Triveni Engineering & Industries Limited

Q2 & H1 FY 22 Earnings Conference Call Transcript
October 28, 2021

Rishab Barar: Good day everyone and a warm welcome to all of you participating in the Triveni Engineering & Industries Limited's Q2 and H1 FY 22 earnings call. We have with us today on this call, Mr. Tarun Sawhney – Vice Chairman and Managing Director, Mr. Suresh Taneja – Group CFO, Mr. Sameer Sinha – CEO, Sugar Business Group, as well as other members of the senior management team.

Before we begin, I would like to mention that some statements made in today's discussion may be forward-looking in nature and the statement to this effect has been included in the invite which was sent to everybody earlier. I would also like to emphasize that while this call is open to all invitees, it may not be broadcasted or reproduced in any form or manner. We will start this call with opening remarks from the management, following an interactive question and answer session.

I will now request Mr. Tarun Sawhney to open the call. Over to you sir.

Tarun Sawhney: Thank you. Good afternoon, ladies and gentlemen and welcome to the Q2 Fiscal '22 results earning call for Triveni Engineering & Industries Limited.

The performance of the Company in the half year ended 30th September has certainly been satisfactory. While the sugar segment has witnessed lower dispatches in the half year including in Q2, the average realization price has improved quite significantly, and the firmness has really started in the month of August this year. The distillery segment has continued its strong performance which has been driven by higher dispatches and higher realization prices. Performance of the engineering business has substantially improved in terms of profitability, despite marginally lower turnover which has been primarily driven by the big improvement in the power transmission business.

Revenues from operations for the half of the year stood at ₹ 2,266 crore with a profit after tax of ₹184.77 crore, which is a growth of approximately 61%. The Board of Directors of the company approved the payment of an interim dividend 125% for the financial year ending 31st of March 2022.

I would now like to cover the business segments of the company in a little more detail. Let me start with the summary of course. The sugar business, the UP Government has announced increase in the cane price or SAP by ₹ 250 per tonne for the upcoming season. In view of the domestic and international factors sugar prices have been ruling very firm since August of 2021 this year. The sugar production for the upcoming season is anticipated at approximately 30.5 million tonnes according to our estimates and this is after the diversion towards ethanol.

As far as the engineering businesses are concerned, the profitability increased substantially in view of the strong performance of the power transmission business, and the order booking for the combined engineering businesses stood at ₹ 1,700 crore.

The revenues from operations for this quarter under question was ₹ 1,155 crore with an EBITDA of ₹ 116 crore and a profit after tax of ₹ 92.47 crore. The decline in the net turnover by 9% in the current quarter and 12% in the half year is mainly due to lower sugar dispatches by 21% and 24% respectively. Having said that, the alcohol and power transmission business have achieved higher turnover in the current half year and quarter compared to the corresponding periods of the last fiscal year. The operating profit is in the quarter higher by 35%, as I mentioned at a ₹ 115.9-116 crore.

The share of profit from the associate company is high due to accrual of significant exceptional income and this point must be noted as well. The debt of the total company stood at ₹ 515.54 crore, 32% lower compared to ₹ 761.43 crore at the end of the previous corresponding quarters, September 30th, 2020. The ₹ 515 crore comprises of term loans of ₹ 364 crore and all these loans are with interest of pension or at subsidized rates of interest. On a consolidated basis the total debts of the company are ₹ 581 crore with term loans of ₹ 430 crore. The net cash position in the company is greater than ₹ 650 crore at this particular point in time. Looking at the finance costs, our average cost was 5.14%, very healthy, certainly below what our estimates were and better than the previous corresponding quarter, certainly much better.

Turning to the sugar business, for the quarter under review we had 211,000 tonnes approximately of dispatches domestically which was, as I mentioned, markedly lower the 241,000 tonnes of dispatches in Q2 fiscal '21. Having said that, the domestic realization was ₹34,900 for the period under review which was appreciably higher than ₹ 33,300 in the previous correspondence quarter. The turnover of the sugar business, therefore, was 16% lower due to the lower dispatches of 21%. The sugar inventory on the 30th of September 2021 stood at 23.93 lakh quintals which was valued at ₹ 29.2 per kilo. There has been an appreciable and significant amount of heavy rainfall in the month of September and October which has had an impact of delaying the start of the sugar factories in Uttar Pradesh and it may possibly have an impact on the yield of the plant crop. Although at this particular point in time with the rains that happened as recently as this past weekend, it is uncertain to decipher what the impact is on the yield. But there may be potentially in the best case only a marginal impact, but we will wait and see. The areas closest to Uttarakhand have been most impacted and East UP itself has also been quite severely impacted by this unseasonal rainfall. At present the prevailing sugar prices for Triveni are ₹ 3,800 per quintal for refined sugar and ₹ 3,675 for sulphitation sugar. Domestic sugar prices were subdued between May and July 2021, and this was primarily due to the second phase of lockdown due to COVID-19. Well, as I had mentioned sugar prices recovered appreciably from August 2021 onwards and with the start of 2021-22 season, we are expecting sugar prices to certainly be stable at - refined prices in excess of ₹ 3,600 and sulphitation prices in excess of ₹ 3,500. So, a very stable environment is being forecast for pricing going forward by us.

Our co-generation operations that achieved external sales of over ₹ 14 crore during the H1, there were no operations in Q2 fiscal '22 as this was our off season.

From an industry scenario perspective, I would like to point out that sugar season 2021-22 Uttar Pradesh is estimated to have an area of 23 lakh hectares which is broadly in line with the previous year. Maharashtra's cane area is estimated however to increase by 11% from 11.48 lakh hectares to 12.78 lakh hectares. The sugarcane area in Karnataka is also estimated to be marginally higher. The sugar production in Uttar Pradesh is expected to be 11.35 million tonnes pre-diversion, while in Maharashtra it will be substantially higher than Uttar Pradesh at 12.25 million tonnes. Karnataka is expected to be a shade under 5 million tonnes.

For season 2021-22, we have revised our estimates for the entire country for sugar production of 30.5 million tonnes which is just a shade lower than the sugar production in the previous year. However, we have considered a much higher diversion of 3.4 million tonnes towards ethanol production versus an estimated diversion of 2.1 million tonnes of diversion towards ethanol in the previous sugar year. With an opening balance on the 1st of October 2020 of 10.7 million tonnes and a production of 31 million tonnes, the closing balance is estimated to be 8.3 million tonnes, about 2.5 million tonnes lower. And I think this is one of the main factors which has resulted in the increase in the firmness of sugar prices. In my estimation, a very healthy level, a closing balance level would be between 7 and 7.5 million tonnes of sugar and that is what we need to hope for the future.

Turning to ethanol, contracts for 350 crore liters have been executed until the 17th of October 2021, out of the 367 crore liters finalized by the OMCs for the ethanol year, however, the total requirement was of 457 crore liters to meet the 10% target. I would like to mention very briefly over here that if we look at the quantity of sugar that has been diverted towards ethanol, our projections for the next year. With 2.1 million tonnes being diverted 7.7% blending targets have been achieved across the country. Now, if we take 1.3 million tonnes of extra diversion, taking it to 3.4 million tonnes of diversion, in our estimates that would equate to 2 percentage points increase, so at least a 9.7% blending target achievable at parity levels in the coming year. And this augurs very-very well in my opinion for the ethanol blending program across the country.

Looking at the international scenario, as per industry reports it's estimated that the global deficit could be in the tune of 3.4 million tonnes in 2021 and this is due to primarily a lower Brazilian sugar crop. Brazil has had a very poor season, there have been talks of an El Nino, a drought and at frost as well that have damaged the cane crop. And there is some evidence to show that this damage will not abate even in the next crushing season. As per the latest Unica release, the cane processing for the center south region in the current season is down almost 7% from the same time last year. Unica has also reported that 36 mills have also finished their crushing season, which is a lot worse than expected frankly speaking. In Thailand, local cane prices and forecasts of ample rains suggested production recovery to 10 million tonnes from 7.7 million last year. And this is a very good recovery for Thailand who should return to the international trade market, and we will see Thai sugar competing with any Indian exports as well.

Looking at pricing, as of yesterday the number five contract for March concluded at $ 505.50. The number 11 raw contract for March 2022 was 19.70 cents a pound. This has vacillated, it has come down from the recent highs, the raw contracts were as high as 20.70-20.80 cents a pound. It has come down, but these are normal vacillations. It is expected that about 1.5 million tonnes of contracts have already been entered into for export of sugar from this year, primarily from Maharashtra and fractionally from Karnataka.

Turning to our alcohol business, our sales for the quarter under review were substantially higher at 37,000 kiloliters versus 34,300 kiloliters in the previous corresponding quarter. Our average realization of course was also higher at ₹ 51.52 per liter versus ₹ 44.76 per litre in the previous corresponding quarter. Both the distilleries have operated at high efficiency. The production has increased by 12%. Volumes have grown by 8%. The net turnover for the quarter has also increased by

28% as I have mentioned. During the quarter, the company produced 77% ethanol from B-heavy molasses as compared to 26% in the last corresponding quarter.

The company is well on track for its expansion plans, and I'll take a minute just to brief you on the commissioning status. The new distillery with a capacity of 160 KLPD at sugar mill Milak Narayanpur will be commissioned at the beginning of Q4 fiscal '22. The new grain-based distillery of 60 KLPD will be set up at Muzaffarnagar and this too will be commissioned at the beginning of Q4 fiscal '22. The other expansions that are anticipated to take the total capacity of the company up to 660 KLPD will be completed in early Q1 of fiscal '23. The total cost as I had mentioned in my previous call, for the entire expansion is anticipated at ₹350 crore, this includes the increase in material cost and pricing of raw materials that we have experienced over the last few months. So, we are very well on track of meeting the targets that one had talked about the last time we had spoken on this call.

In the engineering business, the power transmission business has performed exceptionally well. We have had our highest ever quarterly revenue of ₹ 54.36 crore. It's a marked improvement and commensurately a much higher PBT of ₹ 20.83 crore. Our order booking has also closed appreciably higher compared to the corresponding quarter last year and stands a shade over ₹ 161 crore. The higher profitability has been driven by volume, a favorable product mix and cost control measures that have been implemented at the business unit. The water business also has had good results with a PBIT of ₹ 4.17 crore. And the order book has closed at ₹1,538 crore. These results include the operations of our wholly owned subsidiary executing the Mathura water project. There have been some small delays in the normalization of activities that I had talked about. And the last time we spoke, we had spoken about the water business having normal activities in the next coming quarters. We have certainly seen very positive trends towards that with more contracts coming up for closure and I think in this quarter under question and certainly by next quarter, we should be back into a state of a great normalcy, and it augurs very well in this because I believe that we are very well positioned we have seen a large number of upcoming tenders.

Very briefly, if we look at the outlook of sugar, we expect that sugar prices will sustain broadly speaking at present levels and we have seen some indication of that especially in the view of the increase in sugarcane price SAP that is payable by Triveni. The export program from the Northern parts of the country needs to be watched very carefully. My personal view is without an export subsidy, it is highly contingent on getting good ex-factory realizations for exported sugar and it's a bit hit and miss and so there's no level of certainty. I do believe that if there is any additional subsidy in any form that is offered, you will have exports from north India. It is essential, if we do export to the nation a minimum of 5 million tonnes in to ensure that we have an excellent closing balance by the end of this coming sugar season.

The ethanol production from the sugar mills is also intended to accelerate. I had briefly given an insight that we believe that 9.7% is easily achievable by the industry. I think a big driving factor is going to be the increases in pricing of ethanol, which is expected to be announced in the very near future. And I think that is something that is an important signal and indicator for further capital expansions for the industry to commit to beyond 10% ethanol blending levels. The Government of India has announced recent modifications to the monthly quota release mechanism, and to incentivize diversion of sugar for ethanol production. And this is from October 2021 onwards. However, that's only a small package, I think direct price increase is what the majority of industry is after, certainly what we at Triveni are advocating.

Looking briefly at our engineering businesses the domestic economic recovery for fiscal 2022 is expected to continue. Our strong sectors as steel, cement, petrochemicals oil and gas, fertilizers, etc., these are all doing very well, and this bodes extremely well for the power transmission business. We have been focusing on business opportunities from defense and actively participating in several tenders which we expect to see and close out in Q3 and Q4. And the business is also equally focused on generating higher revenues from exports which we anticipate in Q3 and Q4.

Lastly, with respect to our water business, there are a large number of tenders which are in various stages of finalization, and we expect that to be complete during Q3 and Q4 of this fiscal year.

So, all of it really bodes well for a good close out for the year. And I would be very happy now to take some questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sanjay Manyal from, ICICI Direct. Please go ahead.

Sanjay Manyal: I have two questions. What would be the transfer pricing for the B-heavy molasses and how do you value your inventory? What I understand, it is lower than last quarter, given the fact that it is off season ideally it should have been higher. So, what exactly is the methodology for the sugar inventory valuation?

Suresh Taneja: I'll explain that question to you. The transfer price of B-heavy molasses is ₹ 850 per quintal. And as regards to your second question, as of 30th of June, we had a certain valuation rate, and which was a blended rate between the sugar produced up to 31st March 2021 and sugar produced in the first quarter. And obviously the sugar produced in the first quarter because of very high recovery carries a very low cost of production. Now what happens in Q2 as the sugar gets dispatched, so normally the sugar which is produced up to 31st March 2021 it gets dispatched, so therefore the quantum of high-cost inventory reduces in our total inventory and therefore the valuation rate comes down.

Sanjay Manyal: Understood. Just one thing on the export front, at what price do you look to export, if suppose government will not give any subsidy, at what price you will look to export and what quantities you think you would require?

Tarun Sawhney: Well, let me take the first part of the question. I think at levels greater than ₹ 34 ex-factory, that would be the starting point for us to consider raw sugar exports, given where domestic prices are today. In terms of quantum, last year we managed to do just under 200,000 tonnes of sugar exports and that was very easily possible, although some of that actually was slightly traded quantity. We have seven sugar factories and so there is ample opportunity during the sugar season to produce even more than that quantum of sugar for export. Now that we will, but you are asking a theoretical question and so I am offering a theoretical answer. There is the possibility of actually doing even more quantity than that but it all contingent on pricing.

Sanjay Manyal: And 34 you mentioned is ex-factory?

Tarun Sawhney: Correct, ex-factory.

Sanjay Manyal: And just one last thing if you can elaborate your plans about liquor business. What I understand is your liquor business revenue was somewhere around ₹ 7 crore, what exactly are your bigger long-term plan about the liquor business?

Tarun Sawhney: That's an excellent question. Right now our foray as of December ‘20 is in country liquor only, what is called the IMIL. That is certainly projected to grow where the alcoholic beverages vertical is a central part of our distillery and alcohol business. And we are looking at significantly higher levels as we move forward. This is really very much the start of the business. The volumes of IMIL were 3.65 lakh cases in Q2 fiscal ’22. These are still small numbers, but they are growing at a very-very rapid pace on a month-on-month basis. As we move into the winter months, the consumption level goes up extremely high and so we intend to participate in the growth in the market as well as to occupy a greater share in this particular market. At this particular point in time, we are running at near peak capacity levels of packaging, and we have new bottling lines that are being installed as we speak.

Sanjay Manyal: Any number you would like to give? Say down the line 4 or 5 years what could be this business? What could be the size of this business?

Tarun Sawhney: We tend to stay away from forward looking estimates.

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

Rajesh Majumdar: Actually, I'll do a follow-up on the first question first and then I’ll go back to my question. You said that the net realization from the factory would be ₹ 34 for exports to be viable, are you referring to the Maharashtra mills or the UP mills here because for the UP mills an additional ₹ 2 inward freight involvement, as I understand. So, when you say ₹ 34, are you talking about the Maharashtra mills or the UP mills?

Tarun Sawhney: I am only talking about Triveni Group. I can't speak for any other sugar mills so if we get ₹ 34 ex-factory for Triveni we will contemplate exporting sugar, rates above ₹ 34 per kilo ex-factory. My understanding is that Maharashtra has entered into export contracts well below ₹ 32 for that 1.5 million tonnes. It is already been committed and certainly at levels of ₹ 32 I have been told that Maharashtra without subsidy will enter into export contracts.

Rajesh Majumdar: But isn't this a bit surprising because the domestic prices are so high and inventory position is already down sharply over the last year? And considering the fact that we are expecting 30.5 million tonnes as against the earlier forecast of 31 million?

Tarun Sawhney: No, it's not surprising frankly speaking because it's all a matter of net realization and cost of funds taken into account. If you export today, you receive the money within 30 days whereas if you hold the sugar, the average holding time is let’s say 7 months so there is a delta in terms of holding cost that has to be considered. The second point of course is that the increase that you get in your monthly quota from the Central Government and that too has its financial impact as well. The third are the operating benefits of producing raw sugar. The raw sugar cost of production is significantly lower. You are able to crush at higher rates and therefore there are operational efficiencies which when quantified up to that. So, we are comparing what are prevailing of predicted sugar prices and looking at what would that price be for raw sugar which would be a comparable and that is ₹ 34.

Rajesh Majumdar: So above 20 cents per pound and what you are saying pans out really over the next year in terms of Brazil and prices actually go up to let's say, hypothetically 25 cents per pound then India can actually export 7-8 million tonnes.

Tarun Sawhney: I don't see why not. I think at prices closer to 21 cents, which would be highs for the market because the markets only restarted recent high of about 20.8 but at those levels and provided we have a favorable exchange rate, which is a very important element in this because the exchange rate for dollar rupee which is at 75 plus now, was for a period of time in the very recent past 73.5 and that of course is a negative factor as far as exports are concerned, your realizations fall. So, these are the factors that one will have to look at.

Rajesh Majumdar: But around 20 is comfortable for a 4 million tonnes you think? If it is 20 and dollar is 75?

Tarun Sawhney: Around 20 it's dependent on the exchange rate but yes, I think we will certainly see higher exports. You have to consider the fact that at levels of 19 cents there have been no new export contracts that have entered into the last few weeks. So, if we come back about 20 cents, there will be opportunistic placement that will certainly happen and we will be able to go from 1.5 tonnes to potentially 3-3.5, maybe 4 million tonnes. But for us to reach 5 to 6 million tonnes which is what I think is absolutely necessary we either need the world market to increase substantially which is a bit of a challenge given where the prices have been in the last 30 odd days, or we need some kind of government intervention. There is sufficient time for that intervention. We haven't even really seen the start of the crushing season in North India so there is plenty of time for that decision to be taken by GOI.

Rajesh Majumdar: My second question was why is the government not announced an MSP when they announced the cane price hike? I mean it has really been nearly 1.5 months since the cane price hike was announced or a month and we still seek announcement of a MSP hike whereas the cost of production for everyone has gone up between ₹ 2 to ₹ 2.5 per kg. So, I think right now the prices are good, but investors would be more happy if there is the base setting so that the downside is also known by the market.

Tarun Sawhney: Well, investors should be happy and operators like us will be happy as well. We run sugar factories. We will have greater certainty and peace of mind as well. I don't have an answer to that. This is a decision that is made at Krishi Bhavan, the Ministry of Food makes that decision as well. In their wisdom, they have chosen not to increase it. Having said that the industry associations and we too at Triveni are pushing forward our perspective that it is vital that in a landscape where cane prices both FRP and SAP, where both of them have risen, it is important to raise the MSP as well. There is an off chance that it will happen this year.

Rajesh Majumdar: And ethanol prices a linked to what SAP or FRP? So, if the FRP has been hiked by ₹ 5, we can expect a similar hike in ethanol or how should we look at that?

Tarun Sawhney: Ethanol pricing, there's no publicly given formula but it is a complex set of issues. What I can share with you that it is certainly not connected to crude. That the Ministry has been amply clear on. There are many constituent elements in arriving at that. One of them happens to be the price of cane. There are other elements as well. I think the Government would also look at prevailing sugar prices in order to look at the ethanol price because there's an opportunity cost as well. There are two elements, one is the cost of cane and the second is the opportunity cost of making sugar or diverting juice and syrup to ethanol and those are important things for the Government to consider in establishing the ethanol prices, the various ethanol prices.

Rajesh Majumdar: What would be your expectations for the ethanol?

Tarun Sawhney: It's impossible for one to say but I do expect that during the course of November we will get the pricing. So, it's not too long in the future, you will know in the next 30 odd days.

Moderator: The next question is from the line of Karan Agarwal from Tusk Investment. Please go ahead.

Karan Agarwal: Could you please highlight towards the reasons why did we dispatch lower sugar this quarter?

Tarun Sawhney: Yes, we have dispatched lower sugar this quarter because we are subject to the quota mechanism which is by the Government of India. The Government of India ascribes a quota per sugar factory. We have 7 sugar factories, and they ascribe this quota on a monthly basis, and it is based on the stocks that are in hand and the anticipated consumption levels. Our quotas this year compared to last year are different because in the last year Maharashtra's production was much lower and so the UP millers to meet the consumption across the country got a higher quota. In this year, the sugar production from Maharashtra was higher and therefore the total amount of sugar proportionately given to each and every factory was commensurately a little bit lower and that is the primary reason why our quotas were slightly lower compared to the previous year.

Karan Agarwal: I have one more question which is that the current inventory that we have as of date, how many months do you think we will take to liquidate this inventory?

Tarun Sawhney: We anticipate that we will liquidate this inventory by January.

Karan Agarwal: Previous year it was? When did you liquidate it by?

Tarun Sawhney: So previous year we went up to end of January as well, early February.

Karan Agarwal: So, we see a significant improvement here. Thank you that answers the question.

Moderator: The next question is from the line of Ambar Taneja from Geometric Capital. Please go ahead.

Ambar Taneja: My question is you just mentioned that you will be looking at exports at a net ex-mill price of about ₹ 34. So, assuming some linkage between NY11 and your ex-factory where would you say that the March contract price has to rise in order for you to get offers for a ₹ 34 ex-mill kind of a number? And number two, industry-wide this year we have seen ethanol blending use 3.4 million tonnes of sugar as per the latest estimates. What would you hazard a guess for the next year, next October, if we were having a chat, how much do you think we could achieve?

Tarun Sawhney: To answer your first question, there are two elements, firstly, I am assuming that the rupee dollar would be ₹ 75 plus, not below ₹ 75 and if we saw the number 11 March contract come closer to 20.3-20.4 cents, I think that we could easily get offers in this kind of range and provided the rupee is about ₹ 75 to ₹ 75.5. At that level, we could start to see some interest. There are two reasons. The first is that if we reach 20.3-20.4 cents, it is a significant departure from the 19 cents that had prevailed through the month of October. And so therefore sugar would have broken out into a new band and then there is of course, sufficient volatility that exists in the market and it will create more appetite for Indian sugar. I think those two are very important elements in getting this ₹ 34 realization ex-factory.

Now turning towards your question of advance estimates of 3.4 million tonnes of sugar being diverted towards ethanol production for the subsequent year it's a big question mark and the reason why it's a big question mark is it really depends on what the constituent is of the 3.4 million tonnes. How much of it remains as B heavy and how much of it is juice. For us to achieve higher diversion rates, we need to have a much larger juice syrup program and therefore we need juice pricing to go up. And so, it's really dependent on the pricing that we see not just in the month of November but then of course in the following year as well. Why the pricing in November is important? It's because any company across the country that is looking at setting up a distillery will look at this year's pricing as a benchmark for the future and that is absolutely vital and important. I don't see sugarcane production coming down. Frankly speaking the little bit of disease, etc., will be replaced by other varieties and that is why I have not even addressed it in my opening remarks. Yes, there are isolated incidents of pest and disease across the country. But with strong varietal replacement programs, you are able to mitigate that risk. Now that you have a good quantity of cane forecasts not just this year, next year and beyond, the real question is how much gets diverted towards ethanol that function is probably based on pricing. And so, my hope would be that we would achieve much higher levels of closer to 4-4.2 million tonnes of diversion in the following year but that is only possible if there is fresh investment in capacity that happens over the next few months, and we have better pricing.

Moderator: The next question is from the line of Sanjeev Damani from SKD Consulting. Please go ahead.

Sanjeev Damani: I wanted to understand what can be termed as raw sugar, then finished sugar and refined sugar and what are the costing differences in that process?

Tarun Sawhney: Very significant differences, raw sugar is not fit for human consumption. It has ICUMSA levels, color levels higher than 600 ICUMSA. You have plantation white sugar that's available across India. This is crystallized sugar, white crystal sugar that is typically sold, majority of sugar produced that has ICUMSA values up to 150 ICUMSA, let's say 50 ICUMSA to 150 ICUMSA. And then you have refined sugar, which has a ICUMSA levels sub 45 ICUMSA. That is what is typically traded globally and considered as white sugar. As I mentioned to you, you have international benchmarks for raw sugar because raw sugar is not traded domestically. At present raw sugar is trading internationally at 19.7 cents a pound and refined crystal sugar is trading at $ 505 per metric tonne. The price of plantation white sugar varies across the country depending on where you are. In Uttar Pradesh it is typically a ₹ 1.5 to ₹ 2 a kilo higher. At present the prevailing prices in Western Uttar Pradesh are approximately ₹ 36.75 per kilo.

Sanjeev Damani: I wanted to understand the costing part at factory level, when we export raw sugar, do we incur less cost to export raw sugar?

Tarun Sawhney: The costing ex-factory level we are not exporting raw sugar right now, at this point in time we are not exporting.

Sanjeev Damani: I presume this way that when you export raw sugar, you are not able to extract molasses, am I correct or am I wrong about it?

Tarun Sawhney: You also get molasses.

Sanjeev Damani: We get molasses, even when we export raw sugar; we get molasses at our place. Thank you, sir.

Moderator: The next question is from the line of Karan Agarwal from Tusk Investment. Please go ahead.

Karan Agarwal: If I am not wrong, you said that the sugar prices are going to stabilize around ₹ 37 per kg. Is that correct?

Tarun Sawhney: What I had said was that our anticipation for the following year is ₹ 36 for refined sugar and ₹ 35 for plantation white sugar for the average for next year.

Karan Agarwal: In the following few months we can expect that the domestic prices of white sugar to gradually come down because the new crushing season is underway? Is my understanding correct?

Tarun Sawhney: Yes, you can say from the level that we are at now which is a peak. And frankly speaking, it is the wrong point in comparison because we have just finished with Dusshera. We have got Diwali and the biggest holiday season that is coming up and prices tend to inflate coming up to Diwali and then they meter down and come to a normal rate which is still a very respectable increase from where the prices were in early August of this year.

Karan Agarwal: So, ₹ 35 is the average we can assume going forward next year?

Tarun Sawhney: For plantation white and ₹ 36 for refined.

Karan Agarwal: ₹ 36 for refined, thank you.

Tarun Sawhney: Almost 50% of Triveni's sugar is refined, 45% to be precise.

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

Anupam Goswami: My first question is a follow up from an earlier question. You mentioned that for the country to increase its blending program, juice program has to incentivize. According to my understanding, the margin in the juice segment is a little lower than B-heavy program. So, does it mean that the juice prices have to go up or at least equivalent to B-heavy prices or the margin level, where then we can see a higher blending and higher meet of the requirement of the higher blending?

Tarun Sawhney: You are absolutely correct.

Anupam Goswami: Right now, it is not very profitable for the mill to go for a higher juice instead of B-heavy, right? We are doing it just to lower our sugar inventory.

Tarun Sawhney: As this particular point, the margin from B-heavy is higher than that of juice. You are absolutely correct in that understanding.

Anupam Goswami: But now to set up a juice unit, what is the thought process, what is the motive in that, just to decrease our sugar stock?

Tarun Sawhney: It is a commercial decision. It is based on a return. It's based on a project return. Now, whether you decide to push juice through it or push B-heavy through it, it is the same technology and the same process. You don't have a different plant that processes C molasses and B-heavy molasses, it's the same technology across the board. It's just the size differs. You always have the possibility of buying molasses from the open market as well.

Anupam Goswami: My next question on Triveni distillery we have seen the EBIT margins going up till 24%, even though we have about 70%-75% diversion towards B-heavy molasses, when can we see a margin which is more about like the industry standard or how the industry leaders are doing about 40%-45% to that level? And what is our cost of production in this distillery segment, the cost of production of ethanol precisely.

Sameer Sinha: You see, if you look at this question, the output price is fixed. It's dependent on the product mix. We do about 77% to 80% of B-heavy therefore the output pricing is well known. On the input pricing are the pricing of molasses which is dependent on the transfer pricing policy that various peers may be following, which may be different from ours as well as the conversion cost. Our conversion cost is a little under ₹ 9 on the blended basis and that would be, I would say, on par with everybody else, one of the most efficient operators.

Tarun Sawhney: In a nutshell, this is based on your transfer price. So, there is no benchmark per se because you can change your transfer price to reflect a higher profitability in one business at the cost of another business.

Anupam Goswami: I understand, if the transfer price goes up then sugar division will have a higher profit. Okay. So, my next question is if the export prices go up, do we see domestic prices are also firming at the same time? And if Government will come in between and put a cap on the domestic prices?

Tarun Sawhney: I don't see the Government putting up cap on domestic prices anytime in the near future. I do not believe that if there is a marginal increase in international sugar pricing that it will have a commensurate positive impact in India. If we are able to maintain the prices that have elevated because of the holiday season that would be a good achievement.

Moderator: The next question is from the line of from Sanjay Manyal from ICICI Direct. Please go ahead.

Sanjay Manyal: Do you have sufficient molasses by the end of September?

Sameer Sinha: We have sufficient old molasses which will last us until November and in November our units are starting and there will be new molasses coming into play.

Tarun Sawhney: Ladies and gentlemen, thank you very much for joining us for the Q2 fiscal '22 results for Triveni Engineering & Industries Limited. My hope is that when we speak next for the Q3 results, we will have had substantial developments within the industry. There will be a brand-new ethanol policy, which is something that is eagerly anticipated. We will know the result of the rains on the recoveries as well as projected crushes for Uttar Pradesh. We will be in a better position to talk about anticipated production levels across the board and those are important points. And plus, we will see a return to normalcy hopefully across our engineering businesses after the COVID lockdown which is awaited. Thank you very much for joining today and I look forward to speaking to you in approximately 3 months.

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