



Triveni Engineering & Industries Ltd Q4 FY12 Earnings Call

Investor/Analyst Conference Call Transcript

November 23, 2012

Moderator Ladies and gentlemen, good day and welcome to the Triveni Engineering & Industries Limited's Q4 FY2012 Earnings Conference Call. As a reminder, 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 this conference call, please signal an operator by pressing "*" and then '0' on your touch-tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you sir.

Rishab Barar A warm welcome to all of you participating in the Q4 and FY2012 Results Conference Call of Triveni Engineering & Industries Limited. We have with us today on the call, Mr. Tarun Sawhney – Joint Managing Director; and Mr. Suresh Taneja – CFO, Triveni Engineering 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 this effect has been included in the concall invite which was mailed to everybody earlier.

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 like to start this conference with the opening remarks from the management followed by an interactive question-and-answer session where you can discuss your views and key issues.

I would now like to hand over to Mr. Tarun Sawhney to share some perspective with you with regards to the company's operations and results for the quarter under review. Over to you, Mr. Sawhney.

Tarun Sawhney Good morning, everyone and welcome to Triveni Engineering & Industries Limited Q4 & FY12 earnings conference call. For the quarter under review on a consolidated basis the net sales of the company were at ₹ 4.77 billion which was a 25% increase on a year-on-year basis. Similarly, EBITDA increased by 48% at ₹ 930 million which equated to a margin of 19%. The profit after tax stood at ₹318 million versus ₹146 million. For the entire year our net sales were ₹18.59 billion, an increase of 9% on a consolidated basis. The EBITDA had an increase of 11% at ₹ 2.1 billion at a margin of 11%. The profit after tax was ₹ (523) million versus a ₹ 222 million for fiscal '11. The

company did declare a dividend of fiscal '12 at 10% at the recent board meeting.

I would like to spend some time giving you an overview of the year under review. The performance of the company during the current fiscal year has been satisfactory given the macroeconomic scenario as well as the fluctuating Sugar scenario. Sugar prices remained subdued for the major part of the year under review which resulted in losses for the Sugar business at the EBITDA level. However, these prices did recover in Q4 of the year under review and has sustained at those levels.

The company's performance on the two engineering businesses was also similarly muted given the current economic scenario. While the order inflow was good in the Water business on account of securing municipal orders, the order of finalization of the Industrial segment was below expectations but in line with the macroeconomic market.

On the revenue recognition front, as many projects under execution have been delayed on account of delays from the customer side, we have experienced lower financial numbers for the quarter under review.

In the Gears business the order inflow for the year was lower than expected, primarily on account of delay in finalization. The enquiry book still remains very, very healthy and very strong and growing quite rapidly; however, order finalization given macroeconomic instability has been a cause of a lower booking amount, primarily in the power sector and in some industrial sectors.

Reverting to the Sugar business, on a year-on-year basis we had a 12% increase in cane crush at 5.12 million tonnes, similarly our Sugar production was also very much in line with that at 465,000 tonnes. For the quarter under review, we dispatched ~ 109,000 MT of Sugar which was a substantial increase quarter-on-quarter,. The average realization for Sugar dispatched in Q4 was ₹35,262 per MT, a substantial increase over the annual average of ₹31,203 per MT for fiscal '12. The profitability in Sugar for the quarter has been significantly better in comparison to previous quarters, which is primarily due to high volume of sales and of course better realizations as the quarter progressed. For the full year even though sales volumes was more or less the same, the price realization was higher by 14% on a year-on-year basis. On the 1st October we have an opening stock of 14.19 lakh bags which are valued at ₹ 30.30 per kilo.

India's Sugar production for 2011-2012 came in at just over 26 million tonnes which was an increase of 7% year-on-year with the Maharashtra producing more or less similar quantity. The average recovery unfortunately for the State of UP was 9.09% for fiscal '12 as against the state average of 9.14% for the previous season. West UP unfortunately contributed most significantly towards this decline in average recoveries, this was primarily due to unabated disease and pests across the region affecting all factories in the region of West UP and portions of Central UP as well. I will address what has been done to eradicate these pests and diseases when I talk about the coming season.

The government last year changed the release mechanism of non-levy quota sugar from a monthly basis to a quarterly basis after about April 2012, a very positive move indeed. Sugar prices globally have received strong support since the beginning of June on account of continuously high bullish news and rain in Brazil. Of course, the expected monsoon deficit in India particularly in Maharashtra; however, international prices could not be sustained at the higher levels and have declined significantly since reaching highs all the way through the month of July actually.

In October 2012, the committee appointed by our Hon'ble Prime Minister under the Chairmanship of Dr. Rangarajan presented a report on Sugar sector reforms and recommended developing a new mechanism for pricing of sugarcane and doing away with several controls, including the levy obligation, regulated release of sugar and the command area, etc. In our perspective, this is a very forthright report, we support it wholeheartedly, and of course, I will be giving our views on this report subsequently.

Looking at the outlook for the Sugar industry, it's too early to really comment on the actual production of Sugar over the next season; however, we have estimated Sugar production and we continue to estimate Sugar at approximately 24 million tonnes for the country which is a significant decline over last year.

Taking into account pipeline stocks which will increase due to the confidence that is coming back to the trade, the openness by which the Central Government is engaging with the trade, with millers, etc. that confidence will allow not only what will be consumed next year but also certain amount of pipeline stock to come in and therefore we are in a very comfortable position with approximately 24 million tonnes being produced over this coming year.

The imponderables for this year would primarily be the production of Maharashtra. We have looked at a 24 million basis for the country, 6.5 million coming from Maharashtra versus 9 million in the preceding year, a substantial decline. The mills in Maharashtra have started late and the 6.5 million number could also be under a little bit of pressure; however, it is too early to tell as the mills have started late and the data is just coming out.

As far as UP is concerned we assumed a million tonne increase from 6.9 million in the previous year to 7.9 million in this year.

In line with higher estimates for Sugar production for the state, the company is also expecting to have a higher cane crush in line with the UP average and higher Sugar production on account of the volume of crush and of course improved recoveries on a year-on-year basis. The exact figures of recovery is too difficult to share because the season has just come underway.

The cane development initiatives which we have undertaken have borne significant fruits. The eradication of pest, the eradication of disease has been our primary focus over the last several months and I am happy to report that we have been very successful in this endeavor. This is showing

in the early recoveries since three of our factories have started only a few days ago and the balance four mills will be starting in the next three to five days. Our expectations for even those mills in the preliminary test analysis is a better increase on a year-on-year basis.

During the year, the company has undertaken projects with a very quick data at nominal capital cost to improve efficiencies and profitability. These investments include state-of-the-art refinery at our Sabitgarh unit; and two incidental Cogen plants at Chandanpur and Milak Narayanpur. These projects have been commissioned this year.

The cane price for the season 2012 – 2013 is yet to be declared by the State Government. We expect that declaration very shortly. In all probability it will be in the next seven days. Having said that it's very difficult to be able to hypothesize what the exact price the state would be willing to declare, there are many factors under consideration, and we hope that the cane price would be one that will benefit the industry.

The Sugar fundamentals appear encouraging for the next year on account of the lower production and the profitability depends on the cane price of course which will be declared by the state government. However, we do expect that the report of Dr. C. Rangarajan: the Committee on Sugar sector reform, part of that will be implemented especially the portion with reference to levy sugar and the release control mechanism. We expect that these recommendations will be looked upon favorably by the Central Government; however, this would probably happen around March or April of this Sugar year.

Since the country's estimated production is equivalent broadly to consumption plus the pipeline stocks, it augurs well for a firm and stable sugar pricing scenario for 2012 – 2013, very much around our current levels.

Very quickly looking at our two other businesses in Sugar, the Co-generation business exported 10% more power in fiscal '12 compared to fiscal '11. The company's Deoband and Khatauli units are eligible to get RECs and have already been registered. All three co-generation plants have started operations for this year and are experiencing smooth operations and are expected to be smooth for the coming seasons.

As far as Distillery business is concerned our average realization for Q4 was ₹28.64 per liter, for the year under review it was ₹30.25 per liter, which is a substantial increase on a year-on-year basis of almost 10% is quite high. The Distillery operations have started at the beginning of this quarter in October 2012.

Very quickly, the company has achieved its highest production in sales for the Distillery in fiscal '12 at over 4 crore liters which is a record for us and probably for a distillery of our size: well worth noting. However, we are still awaiting the implementation of Dr. Saumitra Chaudhuri report. We do believe that this will be looked upon favorably. We have worked this up on several earnings calls; however, we do believe that this quarter there is a distinct possibility of the government taking a favorable view.

Very quickly, on the high speed gears business, the order intake for this business was ₹927 million, and the outstanding order book on 30th September was ₹486 million. Our focus has broadly remained exactly on the same areas; however, we have set up new task teams to look at spare servicing and retrofitting, mitigating the risk of decline in business in OEMs that we experienced over the last few quarters.

The company has signed a long-term MOU with BHEL for the supply of gas turbine gear boxes and gas turbine gear box parts and this would be beneficial. This is on an exclusive basis for five years and this would be very beneficial for growth of this business going forward. With the renewal of the license agreements with Lufkin Industries, we are very well poised in terms of expanding not only in India but also in the South Asian market and in the market that are covered by our license agreement. Of course, we will also benefit very strongly from a growth in our sister company Triveni Turbine Limited, which is reported to be growing at a satisfactory pace.

In the Water business, the quarter under review was a challenging quarter, primarily because of a delay in execution from our customers' perspective. On account of the lower turnover, the full absorption of fixed cost could not happen, which resulted into lower profitability and even a loss in Q4, this is temporary in nature and I feel it's important to point that out.

During the year the company has made a long-term strategic investment by acquiring 25.04% equity stake in Aqwise Wise Water Technologies Limited, a company registered in Israel providing water treatment solutions using proprietary technology. The investment is synergistic to the water and waste water business of the company. Aqwise is a 12-year old company with a substantially growing market in Eurasia. The technology of this company will also assist us in expanding the market by leveraging their technology in biological treatment of water.

The outlook for the Water business is a bit lumpy and we believe that the situation for the next quarter or two given the completion with the customers may be lumpy; however, the long-term prospects of this business remain very firm and we are hopeful that the return to a smoother financial cycle will be very close.

Looking at the balance sheet of the overall company, the increase in finance cost was about 30% during the year which was due to an increase in the utilization of working capital, due to higher production volume, and also on account of increase in cost of fund by about 150 basis points due to the rising interest rate scenario across the country. The overall debt situation of the company on 30th September 2012 was at ₹ 10.22 billion and the increase was primarily due to an increased usage of working capital. The term loan situation is comparable on a year-on-year basis.

To sum up, the current Sugar pricing and the outlook on the Sugar front is certainly promising for fiscal 2013, we believe that sugar prices will remain firm for this year, this will bode well, not just for sugar production but we also expect record business in our Co-generation business as well as our Distillery business.

On the Engineering front, we expect a return to growth for both our Water business as well as our Gears business on a profitable basis. I would like to now open up the floor for some question and answers.

Moderator Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from Baidik Sarkar from Unifi Capital, please go ahead.

Baidik Sarkar My question is your brief very clearly states that free market realizations is up by 16% while your blended realization for the quarter is up by 13%, but sugar sales are up by just 3% in your segmental revenues. I was wondering why isn't the move linear, what am I missing?

Tarun Sawhney There is a combination of both levy and free sale sugar in that and therefore the linearity comes with the proportion of levy and free sale that is sold on a quarterly basis. We dispatch levy sugar on the basis of releases that we receive from the Ministry of Food and therefore that quantum differs on a quarter-on-quarter basis and therefore on a blended basis it's very difficult to offer a complete linearity.

Baidik Sarkar On a blended basis hasn't your mix has always been 90/10?

Tarun Sawhney No it is not, because 10% of the sugar is levy sugar; however, the dispatch is never 90/10, it's never perfect as 90/10.

Baidik Sarkar What's the industry inventory as on date as we talk?

Tarun Sawhney As far as the industry inventory is concerned we have based it at 6 million tonnes on 1st October.

Baidik Sarkar Secondly, what do you think of imports right now? As you know global prices are hovering between 18 cents and 19 cents. I mean what's your sense, do you think traders will begin to import if prices remain firm?

Tarun Sawhney That's a very good question. You have the rupee that has breached 55 firstly, so yes, of course, there is some softness in the Number 11 in the global markets; however, this has been compensated by steady increase in the rupee versus the dollar, maintaining that parity. Now, you do have of course import duty as far as raw sugar is concerned and you have the levy obligation as well. The government has been fairly firm in its view of not changing its position on both raw and white sugar. I believe at these levels the threat of imports has been abated, it is fairly low at these levels, I do believe that the government is looking very closely at the production of the country. My personal view is that by the end of March we will be able to see pretty much 85% to 90% of the production of the country, so you get a very good estimation as we at Triveni are assuming a 24 million tonnes production and if you have 85% of that produced by 31st March with the improvement in the reporting system for the sugar directorate, the Government of India will be in a much better position to take a call on imports at that point in time; however, I do believe that there is no reason for any cause of concern, we have plenty of sugar in the country to meet demand and it is too premature for the government or for us to even to look at any imports into the country.

Baidik Sarkar Secondly, again this is a macro question for the industry as such. I have been tracking in Muzaffarnagar Sugar prices and there has been days when sugar prices have cracked by as much as ₹1 – ₹1.5 and of course the crack has been reversed in a couple of days. I am just curious as to what causes this amount of volatility.

Tarun Sawhney Are you talking about what's from the exchange?

Baidik Sarkar I mean my prices are reference point to the ones on NCDEX so.

Tarun Sawhney That is also dependent on the data being received and the quantum of data that is received by the exchange varies, the volume is varying and the amount of data being received by the exchange on spot prices does vary. Frankly speaking, you don't really see cracks of ₹1 being corrected to two, three days down the line on physical sugar sales, so from our perspective we don't see such great variances at all.

Baidik Sarkar So, are you still comfortable with the guidance you gave the last quarter of the blended average to market realizations being around ₹ 35.5?

Tarun Sawhney Yes, broadly speaking, we are still very comfortable with approximately that type of realization for the next year.

Baidik Sarkar And the last question, as and when revised cane prices and SAP prices are announced, is it fair to expect that the increased cost of production will be passed on with the same degree of linearity, can the market accept that price? any comments on that that will be appreciated.

Tarun Sawhney That is an ideal scenario. I have always maintained that we are always happy supporting the farmer, in supporting the farmer we will ensure that farmer benefits, the farmer grows more cane, the farmers yields increase and corollary to that of course is that there is investment in cane development, recoveries increase will benefit to the factory. For any increase in the price of cane, if that can be passed on into sugar price that's an ideal scenario..

Baidik Sarkar But do you think sugar demand is secure enough to take that increase or do you see plateauing somewhere?

Tarun Sawhney I think so. If you look at sugar even in the inflation averages, it is a very small portion. The inelasticity of consumption has been proven time and again. I think a few rupees increase here or there makes very little difference especially since the bulk of sugar is used by industrials as an indirect consumption factor and therefore what you are trying to ask is basically a question on the elasticity of consumption. I do believe that it is fairly inelastic.

Baidik Sarkar And lastly when do you think SAP and Ethanol prices would be revised, any indicative timelines on that?

Tarun Sawhney For SAP, as I mentioned in my opening comments are expected to be done over the next seven days. With respect to Ethanol again I had mentioned

earlier the Saumitra Chaudhuri report, at least a portion of it is expected to be implemented soon over the next couple of months we are very hopeful. To put aside a date on it is really impossible, one lies with the State Government, one lies with the Central Government.

- Baidik Sarkar** So Ethanol is ₹ 27, what will be your ENA realization this quarter?
- Sameer Sinha** ENA realization over here would have been between ₹30.50 and ₹31.
- Baidik Sarkar** So has the spread come down because I was given to understand it was in the ₹ 32 range probably last quarter?
- Sameer Sinha** What's happened is that right now the prices are ₹35 and having given you the prices of the last quarter, in this quarter, we expect to sell about 80 lakh to 85 lakh liters of ENA and the going prices I mentioned are around ₹34.50 to ₹35, this would be of the 85% of the 1 crore liters we expect to sell this quarter.
- Tarun Sawhney** Having said that our average realization for fiscal '12 was over ₹32.5.
- Moderator** Thank you. The next question is from Neerav Shah from Antique Stock Broking, please go ahead.
- Neerav Shah** Firstly what are the current prevailing cane price the Gur & Khandsari guys are paying and what is the maximum because there is no competition, the rate can be significantly lower and what is the maximum these guys can pay depending on the prevailing Gur and Khandsari prices?
- Tarun Sawhney** The current rates differ from which portion of where you are in UP. In West UP, we have seen the highest rates of about ₹210 at this point; in Central UP we are seeing rates about ₹190, the variation in West UP is say ₹20; so ₹190 to ₹210; and the variation in Central UP is about ₹170 to ₹190 which is substantially below the SAP of the previous year. Now, Gur prices if you look at the Muzaffarnagar mandi, and other local mandis Gur prices have been very weak, and the quality of Gur of course produced very early in the season is not the A grade Gur, there is a very small portion of that, so the quality of Gur being produced actually trades at a discount to what the mandi prices at this point in time. Given the recoveries that the Khandsari units are experiencing right now I anticipate that the units will not be able to buy cane for the month of December above ₹230 – ₹240 per quintal.
- Neerav Shah** Once we start crushing, the diversion towards these guys will fall drastically?
- Tarun Sawhney** In reviewing the data at least of where our mills are and the surrounding Kolhu and Khandsari in that area, the total number on a year-on-year basis has declined, the number of Kolhu and Khandsari units operating today versus what was operated in last year is significantly lower. I do believe that once the mills get into full action and are crushing regularly which is pretty much now, three of our mills as I mentioned have already started and the balance four will be starting in the next few days, I do believe that diversion will remain at a significantly lower level compared to last year.

- Neerav Shah** Just a couple of questions on the Ethanol side because all these are linked. And yesterday as we know that 5% mandatory blending has been approved from December onwards. Firstly sir, can the OMCs import in case there is a shortfall from meeting the demand from domestic guys? And another question is that what are the landed parity import prices for them and which ports can import these ethanol cargos from say may be Brazil and do we have the necessary infrastructure to import a significant quantity of ethanol?
- Sameer Sinha** If you would look at the last year's actual delivered ethanol versus contracted this year in the tender, this has been much lower this year. Last year we contracted about 54 crores – 55 crores liters, this year the contract so far has been 32 crores liters and this is primarily due to the pricing issues. We believe that these pricing issues would be addressed and there would be a supplementary tender in which case the industry is always in a position to supply this 5%. We have always been maintaining that industry has sufficient alcohol to meet this 5% blending. So, we don't foresee any imports coming into the OMCs.
- Neerav Shah** No, the only reason why I asked is that now this has been on a free pricing mechanism, whatever tenders we participate from now. So I just wanted to know that to what extent can we go above ₹27 per liter?
- Sameer Sinha** The industry has been talking of prices from ₹27 to ₹37 but I expect the prices could be up till ₹31 – ₹32 for ethanol.
- Neerav Shah** And is that the same as the landed price?
- Sameer Sinha** Yes, you can compare it with the landed price at those levels.
- Neerav Shah** And sir the last question, what is the broad breakup of the demand of say over 2 billion liters production of RS-cum-ethanol? How much is going towards ethanol, potable alcohol and industrial alcohol?
- Sameer Sinha** The broad breakup of potable alcohol in the country would be anywhere between 75 crore to 100 crore liters. The industrial alcohol would also be around 60 crore – 65 crore liters and you will get about 100 crore liters for ethanol.
- Moderator** Thank you. The next question is from Trilok Agarwal from Birla Sun Life Insurance please go ahead.
- Trilok Agarwal** Sir, just had two questions relating to the Sugar business; one is if you could give us sense of what's the SAP prices that you are expecting to be announced; and second is if you can give us a sense on what's the realistic inventory number because we are hearing very varied inventory numbers as on 1st October right from 5 million to 7 million tonnes in the industry?
- Tarun Sawhney** The first of which I am afraid, it's very difficult for me to postulate as to what SAP will be announced by the State Government. I do believe the announcement as I had mentioned will happen over the next few days. I am expecting that there will be somewhat of an increase, uncertain what it will be. There is no point offering you a number because it would be a pure

guess at this point of time. With reference to the opening stocks as on 1st October we have managed to get multiple data sources. Our data sources include government data, state data as well as information that our sales department gathers, and therefore when I have offered an estimate of 6 million tonnes in terms of the opening balance of the country, it incorporates multiple values, I can't really speak for others who have given you varying numbers, but 6 seems to be right in the middle.

Moderator Thank you. The next question is from Achal Lohade from JM Financial, please go ahead.

Achal Lohade On the ethanol, today's newspaper article seems to suggest that there would be a tendering process for the ethanol supply as well as pricing. Just wanted to get a sense, you did give a sense that it could be ₹ 31 – 32 but I think earlier the Chaudhari Committee had mentioned that it can be linked to the petrol price and the price expectation the industry was looking at ₹35 to ₹40 a liter. Just wanted to get a sense as to how do you see the dynamics work based on this change in the volume or the pricing front?

Sameer Sinha Of course I did mention that the pricing that the industry was looking at was about ₹37 – ₹38, it could be linked to the petrol prices. When the question was what could be a realistic increase going forward, we mentioned the number of ₹ 31 – 32 as an in between number in step one; however in step two, these are early days, let us see the mechanics of how this comes about, the preliminary tender at the interim price had already been floated, about 32 crores liters had been contracted, things are very nebulous right at this point of time, so it would not be fair for me to offer any comments as to how things would pan out going forward.

Achal Lohade Can you give us some sense as to how does our volume stack up actually for Distillery division in terms of how much is the RS, ENA and how much is Ethanol out of that for FY12?

Sameer Sinha ENA is about 60% and the rest 40% is broken roughly equally among Industrial, RS and Ethanol going forward. And in this current year we expect to increase this ENA percentage to about 65%.

Achal Lohade In terms of realization, how about the realization for ENA and industrial alcohol for FY13?

Sameer Sinha Industrial alcohol is much lower and for example the current numbers I can tell you at this point of time: ENA is about ₹35 a liter and industrial alcohol is ₹25 to ₹26 a liter so that will give you a sense of how the prices play out.

Achal Lohade You also gave some commentary on the Gur and Khandsari. In terms of the number of players you said that they are actually lower compared to last year. In terms of pricing how is the pricing? You said that it is about ₹210 a quintal. How much is it up Y-o-Y according to you same time during the early crushing season last year?

Tarun Sawhney At this point last year the price was about the same if not marginally higher to the best of my recollection.

Achal Lohade And in terms of the landed cost of imports for Ethanol, what is the landed cost according to you and which ports and from which countries are these imported? I am sure the chemical industry would be importing and they might need to import if the Ethanol supplies increase.

Tarun Sawhney I would recommend that for such a detailed discussion you are more than welcome to call in offline and we will be happy to take this forward.

Moderator Thank you. The next question is from Chintan Sheth from SKS Capital & Research, please go ahead.

Chintan Sheth Basically, I wanted to know as you said earlier is there a sufficient capacity to meet the ethanol demand in the country.

Tarun Sawhney Yes absolutely there is an ample capacity to meet the demand.

Chintan Sheth But again I was worried that if the demand from OMC is currently a 2% blended program. How is this going to be if it is being increased to 5%?.

Tarun Sawhney No, my comment was that there is ample capacity to meet the demand of the oil marketing companies, the chemical industry as well as the liquor industry.

Chintan Sheth So, my question is if pricing is done 5% ,hypothetically if both the things made good for the both the industry, like OMCs will get the required quantity of ethanol from the Sugar industry and you get the price what you are looking for, that is the fair side being taken. Are you guys needed to increase the capacity for the refinery to meet that demand basically? I wanted to know if the capacity is there and with additional capacity people will start looking if the fair price is given for ethanol?

Tarun Sawhney That's exactly what I was mentioning. I think there is sufficient capacity in the country to meet the requirements of all the consumption sectors. So, all the three industries in general, the chemical, the oil marketing companies as well as the liquor industry, sufficient capacity to meet their requirement

Chintan Sheth So, no need for additional capacities?

Tarun Sawhney I can't speak for a few years down the line. If consumption does increase, we have an economic growth, of course there may be a case for some more investment in distillery capacity, but at this point in time there is more than enough.

Moderator Thank you. The next question is from Aman Sonthalia from Suvridhi Capital, please go ahead.

Aman Sonthalia What will be the current year production of UP?

Tarun Sawhney The production of UP we have assumed at 7.9 million tonnes.

Aman Sonthalia And sir what will be the optimum production as per you for UP particularly?

- Tarun Sawhney** That's a very difficult question in terms of what is optimum. I think this is the realistic number, I think this would be the optimum number as well for this coming year 7.9 million tonnes.
- Aman Sonthalia** No, I am not talking about this particular year, overall what will be the optimum production because year-on-year wise definitely there is shrinkage of agricultural land and people are shifting to other crops. So as per your view what will be the optimum production of sugar in UP particularly?
- Tarun Sawhney** The industry doesn't work in that way frankly speaking, it is an agro-based industry, there are various agro climatic factors that impact the availability of sugarcane and of course the quantum of sugar, it varies on prices, it varies on area under cane, it varies with respect to disease, monsoon etc. There are various factors that impact the total quantum of sugarcane that's available. To look at what is an ideal capacity and optimal capacity it is very difficult to say, because frankly speaking if you are looking at just the State of UP, it is really the share that UP has in the country's production and the total quantum of the country's production. I would say looking at this year as far as UP is concerned, UP is very well placed, while UP has an increase in the share of the country's total, where the country's total has come down and therefore this is a more optimal situation for the State of UP.
- Aman Sonthalia** And second question is why the crushing of Khatauli and Deoband is not up to the mark despite being very high crushing capacity?
- Tarun Sawhney** I think that they are very much up to the mark, seasons have just started, we are expecting a very good season in all our factories including Khatauli and Deoband, the factories are running absolutely at their mark.
- Moderator** Thank you. The next question is from Bimal Sampat from Sunidhi Enterprises, please go ahead.
- Bimal Sampat** One is with this ethanol liberalization which was announced today, do you think that the government has now started thinking sympathetically towards the sugar industry?
- Tarun Sawhney** Yes, I think the government has to look at the sugar industry more sympathetically. There is a very good case for it. You are dealing with 50 million farmers, you are dealing with an old industry that is supplying, for example, levy sugar at prices that are below cost of production, a whole host of other factors, etc. Having said that looking at ethanol that is a slightly different issue because that's looking at using a byproduct of the sugar manufacturing process.
- Bimal Sampat** Even this release mechanism they have made it four months instead of two months?
- Tarun Sawhney** That is correct.

Bimal Sampat So, I mean these are two steps, though small steps but do you think in next two, three years sugar industry will have less of controls? And what price you will fetch now for Ethanol?

Tarun Sawhney I personally do believe that we are going to see some change by April 2013 in terms of relaxation of controls on the Sugar industry. Going forward over the next two years – three years as you have asked I do think that there is a very strong case for the government to look favorably upon relaxation of other controls as well on the sugar industry, allowing it to really invest in itself to improve efficiencies to work with farmers, and in a nutshell to be able to offer better returns to the shareholders.

Bimal Sampat And a second question was relating to Water. Recently Wipro was going to divest their Water division. Now, since our balance sheet is okay and our turbine is also spinned off are you looking at an inorganic growth in Water? Because we have a good chance now since there is a slowdown and some people want to get out. Can we increase our capacity this way, are we looking at it?

Tarun Sawhney No, we are not looking at any kind of demerging of any businesses at this point in time within Triveni Engineering & Industries Limited. The second question is with respect to inorganic growth. I have already spoken about that, it is in our Investor Brief, and of course, not just Water business but for all our businesses we are actively looking at all avenues of growth, be it organic or inorganic.

Moderator Thank you. The next question is from Romil Jain from Quantum Advisors, please go ahead.

Romil Jain Can you give any indicative value on cane arrears in UP

Tarun Sawhney I am afraid I don't have the number on the cane arrears, I do believe that there are only a few percentage points.

Romil Jain So it's lesser as compared to what it was last year?

Tarun Sawhney At this point in time I think it is a few percentage points, let me put it that way, I don't know what it was in the previous year, I will have to check my records.

Romil Jain And sir has the cane acreage increased in UP?

Tarun Sawhney It has increased, the increase has primarily been in Central UP.

Romil Jain And what are the factors which has caused this increase actually?

Tarun Sawhney I think the very handsome cane price that's been paid by the mills last year, SAP of ₹ 240 has been a significant factor. I think companies investing more and especially ourselves investing more in cane development, leads farmers towards cane and promotes the cultivation of cane. The general macroeconomic factors in the Sugar industry again have been a positive factor for the farmer in UP.

Romil Jain One more thing what was the Sugar recovery last year and what do you expect in the current season?

Tarun Sawhney Sugar recovery for the last year was 9.09%. For this year we are certainly expecting a handsome increase; however, the season is just underway, it is very difficult for us to forecast what that increase would be, but recoveries preliminary are higher year-on-year basis.

Romil Jain As you said your ENA volumes were like 60% and 40% would be split it into Ethanol and Industrial Alcohol, right?

Tarun Sawhney Correct

Romil Jain This year in UP I think we saw the crushing happening little later. So why was it such a case?

Tarun Sawhney No, I think the crushing had started actually a couple of days earlier than last year, so it is the other way around, but with reference to our Distillery business, our distillery started at the beginning of this quarter in any case, so we have molasses and the distillery is operational at full capacity.

Moderator Thank you. The next question is from Baidik Sarkar from Unifi Capital, please go ahead.

Baidik Sarkar Just a follow-up question on Engineering segment. Seeing there is a bit of stress, what's your base case guidance on top line and margin for each of your businesses; Gears and Water?

Tarun Sawhney I am afraid we don't give guidance both top or bottom line on our Engineering businesses within TEIL. I do believe that this year we will have a certain amount of growth on both parameters; however, we do not quantify the total amount.

Baidik Sarkar Okay so you think the base case scenario would be flat?

Tarun Sawhney No, the base case scenario would be a historical average increase with consistent margins.

Moderator Thank you. The next question is from Achal Lohade from JM Financial, please go ahead.

Achal Lohade I wanted to know in terms of peak production for UP, what would be the peak production capacity, do you see it going up to 9 million – 9.5 million tonnes or you think this is very much the peak capacity?

Tarun Sawhney There has been a tremendous amount of investment in UP. In 2004, 2005 and 2006 there were many new Greenfield projects and several Brownfield initiatives that were in play in the Sugar industry in UP. So, if you look at the total capacity, crushing capability of UP, you would have to also look at the total number of season days. Now, two – three decades ago you had about 170 days, 180 days even as the average season. That season is condensed, because the area under cane has of course changed, but more

importantly, the yield has also steadily come down and the average recovery has come down. So from a cane crushing perspective I think there is an ample capacity, but looking forward if you want higher production numbers coming out of UP, there is a great deal of work that is required in improving the varietal balance in the state in improving yields, in bringing about better forms of cultivation that is seeds, biogenetics, etc., and of course harvesting technologies, all of these will play a very important role in actually achieving what would be the theoretical maximum.

Achal Lohade The UP Sugar Promotion Policy which was actually started in 2004 and scrapped by the earlier government, what is the status right now, has it been revived or is it still in the litigation?

Tarun Sawhney Yes, it is still under litigation. I do believe that the current government is looking at it; however, I have no news to report as to which way the decisions are swaying. It is still subjudice.

Achal Lohade Just about the peak capacity thing, in terms of cane price with Rs. 240 or even higher cane price, do you think there is more possibility or more potential for the cane acreage to go up from here or you think this is the kind of cane acreage? One is obviously on the yield and other front, but purely on the acreage front do you see that there is more potential to grow from here for UP?

Tarun Sawhney To give you an example in 2008 and 2009 we had 20.84 lakh hectares on sugarcane; in 2011 – 2012 we had 22.52; in 2012 – 2013 we have 24.74 lakh hectares in UP under sugarcane acreage. My answer to you would be yes there is a possibility. Now where does that possibility lie? In West UP where the area under sugarcane is pretty much at its peak and of course in parts of East UP. I think you will have to look at the Greenfield projects that were set up in 2004 – 2005 and beyond. In those particular factories the area under sugarcane cultivation is still low and there is a possibility of a substantial increase over the coming years based on of course macroeconomic factors, but there is a possibility of increase in those areas.

Achal Lohade I am little confused. So you are saying the increase in acreage possibility is there in the Central and Eastern UP.

Tarun Sawhney Increase in sugarcane acreage is there only in new factories not present in West UP.

Moderator Thank you. As there are no further questions from the participants I now hand the conference over to the management for closing comments.

Tarun Sawhney Thank you everyone for joining us for our Q4 & FY12 and year ending conference call. It was a pleasure to talk to you and I look forward to speaking to you again at our next quarterly conference call. To sum up, I would like to reiterate that given the current sugar pricing and the outlook on production, we believe the sugar prices for fiscal '13 should remain firm and will benefit the sugar operations of the company with the estimates of higher cane crush and recovery we are expecting an even higher production of co-products; i.e. power and alcohol, which will again help the

company to further improve its performance. On the Engineering business the company is well-positioned in terms of its capabilities, and of course we are hoping that once the overall market improves we will be in a position to take advantage of any upturn in a CAPEX cycle. The overall outlook for fiscal '13 looks quite positive; however, the bulk of the business for Sugar depends on the climatic and environmental factors i.e. SAP etc.; however, we remain positive and we will interact with you and update you after the next quarter's results.

Moderator

Thank you gentlemen of the management. On behalf of Triveni Engineering & Industries Limited that concludes this conference call.