Triveni Engineering & Industries Limited

Q2 & H1 FY 23 Earnings Conference Call Transcript
November 07, 2022

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 23 Earnings Conference Call. We have with us today, Mr. Tarun Sawhney, Vice Chairman and Managing Director; Mr. Suresh Taneja, Group CFO; Mr. Sameer Sinha, CEO of 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 a 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 very much. Good afternoon, ladies and gentlemen. Welcome to the Q2 H1 Fiscal '23 earnings conference call for Triveni Engineering & Industries Limited. The overall performance of the Company during the quarter and half year ended 30th of September 2022 has been broadly satisfactory. The key highlights that I would like to mention before we get into the business discussion and detailing of the commentary are that the Sugar Season 2022 - 2023 has commenced, six of our seven sugar factories have commenced their operations. Our factory in east UP will be starting its operations within a week or so.

From a readiness perspective, the debottlenecking and modernization of the three sugar units has also been completed in a timely manner. This will lead to an enhancement in crushing efficiency. Along with this, we have increased our refined sugar production capability from approximately 40% of total sugar to about 60% of total sugar production, and we have doubled our pharmaceutical grade sugar production capacity. Both of this will boost realizations and profitability for the group.

With respect to the distilleries, the additional distillation capacities commissioned during the quarter aggregating 660 KLPD is fully commissioned and operating at high levels of efficiency. And we are on track for enhancing our capacities to 1100 KLPD by FY 24. In our Power Transmission business, the order booking has grown a robust 29% year-on-year and within our Water business, there has been an extremely important development where we have achieved commercial operations date for the entire Mathura Hybrid Annuity project, the HAM project and this was on the 21st of October 2022.

Turning to the quarter under review, I would like to first start off by discussing the financial highlights. The net turnover has increased by 26% quarter-on-quarter and 22.2% for the half year versus the previous corresponding half year. And this has been primarily driven by higher sales of sugar and alcohol. The profit before tax before exceptional items during Q2 FY 23 has declined by 79% to ₹ 24.48 crore which was previously ₹ 113 crore in the previous corresponding quarter.

The contribution on sales of sugar during the current period is lower due to the impact of higher cane price, the State Advised Price (SAP) was increased in the previous year and that increased our cost of production. In addition, for the quarter under review and half year under review, there was an export subsidy in the previous corresponding periods. And this of course was absent in this quarter and half year under review and that is another significant difference in the profitability numbers. The sugar revenues as I mentioned grew by 26% quarter-to-quarter. And this was driven by higher sales volumes and also improved realizations.

The profitability as I mentioned, was impacted due to higher SAP and no subsidy. Further increased cost because of wage board corrections that had to be made, were also witnessed during the quarter and added towards our cost. The distillery revenues net of excise grew 45% during the quarter due to additional capacities that were commissioned, which resulted in increased sales volumes. The profitability margins have been impacted due to an increased price of B-heavy molasses and some stabilization period for the new distilleries that were commissioned around about the turn of the previous quarter.

There was also a slightly lower margin with grain on feedstock, mainly attributed to a stabilization period, the engineering business at an aggregate level reported very strong revenue increases of almost 27% during the current quarter. The outstanding order book for the engineering business stood at ₹ 1,825 crore compared to just under ₹ 1,700 crore in the previous corresponding period.

On a consolidated basis, our total debt for the company is ₹ 721 odd crore net of Fixed Deposits (FD) of ₹ 148 crore which has been made from an operational surplus and this is on the 30th of September '22. The consolidated debt at ₹ 1,568 crore was on March 31 '22. The above debt position is without considering the net divestment proceeds of ₹ 1,593 crore which is currently being held in fixed deposits with various banks.

Our overall cost of funds has marginally increased to 5.16% during Q2 FY 23 as against 5.09% in the corresponding period of the fiscal year. Clearly, this is not in line with the massive increases in interest rates that we have seen for the nation as a whole and it's because we have the majority amount of debt under subvention.

During the quarter, the company has divested its entire 21.85% stake in Triveni Turbine Limited for a net consideration of ₹ 1,593 crore unlocking significant value for our shareholders. This has led to an unbundling of businesses and the monetization of non-core assets. As I had indicated earlier, the proceeds from this divestment will be utilized for growth and expansion of businesses as well as rewarding shareholders.

To this effect, the Board of Directors subject to the approval of shareholders has approved a proposal to buyback equity shares of the Company up to ₹ 2.28 crores (approximately ₹ 2.29 crores) equity shares at a price of ₹ 350 per equity share and the aggregate amount not exceeding ₹ 800 crore. I would like to mention that this is almost the maximum buyback that the Company could have done at this particular period. I would like to remind on this call that the previous buyback that the Company has, Company had a rich history of doing buybacks, the last buyback that we have done which is a smaller one of ₹ 65 crore in October of 2020 was done at a share price of ₹ 105 and this time as I mentioned, the buyback will be at ₹ 350.

Turning to the financial highlights of the Company. The revenue from operations grew at 27% to ₹ 1,471 crore while the PBT declined to a profit of ₹ 24.5 crore which is the decline of about 79%. The EPS after accounting for exceptional items has jumped very substantially to ₹ 57.4 per share.

Now turning to the businesses, I would like to spend a few minutes discussing our different business verticals. Starting with our sugar business. On the realization during the quarter, the average that we have achieved is ₹ 3545 per quintal which is about 1.6% higher year-on-year. So, not quite, certainly higher, but not as high as we had anticipated or would have liked frankly speaking.

The current price of sugar however, as of today, refined sugar is selling at ₹ 3690 per quintal and sulphitation sugar is selling at ₹ 3615 per quintal. There has been an increase in pricing this morning after the very positive announcement on exports by the Government of India (GOI) over the weekend. The Company did not export any sugar of course, during the quarter. Sugar inventories on the 30th of September stood at 20.81 lakh quintals valued at about ₹ 32 per kilo.

The cogeneration operations achieved external sales of about ₹ 17 crore versus ₹ 14.2 crore in the previous corresponding half year, an increase of about 19%. And there were no operations during Q2 as it was the offseason.

Our domestic realization as I mentioned was ₹ 35.45 per kilo during the half year and this was on the base of ~259,000 metric tonnes of dispatches, ~22% higher per quarter on previous quarter.

From a policy perspective, there has been very big news over the past weekend with the export policy for the Season 2022-23 being formally announced. The Government has announced exports of 6 million metric tonnes from the 1st of November 2022 to the 31st of May '23 *(Note: corrected to May as it was mentioned erroneously on the call as March).* This was a key ask of the industry and an enormously big positive for the sugar sector. We believe that this is the first tranche and I personally do believe that the Government will come out potentially with the second, and there may be a third export tranche. The second one being our hope is 3 million metric tonnes in five- or six-months' time so that there can be better planning and execution.

I would like to point out that this again shows that the Government is acutely aware of the needs of the industry and acts in a timely manner to assuage the market and to provide stability in terms of operations for the entire industry. And of course, this has a cascading effect and benefit all the way down to the farm level and to the farmer level. So it's a great positive and yet another example of excellent and timely Government intervention. The 6 million tonnes will be easily exported, in my opinion, during this time, potentially even well ahead of this time.

The past experience from last year shows that India is well capable of exporting this total amount within the six-month window. Earlier in October, the Government has extended the restriction on sugar exports up to the 31st of October '23. However, these subsequent new orders, of course, are in addition to that previous order.

For the Triveni, we have received a quota of just under 205,000 metric tonnes of sugar. And we've contracted a significant portion of this already at substantial premiums and these are refined premiums for the Company which are in excess of prevailing domestic prices. We intend to dispatch this entire quota during this current financial year, which will of course improve the financial performance for H2 fiscal '23.

Turning towards the domestic scenario, based on the recent ISMA estimate, the total acreage for the country is about 6% higher than the previous year. I would also like to mention that it is our belief that the State Advised Price (SAP) which is the sugarcane price, that Triveni pays in Uttar Pradesh will remain the same and that is our earnest hope for sugarcane for this current season.

Looking at the balance sheet for the nation, for sugar production in 2023 before considering diversion to ethanol, we anticipate that to be about 5% higher at 41 million tonnes, another record production of sugar in our country. It's expected that 4.5 million tonnes of sugar will be diverted towards ethanol this year. With an opening balance of about 5.5 odd million tonnes, I anticipate that with balancing export numbers, we will close out sugar season 2022-23 with the same figure as the opening balance about 5.5 million tonnes on the 30th of September '23. And that, of course is also the hope of the industry.

Based on international reports, the forecast for the global sugar industry is a surplus of about 5 million tonnes up to about 5.2 million tonnes. And this has been driven primarily by major sugar exporters such as India, Brazil, and Thailand. Higher supply will of course lead to higher ending stocks as well. In the Centre South region, I think the Brazilian sugar production will return to normalized levels of 36 million metric tonnes odd next year, which starts in April '23.

So, it is anticipated that there will be more sugar produced relatively in Brazil and that will come to global markets for sale. Similarly, in Thailand, we're anticipating an increase, of about 11.5 million tonnes of sugar for the season 2022-23 which starts in October '22. Having said that, I think this has all been very well factored into global sugar prices, which have actually performed quite well. New York has been hovering between US 17.5 to 19.4 cents per pound. At present, the prices are US 18.7 cents per pound which is a reasonably good price. And the London white sugar contract for the December month has been trading at about US $540 odd per tonne with the March trading at just under US $513 per ton, again a very healthy price of a solid white premium actually.

So we at Triveni for exports are hoping to at least capitalize on this wide White's premium for a portion of our total exports. Turning to the alcohol business, the production was 57% higher, the sales quarter-on-quarter was 23% higher, the average realization was just about 13% higher. The key changes for this quarter are our product mix and our higher capabilities which led to higher volumes. The sale of ethanol produced from grain accounted for 24% and 13% of total sales volumes in the current quarter and half year corresponding.

Ethanol produced from B-heavy constituted 70% of the sales volume of the current quarter versus 73% in the previous corresponding quarter. There has been big news also in the Distillery segment where the Government has recently announced an increase in prices under the EBP program. We note that the increases for B-heavy, juice and grains are only marginally higher when you include the relief that was provided by the Oil Marketing Companies (OMCs) earlier.

And therefore, it is my view that more support will be required as we march towards EBP20 and beyond that and we need more capacities to come up to convert juice which is definitely the most reliable feedstock for the ethanol blending program. We can see that from Q4 of the ethanol supplier that the most reliable supplies at the most precarious time has come from the sugar sector. And I do believe that as we move towards E20 and beyond, the sugar sector with respect to ethanol has to be the bedrock for this particular program.

The ethanol supply year, this is important, has been redefined. And it will now be from the 1st of November to the 31st of October in the following year. And therefore in view of the above changes to the ethanol supply year, the ethanol supply year for 2022-23 will be considered from 1st of December to the 31st of October '23, 11 months. Out of the 455 crore is finalized by the OMCs and a total requirement of 458 crore, contracts for 454 liters have been executed after the 23rd of October '22. The total lifting has been about 82% of the contracted quantity and the average blending percentage up to the 23rd of October was 9.57% let's say broadly odd 10%.

Till 23rd of October '22, out of the supply of 371 crore liters, 70 crore liters has been supplied from sugarcane juice and 234 crore liters has been supplied from B-heavy molasses, the vast majority of this total supply. The OMCs have recently invited bid to supply 651 crore liters of ethanol for the supply year of 2022-23.

Turning to the engineering businesses very quickly, the power transmission business again has had an excellent quarter under review with gross revenues improving by 12% to ₹ 61 crore, PBT of ₹ 21.1 crore and an order booking increasing by 20% to just about ₹ 60 crore. The closing, order book was just over ₹ 245 crore which is 52% higher.

In Q2, there's actually been a fantastic growth. And we've seen orders coming in not just domestically but internationally as well. There have been some supply chain disruptions, because we saw metal prices vacillate quite substantially, but those have been pretty much set aside and the recent performance with metal prices augurs very well for the business going forward. We've seen an excellent performance as well in export markets, and this is a focus area for the Company in terms of discovering new customers, OEMs and gaining more market share. The outstanding order book as I mentioned stood at ₹ 245 crore which includes long-term orders of ₹ 105 crore.

The water business had a fantastic quarter and review where revenues grew by 43% to ₹ 78 crore, the order booking increased by about 3% to ₹ 1,550 crore, the results are very good on a consolidated basis, which includes SPVs and the water business, as I mentioned has achieved commercial operation date, the COD date for the entire Mathura Hybrid Annuity Project with effective 31st of October is a very important milestone in terms of our revenue recognition et cetera. And it is the most successful HAM project in my opinion that has been executed across the nation. The outstanding order book, as I mentioned continues to grow quarter-on-quarter, half year on half year and we are anticipating that there are a large number of orders that will be finalized over the next few quarters.

Looking briefly at the outlook, the sugar business as a result as I mentioned of the debottlenecking and modernization, there is going to be a good increase in the performance and a reduction in cost of the sugar that is produced this year. Of course, the sale price will benefit with higher quantities, 60% of refined sugar and a doubling of pharmaceutical grade sugar that is produced by the Company. The season has started, the crop condition looks excellent. For Uttar Pradesh as a whole, there is a projection that there will be 4% increase in production. This is recovery and crush combined, I would be happy to mention that Triveni estimates that our production would certainly be much higher than the average of the state of Uttar Pradesh. Six factories have already started operations. The relative recovery rate this year, we started earlier than last year are higher, which bodes very well for the season. We are crushing at a significantly higher crushing rate as well this year versus the previous year. All of these help in cost of production and better efficiencies across the entire system.

And provided of course we don't have any unseasonal rains or inclement weather etc., this has the potential of being a record year for the Company. And a lot of the work that has been done has been done at the farm level. So, we are seeing the yield increases which means that our farmers are certainly seeing an increase in their take home income and profitability from the land and we are delighted to mention that.

Looking at the alcohol business, we're well on our way in terms of expanding our capacities to 1110 KLPD and we are looking at expanding and leading to better growth in terms of revenues as well as profitability as this year continues and we move into the next year.

And the gears business, the Make in India program has led to fantastic opportunities for our diverse engineered products and we are actively participating in several many indigenous development projects. We have seen fantastic growth and inquiries from the cement, energy, distillery and steel sectors domestically and this augurs well, this is continuing and in fact heating up quite a lot. So, it's very positive for the domestic order booking going forward. The defence segment again has done well and we have received strong orders in the areas of propulsion shafting, we believe that this is a long-term strength for this particular business.

The Water business, we are expecting robust order bookings I mentioned briefly in the coming quarters. And there is a lot of visibility and value that will get finalized over the next six months or so, the domestic opportunities are increasing in the recycle and reuse of wastewater. And the water business is equipped to handle this target market which is a new and large revenue segment for the water business. Municipal business opportunities are looking very attractive in the states of Karnataka, Uttar Pradesh, Punjab, Telangana and Maharashtra. And we're looking for other public, private partnership model projects under the HAM model. And we're keen on participating on those as over the coming few quarters. Thank you very much. I'd like to now open up the floor for questions.

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

Sanjay Manyal: My first question is about the export contracts which were done, if you can quantify the what exactly is the volumes were contracted and at what price?

Tarun Sawhney: Sanjay, firstly thank you for asking the question. What I will say is that we have contracted for more than 50% at fantastic white sugar prices. So, unfortunately at this particular point in time, I cannot disclose the total quantity nor the values, but I can say that they are in substantial premium to domestic prices.

Sanjay Manyal: Okay, so just want to understand one thing, I believe if the Government is going to come up with a second tranche of 3 million tonnes, then you probably will get another 1 lakh tonnes of quota, so what exactly is the price you are looking where you will execute the export contract? Because what I understand you have not done export last year. So, what exactly would be the price above which you will be looking to sort of do the full contracts?

Tarun Sawhney: You've asked a brilliant question, so we have some portion from this 6 million tonnes that remains unpriced right now. And then of course, there is the distinct possibility of a large second tranche coming about. For us very simply, this is tradable. The most important thing to consider that in the wisdom of the Government, they've created a fantastic platform, which is tradable. We already know that the coastal millers would love to export and there is a very buoyant market for trading this quota as well, it's already extremely active as of this weekend.

As far as we are concerned, we will consider three things, we will consider domestic price, we will consider what the tradable value is at that point in time and we will consider what the export price is, now the export price comes in three forms, it is refined sugar, that is EC Grade 2 sugar, then there is refined sugar that we typically make in North India which is slightly bolder grain sugar which can't command the same premiums as LIFFE (London International Financial Futures and Options Exchange) and then of course you have 150s and raw sugars, I'm bucketing both those together, that are sold at versus New York.

Now, we will look at which opportunity gets the Company the maximum amount of revenues and profitability and our decisions will be made purely on that basis.

Sanjay Manyal: Okay. So, but you have the capacity of this 45 grade refined sugar which is basically trading at ₹ 38 to ₹ 40 per kg in INR, you can export the entire 2 lakh or 3 lakh?

Tarun Sawhney: We don't have the entire quantity in terms of EC Grade 2, I would say, but we are doing at the maximum that we can. Frankly speaking, this is not a product that we have made in two years' time, last year because we didn't export, we didn't manufacture it, and now that we're functioning on higher levels of operating efficiency, et cetera, we are trying to maximize it. So, let me leave you rest assured that while I can't comment on how much of it will be pure small crystal white sugar exports, we are certainly trying to maximize it and we will be manufacturing it through the course of the season.

Sanjay Manyal: What exactly is the crushing number we are looking for Triveni and if considering the 2 lakh tonnes of export and the current quota, would we be able to do 11 lakh tonnes of sugar sales volume for FY 23?

Tarun Sawhney: Let me just take the first portion of your question and say that as I had mentioned, we expect that there will be a 4% increase in sugar production for the state and Triveni will be substantially higher than that. A lot is dependent on weather. Let me be honest with you, for me to give you a projection right now, we were very conservative as you know. So, we will give you something that will consider some amount of inclement weather that's happening.

But despite that, we are going to be substantially higher than the state average. At this particular point in time, we are unable to share a total crush number, but it will be a record number for us. So the second part of your question, I'll hand over to our CFO.

Suresh Taneja: As Tarun has just now said that we have already contracted more than 50% of our quota. So obviously, this sale of sugar will take place in this fiscal year itself.

Sanjay Manyal: Okay. Understood. And just if you can also quantify what exactly is the premium we get in the pharma sugar in terms of realization and margin?

Tarun Sawhney: Certainly, so depending on the grade of pharma sugar, we get anywhere between ₹ 2 and ₹ 4.

Sanjay Manyal: Okay, understood. And do we hold on the distillery numbers or volume, which we mentioned last quarter, which is 18 crore litres for FY 23 and 25 crore litres for FY 24, if I'm not wrong?

Sameer Sinha: Yes, for this year, definitely 18 crore litres and for next year considering the new assets; from the existing assets, as we mentioned, what about 21 litres crore plus and from the new assets will be the remainder.

Moderator: Thank you. The next question is from the line of Nitin Awasthi from InCred Equities. Please go ahead.

Nitin Awasthi: I wanted to ask whether the recent ethanol pricing, which the Government has announced, because it's lower than what was expected, will it put any hindrance in the investments coming into the ethanol space by the industry and by the Company?

Tarun Sawhney: A very good question, excellent question. I have to say that, yes, these price increases are muted. I think the industry has made representations to the Government in terms of what it requires, and nothing extraordinary, only to get a normalized rate of return. So, I do think that industry wide, there will certainly be an impact because the cost of funds for the industry as a whole is much higher than what the cost of funds of Triveni is.

I appreciate that you've segregated the Company from the remainder of the industry. I do think that there is a negative impact. And I am sure the Government in its wisdom will revise it. As we know from last year, there was a midterm correction of prices. And so, I anticipate that the Government could very easily consider a midterm correction in order to further boost investments as we move towards E20 and beyond.

As far as the Company is concerned, we had anticipated that something like this could very easily happen, it still meets our investment hurdle criteria. And so, we will be moving ahead, but we will be watching the situation closely. As you will remember that, we are investing in dual-feed facilities and therefore for our return, we would look at both grain as well as sugarcane and juice as alternatives and therefore, it gives us a little bit of an advantage in terms of meeting our return expectations.

Nitin Awasthi: Got it sir. The second question was, you have put up a standalone grain distillery which is quite different than the rest of the sugar industry, which is either going for a flex or avoiding this route. So, what are the prices for ENA that you're realizing currently and now that you have the expertise in the sector, would you like to expand more aggressively in the ENA segment?

Sameer Sinha: So, I presume you are talking about the grain based ENA. So, we have produced that, our quality has been approved, we are looking at opportunities at the current levels in both grain-based ENA and grain-based ethanol are giving us the same margins and we have the flexibility of switching to production of either of them to 50% of the capacity of this plant.

Nitin Awasthi: Okay sir, so any expansions in this direction?

Tarun Sawhney: I think we will look at it, the grain prices have yet to be announced as and when the OMCs announce the new revised grain prices, we will have a look at those prices as well and look at investment decisions but those have to first go to the Board. So, at this particular point, I will say there is nothing contemplating, the Board will have to evaluate these proposals first.

Nitin Awasthi: Got it sir. And just a clarification on your previous comment. So grain ENA prices and ethanol prices are the same in the state of UP?

Tarun Sawhney: No, not prices, margin.

Nitin Awasthi: Okay sir, could you quantify the prices please?

Sameer Sinha : Well, it depends on a landed price of let's say for this on 18% GST although a large number of organizations are charging VAT at 5%. But if we are looking at 18% GST which we believe is the correct way of taxation going forward, the numbers are anywhere between ₹ 62 to ₹ 64 landed ex-factory for the consumers situated in UP and you can work it backwards. And GST on this is 18%, ethanol is 5%.

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

Rajesh Majumdar: Hi sir, thanks for taking my question. I had a bookkeeping question. You have quantified the way the real figure is approximately ₹ 5 crore. What is the impact of the levy molasses increase in the quarter in terms of one-time impact?

Suresh Taneja: Yes, that impact is in the region over ₹ 5 crore to ₹ 6 crore which is a 2% reservation of molasses. And as far as the wage arrears are concerned, let me clarify that most of the provision was made before in the financial year 2021-22. And as a result of the notification, incremental provision of about ₹ 5 crore was made in the quarter.

Rajesh Majumdar: And what is the impact going forward on annual basis of both the one-time, the wages as well as the levy molasses, the annual impact?

Suresh Taneja: The wage is over. But that was a chapter now, now, it has become a part of the recurring cost basically, because this arrear was right from 2018 onwards. Now, as far as the reservation of molasses is concerned, it keeps on changing every year. So, there would be a molasses policy for this year, which will define what the reservations are going to be.

Rajesh Majumdar: And the current is from 18% to 20% so what is the analyzed impact of this?

Tarun Sawhney: Incremental impact has an impact of ₹ 5 crore, if you want the total impact, we can give you the figure offline, on a comparative basis.

Rajesh Majumdar: Yes please. Because you would have to make provision for the last three quarters right?

Tarun Sawhney: You don't make provisions for it, because you are selling it at that particular price.

Suresh Taneja: You don't need to make a provision depending upon what you have bifurcation between levy molasses and free molasses are. You value your stocks accordingly.

Rajesh Majumdar: Okay. Got it. It's more like an opportunity loss in terms of lack of sales of ethanol.

Tarun Sawhney: Correct. That is exactly correct. That's the way that we treat it.

Rajesh Majumdar: Right sir. And my second question was, regarding the buyback, what is the timeframe proposal to buyback?

Tarun Sawhney: Timeframe is immediate. So, we will be going to our shareholders in the very near future. We're hoping to complete this entire arrangement by January.

Rajesh Majumdar: By January, so around three months, is that correct?

Tarun Sawhney: No, well, we're already sort of well into November. I would say, look at 10 weeks or so.

Rajesh Majumdar: On the balance fund, basically we still some amount of debt on our books to retire some debt or what do we do with the rest of the cash?

Tarun Sawhney: So you know, I mentioned earlier our cost of debt is 5.18%. It is quite low. In fact, our debt numbers are also declining quarter-on-quarter, any way that you would like to cut it, or evaluate it. We will not be using these proceeds to retire debt, per se. That's the answer to the question. And in terms of any other things to do with the funds. The Board will contemplate that in the future. And I'll get back to you once we've had that discussion at the Board level.

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

Anupam Goswami: I see your results for the half year, the average per liter in the Distillery segment is about 11.4. Now, with the prices going up in the ethanol, where do we see this? And the mix now is coming from grain as well as juice, where do we see this EBIT margin or EBIT per liter in the Distillery segment?

Sameer Sinha: So, let me take the second question first. The second part of it. Most of the increase in our results will be coming in from increase in grain ethanol. And if we find juice viable only, then we'll be doing juice. So, to that extent, it will pull down the EBIT numbers a little bit from what we are getting right now.

Anupam Goswami: So, to quantify it and right now in the first half is 11.4. Now if we mix more than grain, so it might come down to let's say 9.5 or 10?

Sameer Sinha: Well, first of all, I'm not too sure if these are the EBIT numbers, these would include the excise fees of IMIL on that.

Tarun Sawhney: But if you see grains just in a nutshell, grains was utilized in the offseason as we look forward to H2, the EBIT numbers will rise because we will be using B-heavy molasses. So, the EBIT numbers for the remainder of the year will be at a higher percentage level, because there will be more B-heavy molasses used and no juice that was used in Q1 and limited amounts of grain.

Anupam Goswami: Sir, on a total financial year or sugar year, what would be our mix of B-heavy juice and grain? What are we aiming at?

Tarun Sawhney: I'm afraid that is something that we look at opportunistically, because we have that ability. So it's very difficult for us to give you any forward-looking estimates of how we would split that up. Because we have the ability to be able to change between the different feedstocks. It is a very nimble change, a decision-making process that happens from time-to-time.

Anupam Goswami: Okay sir. And my last question is on the industry, we see that in a next year. This year, we are diverting about 4.5 million tonnes. And with the current acreage also increasing do you feel like 6 million tonnes that ISMA is projecting for the next season year diversion? Do we break that maybe 7 or 7.5 million tonnes diversion?

Tarun Sawhney: No, see for even 6 million tonnes diversion you need to have the distillery capacity in place. So, I think that as present ethanol prices from juice, you are not going to see the same amount of distillery capacity come up. You are going to see it come up from some of the larger players that is envisaged, but in terms of fresh incremental capacity to take us beyond 6 million tonnes. I don't see that happening unless we have a revision in ethanol prices. Even reaching 6 million tonne is going to be a challenge.

Anupam Goswami: Okay. And even if we reach 6 million tonnes diversion, what could be our blending percentage right now that given 10%. Where do we stand as if we divert 6 million tonnes.

Tarun Sawhney: So, you can do the math with 15-16% what you would get, because you have some contribution coming from grain. You see previously, the Government had looked at 1,000 crore liter and said 6 million tonnes should come from sugarcane to meet the E20 number at 1,000 crore liter. However, E20 now is being looked at with 1,300 and 1,400 crore liters. My personal view on this is not just look at one year forward, but look at a few years forward, I believe that the sugar industry can easily divert 10 million tonnes of sugar towards the ethanol lending program. So, it is not just towards E20, but it is beyond E20 as well. And this is a number, given the type of productivity levels that we have in the industry today that can easily be met. Now, there's two things to consider over here. The first thing of course is the willingness for the industry, which I think is very high. Of course, the discussion of prices still exists.

The second and vital element is that I am not talking about farm productivity levels. My fundamental view is that there is a lot of scope in the medium term to enhance sugarcane yields. Speaking just for Uttar Pradesh, there is tremendous possibility for work to be done and the fruits of that will come, it doesn't come in one year. It comes in a couple of years. But there's tremendous possibility to enhance farm yields. And that will lead to higher availability, which means that there is more surplus to be diverted towards ethanol as we go forward.

Anupam Goswami: And surplus is to be diverted, or I feel that your sugarcane juice ethanol process too has to be enhanced substantially again. Further enhancement is required?

Tarun Sawhney: That's what I said. I left the sugarcane price point aside, because it is the key point. The industry does believe and I do believe that the prices are low, and they will not attract additional investment at this price. Because it is not just about Triveni setting up distilleries, it's about the rest of the country setting up distilleries, because ethanol has to go far and wide across our nation. And it's important that we have other participants also in this mix.

Moderator: Thank you. The next question is from the line of Shailesh Kanani from Centrum Broking. Please go ahead.

Shailesh Kanani: Sir a couple of questions from my side. One is outlook on domestic prices for the remainder of the year. You said that second quarter rates were disappointing and there has been some uptake, the uptake is by and large, because of festive season and across the industry level volume inventory levels so low. So how do you see for the remainder of the year and for next year as well?

Tarun Sawhney: Yes, so if I look at the next 11 months, basically after the end of the sugar year, I actually am quite buoyant about these levels. And I will tell you exactly why. I think the Government has made its intention very clear that it is going to be evacuating the sugar. So, the first step was the announcement of the 6 million tonnes of export. The next thing I do believe is that in a timely manner, the Government will come up with other tranches for exports, ensuring that our closing balance is there about similar to what our opening balance was. Given that, at this particular point in time, I think that augurs very well for the industry and there was in the last quarter and even potentially, in the first half of this fiscal year, some amount of skepticism that will the Government actually ensure the evacuation of the sugar, now that that uncertainty to a large part has been cleared, I do believe that we will come to a slightly higher sugar pricing levels as we move forward. Now, with slightly higher, I mean two odd percent, broadly speaking. And this will definitely be better than the previous 12 months.

Shailesh Kanani: Okay. And so primarily, the rates were not higher because of the skepticism in the system per se, because that is a reason for the skepticism. Is that right?

Tarun Sawhney: That is my explanation for Q2, that there was a certain amount of skepticism. There was a concern that will the policy get announced how will it be announced? What is the format that the Government will use last year, if you remember, it was Open General License (OGL). This year it is Maximum Admissible Export Quantity (MAEQ). So, there were important questions that needs to be answered. I think the Government in a timely manner has taken care of those concerns and issues.

Shailesh Kanani: Okay. Second question is on the expansion front. Can you little bit elaborate the timeline of the 450 KLPD is it expected by first quarter FY 25 and the volume we can achieve in FY 25?

Tarun Sawhney: In terms of production, I think we have seen some stability in metal price increases. So, these are good times in terms of placing orders, etc. And we are progressing with executing these projects during fiscal '24, towards the end of fiscal '24. And therefore, for 100% production to come to place it will be in the subsequent fiscal year, you are absolutely right in that observation.

In terms of total spirit production from 1,110 KLPD, on an annualized basis, it would be…

Sameer Sinha: We have already mentioned about FY 24, that we should be doing 21 crore litres from the existing assets, plus the assets coming onstream in the last quarter that could get added on to it. And therefore definitely in FY 25, we should be looking at 31-32 crore liters.

Shailesh Kanani: Okay sir. Sir last question from my side. I believe promoters will be fully participating in the buyback of shares or it's a partial participation in the buyback?

Suresh Taneja: That's right. Promoters will be participating.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: So first of all, I think, congratulations to the management for doing this unlocking of stake sale from Triveni Turbine, and also doing buyback along with it. I think very few Indian companies have been able to unlock value like this. So, congratulations to the whole team. Sir, I have a couple of questions. First one is you mentioned in your opening remarks that the export realization has been much better right now and you have contracted also for the same. Is the margins for that relatively better than the ethanol business also? Or how should one think about it?

Tarun Sawhney: So Resham, let me firstly, thank you for your very complimentary words. To answer your question, yes. The profit margins on a percentage basis are certainly, why we are not disclosing what the contracted values are, whatever we have contracted are at margins that are better than our distributors as well, of course.

Resham Jain: Okay. Got it. So, the second question is on the gear business -- industrial gear business. So there, you have announced a CapEx in the last quarter, and which will get commissioned maybe in the next one year or so. So how should one think about this division, it did around ₹ 200 odd crore of revenue. So let's say three years, four years out what kind of revenue one should look at from this specific investment, which you have done?

Tarun Sawhney: So Resham, there's two parts to that question. Let me take the second part first. Typically, we don't give forward looking guidance. So it's tough to say, but the business is performing very well. Our clients are very happy with us. The new business opportunities that we have approached are bearing immediate fruit in terms of order booking and revenue recognition. The ₹ 80 crore CapEx that we have announced, will be executed in the very near future. It includes the establishment of a new facility in Mysore as well, plus a brand-new aftermarket service bay in our existing facility, which we will ensure that we will be able to actually do aftermarket businesses, about 40% of our total business are very high margin. It will give us the opportunity to expand that business and also to increase the speed, which has a direct impact on the sale value of all aftermarket.

So, from that perspective, this CapEx will allow us to expand. It will allow us to meet our short and medium-term requirements. It will also allow us to create new business opportunities as this gets rolled out. As far as the business is concerned, I think we are looking at very healthy and respectable growth and that is evident in our order bookings, as it increases.

Moderator: The next question is from the line of the Nimis Sheth from GT Advisory. Please go ahead.

Nimis Sheth: Good afternoon, sir. Just a follow-up question on the ₹ 460 crore CapEx, the two new distilleries. Basically, you have indicated that you have not yet placed the orders for the plant and machinery that you are in the process. So in that case, will the distilleries be up and running in the next 12 months? In time for sugar season or ethanol season, 2023-24? Not looking at the 100% utilization, I am saying will they be up and running?

Tarun Sawhney: Yes. Let me just answer your question by giving you our past experience. The two distilleries that we had established was set up from the goal date in a period of nine to 10 months.

Nimis Sheth: Okay.

Tarun Sawhney: And so, we have those engineering capabilities. And plus, we are not reinventing a model. All of our plants are the same sort of cookie cutter model. And so, from an engineering and design perspective and working with vendors, we are acutely aware of who we have to work with and what capabilities are. So I think, because we are not setting up something that is 3x the size, or 5x the size, or half the size, something that is odd in terms of engineering, both the internal team, our consultants, and potentially new vendors, because we will be looking far and wide in terms of who will be replacing these orders to those who will be able to execute on time. And I think because we've moved away from the vast amount of vacillation that we had in metal prices, people are offering more realistic delivery dates.

Nimis Sheth: Wonderful. Congratulations. All the best for the coming years. Thank you.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas. Please go ahead.

Kaustubh Pawaskar: Yeah. Good afternoon, sir. I just have one question. Sir do you see any probability of Government increasing the sugar Minimum Selling Price (MSP) in the coming months?

Tarun Sawhney: I would hope that they would. But the industry association has made continuous representations to increase the MSP. I don't know if it's on the cards to be perfectly honest. Frankly speaking, I think the industry has actually managed quite well with the existing MSP. Although we would want that backstop. We would want that price to increase. Whether it will or not, is still a very open question mark. But to have prices that prevail at higher levels than MSP is something that has been proven for the last 30 months.

Kaustubh Pawaskar: Okay. Got your point sir. Thanks. That was my only question.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to management for closing comments.

Tarun Sawhney: Ladies and gentlemen, thank you very much for joining us for Q2 fiscal '23 results for Triveni Engineering & Industries Limited. I look forward to speaking to you in approximately three months' time when we are about halfway through the course of this historic sugar season, where India produces the largest quantum of sugar and potentially Triveni produces the largest amount of sugar in our history.

It is an exciting time for our distillery business and it is an extremely exciting time for our engineering businesses as well as we come up towards Q3 and Q4. And the future does look very bright. So, thank you very much. I look forward to speaking to in January. Goodbye.

Moderator: Thank you. On behalf of Triveni Engineering that concludes this conference. Thank you for joining us.