reading some news reports saying that it is with a condition that whatever highest cane prices paid by any of the sugar mills in the state are you have to match the cane price for everybody. Just wanted to get a clarification on that side?
- Tarun Sawhney** It is very difficult to tell you what is going to happen this year but let me give you some factual position of previous years. Yes they have been interim increases in cane price, however this is usually on the regional basis. So you can look at the state of Uttar Pradesh's three broad regions west, central and east. A price increase if it occurs like it did last year in west UP did not impact central and did not impact east. So a particular increase in price does not mean that it is going to be uniform increase in price across our seven factories. Just to remind you we have three factories in West UP, three in central and one in East UP.
- Achal Lohade** Right. Just one clarification on that. When we give out the receipt are we mentioning anything like any conditions on that about the pricing?
- Tarun Sawhney** That is a good question, on the receipt we are certainly mentioning the state advised price of Rs.165 for general variety and a Rs. 5 premium for early variety and a Rs. 2.5 discount for rejected varieties and in addition to that we are mentioning that the company is paying a Rs.15 cane development incentive which is not the price, it is the development incentive.
- Achal Lohade** Right. And secondly today's news report says that the government may consider re-refusing Bhargava formula of sharing the 50% of extra realization, 5A. So I just wanted to get a clarification from your side. What exactly is the clause and how do you see impacting the industry generally and particularly Triveni?
- Nikhil Sawhney** Well if you look at it for the previous year the point is that on a SAP basis it comes to approximately the same thing as sharing.
- Achal Lohade** And what do we mean by extra realization?
- Tarun Sawhney** If you look at Rule 5A, it talks about profit sharing based upon the total cost worked out on SMP basis. If you pickup the track record of the earlier years, whatever is the extra cane price which under Rule 5A, was well absorbed between the SAP which the factories were paying. So I do not really think the things would be radically different, This year also your SMP or FRP whatever maybe the case is less but your SAP is very high so it is quite likely that the extra price based upon 5A would be well absorbed within SAP itself.
- Achal Lohade** Recently one of the leading players in the industry, the management guided that the cane planting in Maharashtra and Karnataka can go up by 30% to 40%. They are expecting production of 22 to 23 million tons next year. First of all is it possible and secondly what is your sense on next year's production number?
- Tarun Sawhney** The following year's productions number is certainly going to be higher. We do not traditionally give guidance for longer cycles. Maharashtra of course is in a different position because their cane planting cycle is very different than UP and therefore in Maharashtra and Karnataka it is easier to forecast two seasons ahead. Here in UP it is dependent on two planting cycles most dominant is of course your spring planting and some contribution comes from your autumn planting. The autumn planting of course at the moment has suffered because the factories have not fully started. However, we anticipate spring planting to be very good this year and certainly there will be an increase. It is difficult to give you a number as to what the increase would be and of course we do not provide guidance for two years ahead for all India production.



**Achal Lohade** On the spring planting, given a little bit of uncertainty on the cane pricing, how do you see the situation? Would the farmers be comfortable planting cane since we have seen a little bit of litigations in the past?

**Tarun Sawhney** The prices being paid to farmers for sugarcane are the highest in the history of the state of Uttar Pradesh, I do not anticipate any problems in farmers going ahead and planting cane at these prices.

**Moderator** Thank you Mr. Lohade. The next question is from the line of Rishabh Bothra from B&K Securities. Please go ahead.

**Rishabh Bothra** Could you give some highlight on the FRP system ordinance, before and after dissolution?

**Tarun Sawhney** The ordinance was passed by the Government of India and then subsequently a particular line was deleted in that ordinance which was with respect to FRP. The FRP concept was a fair and remunerative price to be paid to farmers which included a return to a farmer, so it is remunerative price. However, that clause has now been deleted from the ordinance. And the impact to that is unclear at this time, because the government is looking at several other options of what to do in place of that with respect to pricing and its impact on levy and the extra portion to be borne in states which have SAPs. So it is a complicated question. However, it does certainly mean that the obligation of any increased price per state and SAP will not be borne by a State Government at this time.

**Rishabh Bothra** But let's say if the SAP is Rs. 165, FRP was Rs. 130 and if miller says Rs. 200 so that state government will be bearing Rs. 165 - Rs. 129 and the remaining above Rs. 165 would be borne by the miller?

**Tarun Sawhney** Hypothetically yes.

**Rishabh Bothra** And the levy price would be fixed as per FRP or SAP?

**Tarun Sawhney** Levy price would be fixed as per SAP wherein the incremental amount between FRP and SAP would be to the account of a State Government and the balance to the Central.

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

**Kaushik Poddar** You have guided for a 20% increase in the amount of sugar to be crushed this season. And you have also done some work on the productivity of the sugarcane going up, etc. So can you talk about that as well?

**Nikhil Sawhney** Our initiatives are several in terms of cane planting and cane development. We have several trial plots. None of them are in mass scale to cover a 2,50,000 farmers. We are hopeful that we will have increased participation from our farmers in these initiatives, which not only reduce their cost of production but also improve their net realization per hectare. If you want some figures the development initiatives lead to approximately 85% reduction in seed, 60% reduction in water, and therefore proportionate reduction in pumping cost as well as fertilizer pesticides but at the same time improve yields by between 35% to 50% as well as recoveries which is on the book of the companies only by about 0.5% to 1%.

**Kaushik Poddar** Now in that case if you are talking about 20% increase in the crushing of sugarcane, can you talk about the increase of production of sugar. Will it be up by say 25% or something in terms of sugar?

**Nikhil Sawhney** We anticipate about 20%, the same proportion.

**Moderator** Thank you Mr. Poddar. The next question is from the line of Jai Prakash Toshniwal from ULJK Securities. Please go ahead.

**Jai Prakash Toshniwal** Good afternoon, what amount of your diversion of sugarcane you expect for the alternate use this season?

**Tarun Sawhney** Previous season, UP saw ~ 55% of cane being diverted to gur and khandsar as well as being used for seed and chewing. We expect diversion to come down this year by about 5%.

**Jai Prakash Toshniwal** As you are expecting a good crop in the spring season and the production is going to be higher on sugar overall in the full year. You said you will be paying Rs.180 for the sugarcane. So how much can you expect this number going up? I mean how much comfortable are you up to Rs. 200 or Rs. 210?

**Tarun Sawhney** It is very difficult to give you guidance on what we are comfortable paying. At the moment that the industry has decided to pay Rs.180 a quintal which would include a Rs.15 per quintal cane development incentive. In terms of comfort levels it is very difficult to anticipate that at this time.

**Jai Prakash Toshniwal** What amount of raw sugar have you imported this year on a full year basis?

**Nikhil Sawhney** 90,000 tons approximately.

**Jai Prakash Toshniwal** Anything in this coming quarter?

**Tarun Sawhney** Nothing in this quarter, however, this is a market driven transaction and decision and based on international market prices we always keep our options open.

**Moderator** Thank you Mr. Toshniwal. The next question is from the line of Hitendra Gupta from SPA Securities. Please go ahead.

**Hitendra Gupta** How much was the cane crushed for this full year?

**Nikhil Sawhney** 3.73 million tons of cane was crushed in 2008/2009.

**Hitendra Gupta** And we are expecting 20% rise in the next year right?

**Nikhil Sawhney** That is right.

**Hitendra Gupta** And what would the recovery rate be for this year?

**Nikhil Sawhney** The recovery rate would be better than last year because we had historically low rates. You will have to see through the course of season how it ends up because you have two crops of both the ratoon and the plant crop to go through. I think by the time we speak in January we will have a better idea. Our indication right now is that it should be better than last year.

**Hitendra Gupta** How much was it last year?

**Nikhil Sawhney** 8.98%.

**Hitendra Gupta** And the raw sugar which we sold last year would be?

**Nikhil Sawhney** We never sold any raw sugar.

**Hitendra Gupta** Okay. And we have imported 90,000 tons this year?

**Nikhil Sawhney** 90,000 tons.

**Hitendra Gupta** And what price would it be?

**Nikhil Sawhney** I do not think we have actually talked about the price but it is very remunerative.

**Moderator** Thank you Mr. Gupta. The next question is from the line of Vivek Kumar from Anand Rathi. Please go ahead.

**Vivek Kumar** What is the current recovery rate you are seeing in your crushing?

**Nikhil Sawhney** Well see between 7.5% to 8%.

**Vivek Kumar** And what do you expect going forward?

**Nikhil Sawhney** Clearly the recoveries will rise. It is just a start of the season. Season has started only over the last five days. And traditionally it is slightly older cane that comes to the factory first and you see a gradual but steady rise in recoveries once you achieve regular crush.

**Vivek Kumar** And what was the recovery in the early days in last year?

**Nikhil Sawhney** Very similar.

**Vivek Kumar** So do you still expect that the recovery rate for the whole year would be between 9.5% to 10%?

**Nikhil Sawhney** No we never gave guidance of that.

**Vivek Kumar** What recovery do you expect then?

**Nikhil Sawhney** We expect the recovery to be a little bit higher than last year. Last year was just a shade under 9%.

**Moderator** Thank you Mr. Kumar. The next question is from the line of Anubhav Bansal from Aadhar Securities. Please go ahead.

**Anubhav Bansal** Is the company eligible for any of the debt under the SDF?

**Suresh Taneja** Yes of course we are under multiple schemes of the SDF which include cane development modernization, etc.

**Anubhav Bansal** What is the kind of debt under the SDF at the moment?

**Suresh Taneja** I think roughly in the region of about Rs. 65 to Rs. 70 crore.

**Anubhav Bansal** Any plans of converting some of your debt into this SDF?

**Suresh Taneja** I think we have a few applications pending with the SDF department and also in respect of cane development we will be taking some more loans.

**Anubhav Bansal** What will be the average cost of your raw sugar contracted?

**Tarun Sawhney** We have not really disclosed, the average cost; however, this sugar was purchased in late February/March. Half away then the other portion was purchased in May. So at a very remunerative prices.

**Moderator** Thank you Mr. Bansal. The next question is a follow up from the line of Sandeep Somani from HSBC Securities. Please go ahead.

**Sandeep Somani** My question is with regards to your credit CDM notes. Do you expect any CDMs being converted this year, credits from the cogen plant?

**Sameer Sinha** We expect about a 1,40,000 CRs to be issued to us this year. These would pertain to the year 2007/2008 for 2008/2009 even though we are targeting toward the end of this year but maybe it will get delayed by a couple of quarters.

**Sandeep Somani** So 1,40,000 is what you expect this year?

**Sameer Sinha** That is right.

**Sandeep Somani** This would be booked in the current year right?

**Sameer Sinha** That is right.

**Moderator** Thank you Mr. Somani. The next question is from the line of Dipen Sheth from Brics Securities. Please go ahead.

**Dipen Sheth** I had a question on your water business. Do you see the water division as just an extension of your involvement in turbines? In the sense that is it just boiler feed water kind of services or do you see a big future, because water is an emerging area and depending on the way you look at this business you might be able to take it to something which could be substantial. So what is the vision or what is the strategic intent with which you are driving this business?

**Nikhil Sawhney** Well, actually to explain this to you, this business is similar to our gears and turbine business in the concept that it is an engineered to order solution that we give to our customers and therefore the capabilities that we have within the organization are similar in terms of designing and process engineering. In terms of the market that we approach that are not similar at all. To give you an example, the 30 megawatt power plant would require boiler feed water capacity, to a requirement that we would probably not even make and would not offer to the market. We split our markets in two to three big distinct segments which is the municipal, industrial and equipment market. And it does operate on the your later comment of actually having a vision to cater to the requirements of all users in the country and the fact is with growth, it comes to scale in terms of the absolute amount that you are willing to actually quote on. So we do not actually look at the markets where our turbines are sold.

**Dipen Sheth** So does it have a flavor of being an EPC kind of business? Is this merely equipment supply or is it design services?

**Nikhil Sawhney** It is a solution orientated business where we actually do not call it EPC because we tried to minimize the quantum of civil content in our projects. But then you could call it EPC to the extent that it is end-to-end solution to a customer. But we try to minimize a civil content to actually have that place in other contracts to other people. This is full end-to-end service be it from design process engineering, to execution and O&M.

**Dipen Sheth** And there was a mention in your FY2008 annual report about a large 27 megawatt turbine supply to a sugar mill, right?

**Nikhil Sawhney** Yes.

**Dipen Sheth** May I ask which one?

**Nikhil Sawhney** That was to, the company called L.H. Sugar.

**Dipen Sheth** Okay. And how is it working now because I guess with the 27 megawatt turbine that would be the largest turbine you ever supplied?

**Nikhil Sawhney:** We have supplied a 30 megawatt as well and several others. In that range of 20-30 the fact is that it is working very, very satisfactorily and not only in terms of our stated technical parameters but it is exceeding it in most of those.

**Dipen Sheth** So would I be right in assuming that gross margins are generally better as the size of equipment goes up?

**Nikhil Sawhney** It depends when you enter the market.

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

**Anup Ranadive** You mentioned that you have contracted for 90,000 tons of raw sugar. My question is that have you already received the consignment?

**Tarun Sawhney** Yes we have, all of the sugar is in our factories.

**Anup Ranadive** And you also mentioned that you are looking forward to importing more raw sugar in this current season?

**Tarun Sawhney** We will have to see about that, there is no such big plan on that regards.

**Anup Ranadive** My question is that we have been hearing news that the UP Government has banned the import of raw sugar and also that any raw sugar processing would be done post the season ends which is typically March or April. Is there any truth in the news?

**Tarun Sawhney** No, the UP Government has not banned it. Certainly there was some agitation that received some publicity. However, there has been no ban that has been placed on the import of raw sugar within the State of Uttar Pradesh. To answer your second question regarding the actual processing time, a large portion of the sugar that has been imported to Uttar Pradesh will be processed with the current cane crop using the capacity utilization that has not been used by sugarcane.

**Anup Ranadive** Can you give us a sense of sugar situation in Brazil. When would the season start and what is the estimated production Brazil is looking at?

**Tarun Sawhney** Well the season in Brazil starts in March / April, so we are traditionally at the fag-end of the season in Brazil. However due to significant rains in the month of August and September where recoveries were the lowest in 4 or 5 years in Brazil in addition to which crush levels were also significantly lower and the production of ethanol and sugar was commensurately lower, we anticipate that the sugar mills in Brazil just like last year will go right through the season and you will see at least in the center south area, sugar mills crushing straight through into the next season.

**Anup Ranadive** Right. Any guidance on the number of how much Brazil might produce this year?

**Tarun Sawhney** About 30 million tons.

**Anup Ranadive** But there was some report released by some organization which anticipates that Brazil's production for the next season could go up to 38 million tons. So is there any kind of like sense in that and do you foresee this happening because if that happens then probably India's imports might ease out?

**Tarun Sawhney** 43% of the sugarcane is channeled towards sugar and the balance of course towards ethanol. Now this percentage of course can change and therefore result in greater sugar



production; however, we do not anticipate that the demands for ethanol in Brazil are significant and very high. The entire automobile industry is dependent on this product. Area under sugarcane is growing at a rapid pace. We are seeing remarkable increases in acreage and in sugarcane production. So if your question is, will you see higher sugarcane production? I think most certainly yes for the next few years there are clear signs that greater acreage will be brought under sugarcane cultivations. Regarding the figure of actual sugar production there are many imponderables, the weather being a very significant one, recoveries being the other and of course the total quantum of land under sugarcane.

- Tarun Sawhney** Just to add one point, the scenes which can take sugarcane to sugar productions is only 3% to 4%. So whatever we are seeing today it is more or less achieved. So it is not a significant shift. You cannot expect more sugarcane getting converted into sugar even though the volume of sugarcane might be more as that will be used for manufacturing ethanol.
- Tarun Sawhney** At the moment with such high international raw and white prices you can safely assume that maximum crystallization capacity in the Brazilian sugarcane industry is being employed.
- Anup Ranadive** One follow-up question on the sugar situation. I know it is very early to take a call on next season but if we have to assume the best of factors in terms of acreage, drawl rate, and the weather playing perfect, how much can India's production increase in the next season assuming that everything works out to be just fine?
- Tarun Sawhney** Our broad range is between 16 to 16.5 million tons, everything going perfect we anticipate 16.5 with some hiccups approximately 16 million tons.
- Anup Ranadive** This is for this current season?
- Nikhil Sawhney** This is for this current season for sugar manufactured from cane.
- Anup Ranadive** Right. I was actually talking about the next season, starting right October?
- Tarun Sawhney** It is very difficult to give you guidance on that.
- Anup Ranadive** But is there a possibility that the sugar production can increase say 40% to 50% if everything works out fine? Is there a theoretical possibility of that happening?
- Tarun Sawhney** 50% has never happened in the history.
- Anup Ranadive** Absolutely.
- Nikhil Sawhney** However, you can certainly see an increase between 20% and 30% to 35%.
- Moderator** The last question is from the line of Bimal Sampat from Sunidhi Enterprises. Please go ahead.
- Bimal Sampat** One question is on our realization, what are we realizing now?
- Tarun Sawhney** Our approximate realization is about Rs.34.50 per quintal.
- Bimal Sampat** And last month?
- Tarun Sawhney** Our last month realization was about Rs.32 per quintal
- Bimal Sampat** And last quarter?

<b>Nikhil Sawhney</b>	Last quarter realization was Rs. 2700 per quintal including levy.
<b>Bimal Sampat</b>	Okay. And now that the sugar division is doing very well, there was a proposal sometime back about the demerger of engineering and sugar. Any thoughts on that?
<b>Tarun Sawhney</b>	There is no new development.
<b>Moderator</b>	Thank you Mr. Sampat. I would now like to hand the floor back to Mr. Nikhil Sawhney for closing comments. Please go ahead sir.
<b>Nikhil Sawhney</b>	Thank you very much everyone for joining our conference call. We had a very good year and we expect both our business divisions of sugar and engineering to perform even better in the coming year. Of course we would like you to join us in our call again in January. Thank you very much, bye.
<b>Moderator</b>	Thank you gentlemen of the management. Ladies and gentlemen on behalf of Triveni Engineering that concludes this conference call. Thank you for joining us and you may disconnect your lines.

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