Triveni Engineering & Industries Limited

Q4 & FY 23 Earnings Conference Call Transcript
May 26, 2023

Operator: Ladies and gentlemen, good day, and welcome to Q4 and FY 23 Earnings Conference Call of Triveni Engineering & Industries Limited. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you, and over to you.

Gavin Desa: Thank you. Good day, everyone, and a warm welcome to all of you participating in Triveni Engineering & Industries Q4 and 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 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 discussions may be forward-looking in nature, and a statement to this effect has been included in the invite, which has been shared with everyone 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 commence the call with opening remarks from the management following an interactive Q&A session.

May I now hand it over to Mr. Tarun Sawhney. Tarun, over to you.

Tarun Sawhney: Thank you, Gavin. Good afternoon, ladies and gentlemen, and welcome to the Q4 and FY 23 results earnings call for Triveni Engineering & Industries Limited. We are extremely pleased with the performance of the Company for the year ended 31st March '23, where several milestones have been achieved. For example, the highest ever crush was in Sugar Season 2022-23, an increase of 11% year-on-year. A record, gross and net turnover of ₹6,310 crore and ₹5,617 crore respectively, with a strong performance across the board. Record alcohol production and sales, following our capacity expansion to 660 KLPD and an aggregate Engineering business revenue of over ₹500 crore and segment results of our Engineering business of over ₹100 crore is another significant milestone.

It's a matter of satisfaction to see that the diversification of our profitability; Alcohol and Engineering business contributed to 51% of the total segment results in FY 23 against 39% in the previous fiscal year. It's a healthy trend, and it's indicative of lowering the dependence on the Sugar business and more innovative management of the business risks.

Turning towards the Sugar and Alcohol business. We had our highest sugarcane crush at 9.33 million tonnes for Sugar Season 2022-23, an increase of 11%, as I mentioned over the previous season. This was due to modernization and debottlenecking activities that were taken up in the previous off-season.

Net recovery of 10.23% with 92% of sugarcane crush with B-heavy diversion in Season 2022-23 versus 84% in the previous season. There were lower recoveries, it is important to note, across the state of Uttar Pradesh this year. Significantly enhanced refined sugar production was another important point from the year under review, increasing from approximately 40% in Sugar Season 2021-22, to 60% in Sugar Season 2022-23.

Sugar exports contributed significantly to the profitability. We've achieved exports of 190,000 tonnes during FY 23 out the total export quota just out of 205,000 tonnes for the year under review. In Q4 FY 23, just over 55,000 tonnes of physical sugar was exported. We had the highest ever alcohol production of 18.12 crore liters, which is an increase of 68% over the previous year due to additional capacities and expansions and very much in line, in fact, a little bit more than what we had forecast in previous earnings conference calls and declared earlier. The figure at that point was 18 crore liters. We estimate that for the Sugar Season 2022-23, the nation will produce 32.8 million tonnes after a diversion of 4 million tonnes for ethanol, and 18% higher diversion from the previous Sugar Season.

Turning towards the Engineering business highlights. As I mentioned, our combined business revenue of ₹500 crore plus, and the FY 23 revenues actually were ₹577 crore for both Water and the Power Transmission group growing by over 30% over the previous year. The combined profit before interest and tax crossed the ₹100 crore mark at ₹101 crore. And the overall outstanding order book stood at over ₹1,650 crore for the combined Engineering businesses.

During the year, the Company also divested its entire stake in an associated Company, Triveni Turbine Limited to enhance shareholder value. Accordingly, it was followed up by a distribution of ₹800 crore to the shareholders under the Buyback Scheme of the Company, which was completed in March 2023, just a couple of months ago. The Board of Directors in the Board meeting held yesterday has recommended a final dividend of ₹3.25 per share, 325% for the FY 23.

In addition, we have a significant development, an additional, incremental approval of ₹85 crore of capital expenditure for the Sugar business, which mainly includes the expansion in capacity of our unit in Sabitgarh by 2,000 TCD raising it from 7,000 to 9,000 TCD. And with the proposed expansion, the total crushing capacity of the Company will be augmented to 63,000 TCD.

So, looking at the financial highlights in brief. The notable changes for the quarter, of course, is a 52.5% increase in revenues compared to the previous corresponding quarter and for the fiscal year under review a 34.4% increase to ₹6,310 crore of gross revenues. The EBITDA margin also improved quite significantly in the quarter from 16.6% in the previous corresponding quarter to 18%.

The PAT for the quarter under review also increased by 74.3% from a ₹109 crore to a ₹190 crore approximately. All the businesses have contributed to the growth boosted by higher sales. The sales volumes in the Alcohol business were higher due to the new distillation capacities that were commissioned during the year and a large multi-feed distillery at Milak Narayanpur and a grain distillery at our Muzaffarnagar complex.

Profit before tax before exceptional items did decline marginally in FY 23 to ₹562.4 crore, and this is primarily because of an export subsidy that was recognized in FY

22 of about ₹57 crore. The improved performance during FY 23 has been due to the substantial profitability of Sugar exports, which I have previously discussed. We managed to price our sugar at extremely attractive rates in December, January, and February and concluded at that time. Of course, prices went up quite substantially in February and later in March. But I think we're overall extremely happy with the realization and in comparing the realization that people have gotten across the country, I think we have fared extremely well from that particular campaign.

The total debt of the Company on a standalone basis on the 31st of March 2023 stood at ₹ 825 crore. This is a sharp reduction compared to the ₹1,504 crore on the 31st of March 2022. The overall cost of funds for FY 23 was 5.1% versus 5% in the previous year.

I'd now like to spend time on the individual businesses and discuss them in a little more detail.

Turning to the Sugar business, six of our seven sugar units recorded their highest ever sugarcane crush in Sugar Season 2022-23. We successfully produced and exported large quantities, well over 100,000 tonnes of S-grain or rather EC2 grade sugar, which fetched excellent realizations as we were able to capture the whites margin for these products. Deoband unit post conversion to a refinery has stabilized very quickly and produced excellent quality refined sugar during the Sugar Season 2022-23.

We've also produced the highest ever quantity of pharmaceutical grade sugar from our factory at Sabitgarh, which was expected. Six of the Company's units operated on B-heavy Molasses throughout Sugar Season 2022-23 and that leaves our unit in East Uttar Pradesh, which is quite far away, several 100 kilometers away in Ramkola, at Ramkola where we did not produce B-heavy molasses, and where we produce C-heavy molasses. The sugar export prices were at a considerable premium as I mentioned. And the export sale of 73,000 tonnes during the quarter was sold at a revenue of ₹29.42 crore.

Domestic sugar prices have remained broadly stagnant over the last few months. They went up a bit, they came down a bit and now have stabilized pretty much at the same level as they were just a couple of months ago. Sugar inventory on the 31st of March stood at 46.34 lakh quintals, which was valued at ₹33.7 per kilo. I would like to mention that the cogeneration operations of the business received sales of ₹63.8 crore, which was higher than the ₹62.4 crore in the previous fiscal year, an increase of about 2%.

The current Sugar prices that prevail just now, sales that happened yesterday and this morning are approximately ₹3,680 to ₹3,700 per quintal for refined sugar and ₹3,620 to ₹3,640 per quintal for sulphitation sugar. So, we've seen some amount of price increase that has happened over the last few days, few weeks or 10 days or so. Going forward, I see some further improvement certainly as we come towards the holiday season, especially when we go post monsoon, July, August, September, I would see prices increase slightly at that point in time.

The performance of this Sugar season was quite dramatic and remarkable. As I mentioned, we had our highest ever crush of 9.33 million tonnes of sugarcane at a net recovery of 10.23%, this recovery was lower. The State's recovery also was lower, the net recovery in the last season was 10.55%, but I think the more important numbers to look at is the gross recovery where you net off the B-heavy molasses etc. And previous season had a tiny little quantity of juice as well where we had experimented. The gross recovery for this season was 11.47% versus 11.70% for the previous season So that's about 0.23% reduction year-on-year. And

I think this is broadly in line with what was experienced or what we thought we would experience certainly better than others in the state of Uttar Pradesh.

I'd like to look at the industry scenario as well. ISMA has revised its production estimates for Sugar Season 2022-23 to 32.8 million tonnes and it has lowered it from 34 million tonnes. I think this is broadly a very realistic estimate of production in the country. As of the 15th of May, the country's production stood at 32.1 million tonnes, there are still a few factories that are running in the state of Uttar Pradesh at this particular point in time and there will be a small special season that will happen in South India, which will raise the total production to about 32.8 million tonnes.

In essence, the nation has a sufficient quantity of sugar to do three things

- Meet the domestic consumption requirements
- Meet the requirements for the ethanol blending program
- To feed the export market that we as an industry have painstakingly developed over the last few years

I would like to point out that going forward, I see and we will discuss the weather in the next few minutes. But regardless of that, we will be able to accomplish these three very important things. India plays a critical role in the global sugar trade. And any absence of course, would be detrimental to India's interest and also will have a significant impact in terms of increasing global sugar prices. This is the Triveni perspective.

Looking at the balance sheet of the nation. With the opening balance on the 1st of October, of about 5.5 million tonnes, this is our estimate. We estimate the closing stock would also be just a shade above 5 million tonnes of sugar, a sufficient amount where I see the campaign for the next Sugar Season 2023-24, starting a little bit early. We also have major festivals, which would allow for an easy start in North India most certainly.

With an increased acreage and excellent rains in April and May '23, we are of the view that there are increasing chances of an El Nino impact, and this has been expressed by various metrological agencies. I think what's also important to recognize is the changes in weather patterns. This April, we had unseasonal cool weather across North India. Last March, we had unseasonal hot weather for the entire duration that continued. And we've also had inclement rain, at times that we don't have rain. This has an impact on sugarcane growth. This has an impact on recoveries. This has an impact on new forms of pests and disease that can potentially impact the sugarcane crop. And I think there has never been a more important time for us to be cognizant of all these weather events. It's not just El Nino, it’s the changes in weather, changes in overall temperature, increase in the average temperature, which is something that there is really no debate about. And the impact that that it has on sugarcane as a perennial crop across the country and of course, in the State of Uttar Pradesh.

As you know, for Triveni, the majority of our sugarcane areas that are associated with our factories are located in river and well-connected canal systems, and they're supplemented by tube wells, bore wells and other irrigation methods. And therefore, there is a significantly lower likelihood for our farmers to get impacted by inclement weather or any rain impact to be precise.

Turning to the international scenario, according to the International Organization for Standardization (ISO), in view of the global supply demand situation, being global sugar balance for 2022-2023 is a substantially reduced surplus. It anticipates a global surplus of about 1 million tonnes, just under a million tonne, down from about 4 million tonnes that it is estimated in February. The changes are driven by increases in production in Brazil. However, the smaller increase in Thailand and lower estimates for India and Europe were the negative contributors to this.

For 2022-2023 we must say that the balance situation is quite interesting. And I think the discussion should really move to a quarterly basis, where there are certainly points in time, if we divide up quarters into hemispheres where we see pockets of deficit and strong deficit that emerge. And even going forward, I think it bodes very well for export of Indian sugar that can easily be absorbed by export markets.

International sugar prices have rallied quite substantially in calendar 2023. The New York number 11 broke $27 cents a pound, which was a multi-decade high. And actually, this is the highest since April 2012. On May 19th, 2023, the New York 11 closed at $25.77 cents/lb, although yesterday, there was a little bit of a sell-off because of higher production numbers coming out of Brazil. But by and large, we are holding at much higher prices. And I think the fact that Brazil will have a record crop of sugarcane and a record production of sugar is something to the market has completely absorbed. And I think supply side shocks will lead this market higher.

However, the correlation between international and domestic prices still eludes us, which, of course as a domestic sugar producer we would be happy with, but that doesn't really exist in this point in time.

Turning towards the Alcohol business. We achieved the highest level of production of 18.12 crore liters. The additional capacities that were established, taking the overall capacity of the Company to 660 KLPD, and to high levels of efficiency and production. We have, of course, improved our realization also quite substantially as the prices have been raised by the Government of India, and you can see that in our results. Profitability margins have been impacted because of increased transfer price for B-heavy molasses and Bagasse. It's very important as Bagasse is the fuel for the distilleries and that price has been increased as the transfer price is linked to market price.

Ethanol constituted 92% and 93% of alcohol sales in Q4 and FY 23, respectively. The sale of alcohol from sugarcane constituted 63% and 75% of total sales. And what that means really is that in Q4, 37% of sales of alcohol was from grain. And for the fiscal year, 25% of alcohol was grain. Going forward, I think we will look at about 35% from grain as a stable level, provided all things are equal. But it is important to mention that Triveni was clearly the first to set up a large multi-feed distillery. It absolutely critical, I think, in terms of our strategic positioning where our two new distilleries that will be coming up will also be multi-feed and it gives an enormous amount of flexibility and ability to be able to focus on the bottom-line, while making decisions on what feedstock to consume.

The industry scenario is also quite positive. Out of the 518 crore liters that was finalized by the OMCs against a requirement of 600 crore liters, the contracts were for 514 crore liters. Against the above, 244 crore liters have been lifted till May 7, 2023 which equates to a blending percentage of 11.65%, which is not bad. Target is 12%, and I think we will be pretty close to that 12% level. The largest contributor for this, of course has been ethanol supplies from the sugarcane industry.

Turning to our Engineering businesses, I would like to start with our Power Transmission business, and then move to Water. For the Power Transmission business, we had an increase in turnover and profitability by 22% at just under 20%, respectively. The profitability margins were sustained at 34 odd percent for the year. EBITDA margins being higher than that, it is actually higher than that.

For FY '23, the order booking grew 5% and the closing order book about was 17.7% higher than the previous year. The business has added 18 new customers in the OEM segment, which is contributing towards growth and will contribute even more towards growth as these customers buy more and more. As you know, we have a very high degree of market share and so as we add more customers and those customers buy more from us, it bodes very well and certainly on the product side, we are confident that we will see substantial increases.

In addition to our increases from export revenues that we are witnessing, not just in Q4, but in order booking that we experienced in Q4 and in the last portion of Q1 of this fiscal year. We had record profitability in the Power Transmission business of ₹76.5 crore, which improved by almost 20%.

Turning quickly to the Water business. The revenues have increased by 30%, driven by better execution. The orders that have been received in FY 23 stood at ₹192 crore, excluding O&M orders. The business is actively targeting foreign projects. This is a change in the strategy of the Company, and it's important to talk about and the business is targeting projects where it possesses pre-qualifications and the funding is ensured through multi-lateral and reputed agencies. The order booking on the 31st of March stood at just under ₹1,400 crore, which includes just over ₹900 crore of O&M contracts, which are over a longer period of time.

I'd like to dwell just a little bit on the outlook of our various business segments. In the Sugar segment, we are very much focused on varietal replacement and yield maximization programs. We are encouraging, large increases in the introduction of implements and equipment to enhance focus on intercultural operations and ratoon management.

There are innumerable digital initiatives that have been undertaken in the digital platform of Triveni Engineering will be one of the most significant differences that the organization possesses when compared to peers and will allow us continued differentiation and productivity gains with the direct beneficiaries being our farmers.

There's aggressive surveillance as well on pests and disease that is being carried out not just for this coming off season, but it has already started through the planting of the crops.

Demonstration plots, we have over 1,800 demonstration plots, and these are showing our farmers what they can expect and how they can enhance their revenues. And with such a large scale of demonstration plots, we believe that we would have a significant impact, a show and tell impact, on our farming community. There's a huge improvement in other planting technologies as well.

We also look forward to the Government's help in terms of increasing the minimum sale price of sugar, which has not changed in several years. And I believe we are certainly due to a change in Minimum Selling Price (MSP) of sugar and that support is quite important.

Turning to the Alcohol business. In the Alcohol business, the production and sales volumes have increased substantially following the increase in distillation capacities. During the current year, the revenues from distilleries have contributed 21% of our net turnover, and it will keep rising as we increase our distillation capacity from 660 KLPD to 1,110 KLPD.

In the current ethanol tender for 2022-23, we have emerged as the second highest supplier in the nation. We have managed our ethanol sales planning very well. And presently, we have low levels of inventory. The setup of the Milak Narayanpur distillery operated with B-heavy molasses and syrup has been done very, very successfully. And it has had operating days of 325 in its first year, which is really quite a record. And we hope that with the two new distilleries we'll be able to better that.

Turning quickly to the new distilleries. We expect the Rani Nangal distillery to be commissioned at Q4 of this fiscal year and the Sabitgarh distillery thereafter. We have decided to do this sequentially, and this also meets the strategic objectives of the business where we can see what's happening with the pricing points from the Central Government.

Looking quickly at the Power Transmission business, the outlook looks extremely positive. We're seeing growth from our OEM segment from steam turbines, from compressors and gas turbines, from pump segments. The domestic oil and gas sector is doubling its refining capacity by 2030. And therefore, we will be a direct beneficiary in terms of the gearbox requirements from all the aforementioned products.

Infrastructure growth for steel sector, cement sector and waste heat recovery, again bode very well, not just domestically, but also internationally for our products. And we are also looking at market share gains in export markets as we focus on export revenues from our factory in Mysore.

Within the Defence segment, the business expects increased order bookings from key segments during this fiscal year with many Request For Proposals (RFPs) coming up to conclusion in the next couple of months. The setting up of a dedicated multi-modal facility for our Defence products in Mysore is underway, and we anticipate that factory being commissioned during the course of this fiscal year. The land acquisition is now complete. And the preliminary work at site is already underway.

Turning quickly to the Water business. After achieving success in Maldives and Bangladesh, the Water business is trying to expand its activities overseas. Domestic market opportunities are also increasing in the recycle and reuse spaces, and we are targeting these two segments quite aggressively.

Besides this, the Company is also Public Private Partnership (PPP) exploring opportunities for sewage treatment plant on a PPP format. The outlook is positive for EPC and HAM projects, and this is driven primarily by large investments by the Government both at the State and the Central level. The market is witnessing increasingly more and more projects under the PPP, HAM models and the Company of course would seek to benefit from these changes in direction.

Thank you very much, ladies and gentlemen. I would now like to open up the floor for questions.

Question-and-Answer Session

Operator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Sanjay Manyal from ICICI Securities. Please go ahead.

Sanjay Manyal: Hi Sir. Just have a few questions. I believe your FY 23 sugarcane crushing should be closer to 96 lakh tonnes. If you can just confirm that number and give us what would be the diversion towards B-heavy, C-heavy and the sugarcane juice perspective?

Sameer Sinha: You are asking about the next year, the forecast?

Sanjay Manyal: No, I'm asking about FY 23.

Suresh Taneja: Yeah, the total crush is 95.5 lakh tonnes as you said. And the total sugar diversion during the season has been 11.57 lakh quintals.

Tarun Sawhney: And we have not processed any juice for ethanol.

Sanjay Manyal: Okay. So, 95.5 lakh tonnes and if you can just repeat, I'm sorry I didn't get that.

Suresh Taneja: Sugar diversion has been 11.57 lakh quintals to ethanol.

Sanjay Manyal: Okay. But can you give what would be B-heavy and what would be C-heavy, if there is no sugarcane juice in the percentage?

Sameer Sinha: We'll just recalculate that. But for the sugar season, we have already given it that 92% of our crush has been towards B-heavy versus 84% in the previous year. So, it will be very close to about 90% or it will be largely yeah, 92% itself, it will be 92% itself.

Operator: We have our next question from the line of Rajesh Majumdar from B&K Securities. Please go ahead.

Rajesh Majumdar: Yeah, good afternoon Sir and congratulations on a good set of numbers. Sir, I had a question on why you have not produced any alcohol from juice. That was the first question, because the crushing season is now over. So, it's unlikely that there'll be any juice now in the financial year '24? So that was my first question.

Tarun Sawhney: So, in fact, in the previous season, I stand corrected in Sugar Season 2021-22, we did produce a little bit because our distillery at Milak Narayanpur did consume some juice to make ethanol. And some of that has come into this fiscal year, but that was the previous season. For this season, we have not consumed any juice for ethanol at all. And the reason for that is simple, why we used it in the previous season was really to test the economics. And the economics are completely unfavorable.

To give you an example, on B-heavy molasses, we're seeing margins of about ₹14 per liter. We're seeing PBT margins on grain, this is the FCI rice that we purchase a majority of that, of ₹9 per liter. However, on juice, after sacrificing sugar, the PBT margin is ₹3 at a sugar price of ₹35 per kilo. And today's sugar price at ₹36 means actually the PBT margin would be even lower. And therefore, we are not under any compunction to process juice because we have multi-feed distilleries. So, we're able to actually use grain and secure higher returns on these assets than being forced to using juice. That's a clear strategic move by the Company, as I have mentioned on previous calls.

Rajesh Majumdar: Sir, just a related question on this. What is that the margins are basically because of the transfer price. So, whether the profits are coming in the Sugar division or the Alcohol division, should we be really bothered about that? Because when you say markup at 35 or 36, the profits are going somewhere, right, instead of alcohol they going into the sugar division. And secondly sir, if you don't use juice during the season, are you confident of getting adequate grain during the next six months or so to be able to fulfil your requirements?

Tarun Sawhney: So, a very simple answer to your question. The first point is that if your transfer price goes up, it will impact everything. It will impact B-heavy molasses, it will impact juice, it will impact C molasses, in case you consume that. So that is the standard. And pretty much everybody, their transfer prices are round about the same kind of range, when I compared to peers. But today, I'm here to only discuss Triveni's results, frankly speaking. So I don't see that your argument about transfer prices being one that will really move the needle very, very much. The profitability on juice versus B-heavy molasses is what it is. It can change a little bit by some small increases in transfer price. But in transfer price, is linked to the market price, it doesn't move the needle very significantly. And the difference is quite acute. It is still substantially acute.

To answer your second question in terms of grain, we function through Q2 and Q3 of the fiscal year under review with large quantities of grain being purchased. The distilleries are in strategic locations where they are close to FCI depots. So, we are actually able to secure large quantums and have no fear of securing quantums of grain. And of course, we can always supplement it by damaged food grain as well.

Rajesh Majumdar: And so, what would be your inventory of B-heavy molasses as of 31st March? And what is the valuation on that? Is it possible to share that figure?

Tarun Sawhney: I'm afraid, I don't have that number on me. You can take it offline.

Rajesh Majumdar: Okay, sir. And my last question sir, is that the OMCs have only lifted 244 crore liters out on the contracted quantities, whereas more than 60% of the ethanol year is already over. So, is that any cause for concern? I mean, how should we read this?

Sameer Sinha: Yeah, so that number has gone up as of the 22nd to about 254 crore liters. But that apart, we believe that they would be in a position to be very close to the number of 525 crore liters, which they are targeting to achieve. Having said that, what is a little matter of concern is the fact that the grain ethanol lifting has been much lower. And if you look at that percentage versus the contracted quantum, that is much lower. So, from the sugar contracted numbers, we are very hopeful that we'll be able to achieve the numbers.

Rajesh Majumdar: So, will that conflict with our strategy of using more grain or will that be a problem for us?

Tarun Sawhney: No, I have commented for our nation as a whole it is not a comment for Triveni at all. Our contracts are secure. Our relationship with the OMCs are secure. These lower dispatches could be due to operational, banking, all sorts of different issues, capacities, etc. for stand-alone grain-based distilleries. This is not a comment on Triveni. We're confident of meeting our projected dispatch numbers.

Rajesh Majumdar: And sir, if I could sneak in a last question. You mentioned in your report that you expect the SAP prices to go up ahead of elections. Is that correct?

Tarun Sawhney: Well, I would -- I think conventional wisdom shows that when we come towards elections, sugarcane prices do go up. There is talk that the FRP will increase. And I think if the FRP increases for a couple of years, there may be an increase in SAP. The reason for us mentioning it is that we are cognizant that this may be an eventuality. And therefore, we have to plan for it. So, we have to look at how do we protect our margins in an environment, but there may be a possibility of an increase in our largest cost, which is the cost of cane.

Operator: Thank you. We have our next question from the line of Anupam Goswami from SUD Life. Please go ahead.

Anupam Goswami: Hi, Sir. Just wanted to get an update on the harvest and the recovery from the upcoming season, given the climate and the percentage of grade of sugarcane that we are using?

Sameer Sinha: So, in terms of the planting, our planting area is up by 5.5% in the planting which has just been concluded over here and which will be used for the upcoming season. In terms of cane development, Mr. Tarun Sawhney has already mentioned about the various initiatives being taken up, and we'll be very proactively looking at the disease portion of pests and the diseases. And therefore, we are very confident that all things being equal, we should have a higher recovery and definitely the increase in the crushing that we are anticipating.

Anupam Goswami: As you mentioned, your strategy on having less on juice ethanol and if the industry goes that way, do we see again more of sugar surplus and subdued prices? I just wanted to get an update on the industry, how the industry is panning out on juice ethanol as we have not so much of an increasing our juice ethanol, how the industry, because that could affect our sugar surplus in the industry as well as the prices going forward?

Tarun Sawhney: Yes, you're right that everything is sort of interrelated. But it's not as acutely interrelated as you may be suggesting, prices are determined between demand and supply. We have a quota-based system. We have managed price increases over many, many years, having huge excess in production in the nation. So, I don't agree with your comment that prices decline for any reason, because there's more sugar that gets produced at all. In fact, it's quite to the contrary. And the experience shows that it is very, very much to the contrary. And therefore, I do not agree with your statement at all.

With respect to your comment about juice, I think it's an individual corporate's preference, a strategic decision that is taken. We at Triveni have taken a decision of expanding capacities and having multi-feed opportunities available to us, which we will then consider based on the relative pricing of each of its raw material, which is used. And so, we will have the ultimate amount of flexibility in making those decisions. That is the decision that we have taken. I can't really comment on any other corporate.

Anupam Goswami: Sir, last one. Do we see any risk in rainfall and hence the recovery on this?

Tarun Sawhney: Yes, we've already addressed the risks of weather. In fact, the last two questions have talked about weather as well. And that is a very palpable risk in today's environment. And it's not just about the potential El Nino in the summer. It's about weather for the next 12 months, because we do have rainfall that happens at inconsistent times. We have dry, hot, and cool spells that are happening, et cetera. So, there's a lot more to consider rather than just the monsoon, although the monsoon is the most important one, but there's a lot more to consider.

Operator: Thank you. We have a next question from the line of Shailesh Kanani from Centrum Broking. Please go ahead.

Shailesh Kanani: Yeah, sir. Just a bookkeeping question. Sir, if you can share fourth quarter details of sugarcane crushed and recovery levels for the quarter?

Tarun Sawhney: We're going to have to just take it out. You have to just bear with us. We've got our annual numbers and sugar season numbers with us.

Shailesh Kanani: Can I proceed to the next question then?

Tarun Sawhney: Yeah, proceed to the next question, while we take out the numbers.

Shailesh Kanani: And also, I wanted to know from our export quota, my calculation is showing some 15,000 tonnes is yet to be booked, which is going to be booked in the first quarter. Is that right or?

Tarun Sawhney: That is correct. It's already finished in the month of April itself.

Shailesh Kanani: Yeah, so it becomes the first quarter FY 24, right?

Tarun Sawhney: Correct. And that will come into the quarterly results of this quarter.

Shailesh Kanani: Okay, thanks. Sir, one question on capital expenditure. Just to get a complete summary of it, the status, what we have done in FY 23 division-wise, like roughly in Sugar division, we have done a CapEx of around ₹300 crore, distillery ₹460 crore and PTB ₹180 crore. That is the roadmap of our CapEx, right? And so, can you please just give a breakup of what has been done in FY 23 segment-wise and what we are planning to incur in FY 24?

Tarun Sawhney: Okay. Broadly speaking, I will share the numbers with you. For the Sugar Business Group, you've got the numbers absolutely right. So, the Sugar Business Group, the total CapEx that has been approved by the Board over the last six results meetings has been ₹305 crore in three tranches of ₹130 crore that was incurred last year, ₹90 crore that was approved at the last Board meeting or the one before the Board meeting yesterday and ₹85 crore of new CapEx that has been approved at this Board meeting. Now of this, the ₹130 crore was incurred last year. And of the ₹175 crore from the last two Board meetings of CapEx, the majority of this will happen this year and about 30% to 35% would happen in the next year.

For the Power Transmission business, we're looking at ₹80 crore last year which was incurred, and ₹100 crore, which will be incurred this year. For the Alcohol business, we are setting up two distilleries at an expense of ₹460 crore, the majority of which will be incurred in this year.

Shailesh Kanani: Thanks a lot sir. That's very helpful. Sir, can I squeeze in one more question?

Tarun Sawhney: Yeah. Let me just answer your first question. You had asked about the quarter four numbers for crush and for recovery. The crush is 4.63 million tonnes versus 4.11 million tonnes in the previous corresponding quarter and the gross recovery is 11.59% for Q4 FY 23.

Shailesh Kanani: Okay sir. Just one more question, sir. Sir, going ahead, what would seem to be your strategy with respect to crushing on the ethanol production side as we are increasing our capacity on the ethanol side, and we have taken a stand not to produce on juice with given rates. So, are we going to see more and more ethanol getting produced from the grains as a feedstock?

Tarun Sawhney: Absolutely, yeah, you are very right in that comment. The two new distilleries that are coming up are multi-feed distilleries, and we see them operating on grain. In fact, actually, there will be more B-heavy molasses because the crush we anticipate. We just spoke about the cane area going up, etc. There was a question previously talked about that. That directly means that there will be more sugar produced, there'll be more molasses produced which would be consumed by the distilleries. However, there will be a considerable portion of capacity that will be diverted towards grain.

And as I had mentioned, 33% in Q4 of Alcohol produced was from grain. I see on next year, maybe on a medium-term basis, it will be about 33% to 35%.

Operator: Thank you. We have our next question from the line of Nitin Awasthi from InCred Equities. Please go ahead.

Nitin Awasthi: Hello Sir, I would like to understand on our grain ethanol production, how much of it was done from the open market damaged food grain? How much was it done from the FCI route?

Tarun Sawhney: 6% of the grain that we procured was split grain, and the balance 94% was from FCI.

Nitin Awasthi: Okay. Got it, sir. So, our thought process would obviously be to get the maximum profitability. So, we'll only look to grow our damaged food grains where the prices are favorable. So, I want to understand the trend. So, by this mix, I'm understanding that the last quarter, it was not favorable to buy damaged food grains. Has it become more favorable right now?

Sameer Sinha: Yeah, the prices have come down. And again, with the summer rise happening, the prices will again come down from September, October. But in between, let's say, the June, July, etc, will again be higher pricing. So these are the seasonal variation in the prices that we see.

Tarun Sawhney: Nitin, I think there will be greater buying opportunities this year versus last year for split grain, damaged food grain.

Nitin Awasthi: Understood. Understood and once we buy damaged food grains, we have some of our plants which are capable of producing ENA and they have got licenses for producing ENA, will we go ahead with producing ENA from grain?

Sameer Sinha: Yes, we have got the license to produce ENA from grain at our Muzaffarnagar facility and we'll do that depending on the attractiveness of the opportunity.

Nitin Awasthi: Yes. Last question, UP Government's excise policy was out and they are foreseeing or at least want to move from molasses-based country liquor to grain-based country liquor, will the molasses-based country liquor reduce in which in turn will lead to more molasses being left over with the companies and not to be surrendered to the Government? Or do you think the consumption of liquor is growing so much that this molasses will continue to grow, and then there will be grain-based country liquor also coming in?

Tarun Sawhney: So, the grain-based IMIL country liquor is only for one segment, 42.8% segment. The other two segments of 36% and 25% remain as molasses-based ENA. The overall liquor market in Uttar Pradesh with the massive cleanup that has happened is growing at a frenetic pace. So, I actually see the molasses that is right now being taken towards IMIL, called reserved molasses, all of that continuing at that level, unless the state government decides that we will move to a better-quality product, because grain-based ENA is a better-quality product. And offer that better-quality product to country liquor consumers even in the 36% and 25%. Our hope, of course, is that they do, do that, which means it will free up molasses for us to make ethanol.

Nitin Awasthi: Understood, sir. And a very small question that would follow would be if that is the case or even if the case is as of today, with one segment being moved to a grain-based ENA, aren't grain based ENA prices rising rapidly in Uttar Pradesh?

Sameer Sinha: Well, they haven't been rising rapidly. They have been largely stagnant at about ₹63 to ₹64 ex-factory inclusive of all taxes, and we supply on GST.

Operator: Thank you. We have our next question from the line of Resham Jain from DSP Asset Managers. Please go ahead.

Resham Jain: Yeah, hi. Good afternoon team. So just on this topic of ethanol through syrup, which you have not adopted or not started this time and rather you produce through B-heavy. So obviously, at the industry level there must be a discussion on this side, because next year a lot of other distilleries would also like to do it, if the equation remains similar to this year, which means that the overall availability of ethanol may not increase. So, what kind of industry discussions are happening on this front with Government? Any color?

Tarun Sawhney: So, you've asked a very interesting question, actually. The Government in its determination and deliberations is aggressively pushing grain-based distilleries. In fact, there was recently an enormous seminar where they were looking at other food crops and the propagation of maize on a very large scale as a fuel crop, frankly speaking as an energy crop.

The sugar industry will always be the bedrock, whether the Government voices it or not, it will always be the bedrock. 60% at minimum was what was envisaged in the master plan on E20 several years ago. I don't see that number changing very much. Today, there's a very small quantity as my colleague said that it's going from grain, much smaller quantity than what was envisaged. But with the push by the Central Government and more distilleries coming up, we will certainly see that. We will see more ethanol being produced from grain sources.

I see the discussion today in terms of quantity. So, I think until we reach E20. This is my personal view and not the Government's view. My personal view is that we have to get sufficient capacity set up across the country. The ethanol manufacturing capacity in the country is right now significantly lower than 20% level. We need to be able to build that, whether that happens through the sugarcane ethanol route or to the grain ethanol route. Those are very discrete discussions, and they vary based on what the price is offered by the Government and the direction of price.

But I think the Government from its perspective, needs these capacities to come up, and that's what we're going to see up to 2025-26. We're going to see a large number of distilleries come up. At present, the greatest majority of distilleries are grain-based plants. You can see that with the loan applications that are lying in front of DFPD. But it's a complex scenario that will change based on pricing. And in fact, the only determinant that will move the barometer between grain and molasses/juice is going to be pricing.

Resham Jain: Okay, understood. Sir my second question is beyond '24, I think will have a very large ethanol capacity, we are debottlenecking our sugar capacity as well. Is there more to do with the existing capacity in terms of ethanol or sugar debottlenecking? Or we need to look beyond what we have currently for the next leg of growth and CapEx?

Tarun Sawhney: So, you've asked a fantastic question. I mean, yes, of course, to grow more will require more CapEx. There's no doubt about that. But with these aggressive sugarcane development programs that we have underway, which take a period of time because the growth in the first and second year is limited. The growth in the third year is more palpable, harder and more recognizable, but the growth in year four and five is astounding. That's where the real benefit kicks in.

And we have just started these aggressive programs, which means that the quantum of cane that we are envisaging for the future will increase, which means if we want to hold on to that cane, we will have to enhance our capacities and it will not just be about debottlenecking, because we are already operating at 180 days, around about 180 days plus. We can extend it to maybe 200 days, but you really don't want to extend it to 200 days. You want to curtail your season at 190-195 days to be able to take advantage of the weather conditions. The moment you cross 190-195 days, you get into excessively hot weather, which is inopportune as you see recovery decline. So therefore, you will have to enhance capacities and that will happen with some CapEx going forward. And of course, the more you crush, the more molasses you have, potentially the more juice you have, and therefore, that feeds directly into your distilleries as well.

Resham Jain: Okay. Just a related question. You mentioned about 1800 demonstration plots. So, any color if you can give what is the average, let's say, yield which a farmer is getting on an average and versus what you are showcasing to them, how much difference is happening because of that? So, let's say five years out, if more and more farmers adopt these new practices, what kind of improvement one can see?

Tarun Sawhney: It's an excellent question. At this particular point in time, we're seeing up to 40% higher yields. We are hoping to increase our yields in our own demonstration plot so that the difference goes up to 50%. In terms of all the other plots versus the 1800 that we have and that we hope to prove out in this planting season. The reference plots that we have for this season should have an increase of 50% on average when compared to the area that we buy sugarcane from. So that's a pretty significant increase. And we think the cascading effect, the show and tell impact that we will have will be quite significant. Will everybody be able to achieve this 50% increase? I doubt that very much. But even if it has a partial improvement, I think that has an enormous impact on sugarcane availability.

Operator: Thank you. We have our next question from the line of Ambar Taneja from Geomatrix. Please go ahead.

Ambar Taneja: I had a slightly different question. It seems to me that basically this entire business on the sugar side is regulated from what you can buy, how much you have to pay. Even on the ethanol side, your buyers are mostly OMCs, which are Government controlled, etc. So, it seems on the sugar side, one of the ways to kind of get out of this whole control thing is to sell sugar, which is not regulated in price or not subject to a commodity kind of scenario. So, I think you've been making some efforts on pharma sugar, refined sugar, etc. Could you talk a little bit about that to get alpha on the sugar side? And also, your non-sugar businesses, which are, of course, completely deregulated have reached a fairly sizable revenue number. Any plans to not demerge today, but in a year or two to unlock value? Because I feel the Company is doing really well, great corporate decisions are being taken, but the value in the market is quite low. Any comments?

Tarun Sawhney: Sure. Let me start off with your first question about getting alpha. You're right. From a strategic perspective, a lot of the work has happened at both ends, maintaining costs and reducing the cost of production and also enhancing our sales price. When we look at sales price, we have moved from 40% refined sugar with 2.5% pharmaceutical grade sugar to 60% refined sugar with 5% pharmaceutical grade sugar. The CapEx that we have in place right now will further enhance it to 70-75% refined sugar with more pharmaceutical grade sugar also in play.

The only difference I would like to say is two things. The first thing is that all of this is still subject to the controls and regulations that are in place, the monthly release mechanisms by the DFPD. But that's not a bad thing. I would like to sort of state this. In fact, that's absolutely fine. And what has been shown, is even in an industry that has controls the ability to be able to generate revenue to improve alpha, et cetera, is not something that is hindered by the Government, but it's encouraged those discussions are happening very actively. The Government encourages people to find new and innovative ways of improving that alpha, as you very rightly put it.

I would also take examples of other industries where there are enormous controls, for example, petrochemicals and oil and gas, huge amounts of control, where they actually generate fantastic margins and are able to operate within that system of control. So, I think the controls will make that much of a difference any longer. In fact, if anything, they're very productive and they safeguard the interest of the industry. They ensure that you have continued periods of profitability.

And the ominous sugar cycle that used to exist, which has been very clearly and definitively broken in the last seven to eight years, at least. That is one of the reasons for that, of course, is the foresight of the Central Government. So that's a very, very big positive. And in answer to your first question.

In answer to your second question about the Engineering business. Very quickly, there are no plans on demerging the companies. However, I would like to state that we've actually achieved many significant milestones in both the business in terms of revenues and profitability. And we have invested in the future. So, we have created that capacity to be able to grow quite substantially.

Now it's about us developing those new partners, developing those new opportunities. All that process has already happened in FY 23. So, in FY 24, the expectation really has to be how much can you grow? And how quickly can you grow? And how quickly can you get these new expansions that you've invested in complete, etc., it's going to take this year to get all of that done. But we will be stronger for it. We're seeing increases in order booking that are coming from newer geographies, etc., which is very, very promising in both the Power Transmission and in the Water business where we're looking at international customers.

Operator: Thank you. We have our next question from the line of Aman Sonthalia from AK Securities. Please go ahead.

Aman Sonthalia: Hi Sir. Sir, what is the average gross recovery for the season?

Tarun Sawhney: The gross recovery for the season is 11.47%.

Aman Sonthalia: 11.47%. And, we have taken the valuation at ₹33.75. So, for that valuation, what was the price of molasses and the bagasse has been taken?

Tarun Sawhney: I'm afraid we don't really declare the transfer for price, that we keep Bagasse at.

Aman Sonthalia: Okay. And sir, now it is every Company is working on steam saving. So, what is the steam consumption of our company? And what work is going on to further save this steam?

Tarun Sawhney: I think that's an excellent question that you've asked in the CapEx is that we have that hasn't been approved by the Board in yesterday's Board meeting and the one before that, are a lot to do with steam economies, et cetera. So, as you know, we have three factories that were set up in 1934. And then four factories that was set up in 2005, 2006, 2007. So, the steam economies of the four versus the three are quite dramatically different. Plus, you must also remember that when you move towards refined sugar, it does take 1%, 1.5% extra steam, maybe 2% steam as well. But there are all efforts in terms of massive steam reduction by automation and also by process improvements that are in place across all seven of the factories. And so, we do expect the amount of bagasse savings to improve quite considerably.

I'm not in a position to assign a number to it at this call today. However, I would like to share with you in abstract terms that that is something that is definitely something that we are working on. And we've already seen from last year's CapEx, some improvements. This year, we expect a very substantial improvement in terms of our steam economies and commensurate bagasse.

Aman Sonthalia: And sir, one question. A number of companies are making profit by selling potash, by selling CO2 and also getting revenue from selling this REC. So how much profit we are generating on this steam side?

Tarun Sawhney: I don't think we've given a number for this, but we are selling, we are doing all of the above as well. They merged into our financials. I don't have the numbers as separate to share with you. But you should know that we are engaged in all three activities.

Operator: Thank you. We have our next question from the line of Sanjay Manyal from ICICI Securities. Please go ahead.

Sanjay Manyal: Yeah, sorry my line was dropped. So, I couldn't really complete my question. So, my basic question was, what kind of quantities we are looking in terms of ethanol production in FY 24 and 25. And the composition of that in terms of B-heavy and C-heavy. I know that you have mentioned 35% is grain. But other than that, how much would be the B-heavy and C-heavy?

Tarun Sawhney: The other portion, C-heavy we don't use. It will be all B-heavy. And in terms of total production, we're looking at well higher than 21 crore liters for FY 24. And then, of course, based on the actual commissioning of the two new distilleries, the region will be somewhere between 28 to 32 crore liters for the following year.

Sanjay Manyal: Okay. Understood that. And Sir, given the fact that you will see a significant increase in the ethanol volumes in the next two years, so generally, our overhead expense, is it because of the conversion cost overhead spends will also significantly increase next two years?

Tarun Sawhney: No, I don't think so. I think we will have -- we will benefit from efficiencies. So, one of the two plants, for example, is an expansion at our Sabitgarh facility, which is going from 225 KLPD to 450 KLPD. So that will benefit the operating costs over there will be shared over a larger production facility, etc. And plus, we, ourselves as we're operating more and more distilleries, are able to improve our conversion costs, especially at the operating level. And those benefits will certainly creep into the business.

Sanjay Manyal: Okay. And one just bookkeeping, what would be our income tax rate for '24 and '25?

Suresh Taneja: It is 25.17% under the new tax regime.

Sanjay Manyal: Okay. Understood. And if I could just ask one last one. You have mentioned that India level sugar inventories would be closer to 5 million tonnes, whereas I think earlier Government has, I think, restated the opening stock at 7 and probably could go down to 1 million. So, there is a huge difference between what the Government has been mentioning. And we don't really know what exactly the inventory level would be. What is your outlook on the sugar prices in the next three, four months, given that the actual inventory could be much lower than what the Government is stating. And do you see any possibility of, suppose, if there is a drastic reduction in inventory level import probably in October, November?

Tarun Sawhney: No, no, that is absolutely out of the question. We have more than enough sugar for the country this year. We have more than enough sugar for consumption next year. In fact, we have enough sugarcane to meet the ethanol blending program requirements, which will be raised next year and we have enough sugar for exports. So, there's no fear of that at all. However, I do see a little bit of tightening, but we'll see some increases in sugar prices from where they are today.

The fact that the matter is at the closing balance is a book number. There is also a pipeline stock. And that pipeline stock, we anticipate least a 1 million tonne at the end of September 2023. So that also has to be factored in as available sugar for consumption. So, in answer to your question simply, we have enough sugar, but we do see some positive buoyancy in terms of pricing.

Operator: Thank you. We have our next question from the line of Shailesh Kanani from Centrum Broking. Please go ahead.

Shailesh Kanani: Thanks a lot again for the opportunity. Just one question. How are you placed in terms of expanding our ethanol facility, means have you selected the vendor for the new facility what we are going to setup. And is the timeline same, we are expected to complete the expansion plans by fourth quarter FY 24?

Tarun Sawhney: Excellent question. For our Rani Nangal distillery, we certainly expect to have that plant commissions in Q4. The vendors have been selected. The land has been acquired, I mean, the process is underway. The execution is underway. For Sabitgarh, as I mentioned earlier, we're doing it in a sequential manner. So, it will happen straight after Rani Nangal, and this is for strategic reasons and looking very much at what is going to happen if anything, in terms of pricing, etc.

We expect that facility, as I mentioned, sequentially to come up straight after Rani Nangal and that may very well creep in to the first quarter of the next fiscal year. It may not be by the end of Q4. But all of that is up for grabs. We could accelerate that project as well and try and have it concluded in Q4. But we have that nimbleness and flexibility of when we're going to be operating. And at that plant, we'll be operating on grain. So, there isn't that extreme urgency that it has to be as early as possible during the sugar season, at least to start off with. And it will have the flexibility to be able to consume molasses or any other sugarcane by product.

Operator: Thank you. As there are no further questions, I now hand the conference over to management for closing comments. Over to you, sir.

Tarun Sawhney: Thank you very much. Ladies and gentlemen, thank you for joining us for the FY 23 results for Triveni Engineering & Industries Limited. It's a pleasure talking to you. We've had a historic year for us, all businesses firing on all cylinders. The expectation is that this will continue for FY 24 as well. I think what is critical over the next few months is the monsoon and the impact of that. By the time we have our next call, perhaps we will not have the full impact of monsoons, but we will certainly know with a greater degree of certainty what we're seeing in terms of production, what we're seeing in terms of yields for the sugarcane crop across the nation. And in that particular point in time, we will see the changes in terms of order booking as well for the engineering business.

I hope to come back to you with like this time with positive news across all the businesses. And I look forward to speaking to you in a few months. Thank you very much and have a good afternoon.

Operator: Thank you. On behalf of Triveni Engineering & Industries Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.