Triveni Engineering & Industries Limited

Q1 FY 24 Earnings Conference Call Transcript
July 26, 2023

Operator: Ladies and gentlemen, good day, and welcome to Q1 FY 24 Earnings Conference Call of Triveni Engineering & Industries Limited. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishab Barar from CDR India. Thank you, and over to you.

Rishab Barar: Thank you. Good day, everyone, and a warm welcome to all of you participating in the Triveni Engineering & Industries Q1 FY 24 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 discussion 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 like also 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 question-and-answer session. May I now hand it over to Mr. Tarun Sawhney. Over to you, sir.

Tarun Sawhney: Good afternoon, ladies and gentlemen, and welcome to the Q1 FY 24 Earnings Conference Call for Triveni Engineering & Industries Limited. We are pleased with the performance of the Company during the quarter ended June 30, 2023. While there have been general low trends recovery in the just concluded Sugar Season 2022-23, the Company has however outperformed the State of Uttar Pradesh during that same period with a decline of only 23 basis points from a C-heavy basis recovery, which bodes rather well when we compare ourselves to our peers.

Our Engineering businesses during the same period continued to perform well with healthy order books and enquiry pipelines. We continue to diversify our revenue base with Alcohol and Engineering contributing to 60% of our total segment results.

Looking at some of the highlights. In Sugar and the Alcohol (Distillery) business, we achieved a blended sugar realisation of ₹37,254 per metric tonne which is an increase of 5.6% over the corresponding period of the previous year, and this was supported by high export realisations and relatively firmer domestic realisations. We achieved the highest ever quarterly alcohol production of 5.04 crore liters, an increase of 19% over the corresponding previous period due to additional capacities and expansions that were commissioned.

The increase in net turnover of the Alcohol business was by 21% during Q1 FY 24, driven by higher capacities. Within the Engineering business, both businesses achieved a combined increase in turnover of just under 25%, bolstered by the power transmission business which reported robust revenue and profitability growth. The order booking for the Power Transmission business grew 21.3% year-on-year with an order book of ₹271.6 crore up 11.6% year-on-year. The outstanding order book, for the combined engineering business stood at ₹1,613 crore.

Looking at the consolidated financials, our net turnover declined by 2.3%, primarily driven by lower turnover of the Sugar business which was directly attributed to lower quota during the quarter, and the Alcohol and aggregate Engineering turnovers improved, as I had mentioned over the previous corresponding period.

The sugar turnover declined by 15.2% as compared to the previous period after considering exports. And this was because of a decline of 21.7% in domestic sales volume due to lower domestic quota allocations. We had, as you will recollect, we have completed the majority of our export quotas in the previous quarter, and therefore, the benefits for export over there were achieved in that quarter. In addition, we did not convert any juice and therefore, there was some preferential quota allocations. Looking forward, over the course of this quarter and the next quarter, we will find that there will be a balancing of all of this, and we will return to previously forecast levels of quotas this quarter and looking forward. The profit before tax increased during this period by 2.6% to ₹91 crore. Total debt on a standalone basis for the Company on June 30 stood at ₹918.5 crore compared to ₹825 crore on the March 31, 2023.

On a consolidated basis, our total debt was ₹1,011 crore on June 30, compared to ₹913 crore on March 31, 2023 and ₹1,617.5 crore on June 30, 2022. The overall cost of funds stood at 6.7% in Q1. I would also like to mention that the Earnings Per Share (EPS) increased by 12% to ₹3.09 per share.

I would like to spend the next few minutes talking in a little more detail about the various business segments. And turning to the Sugar business, as I mentioned earlier, the reported lower turnover was due to lower domestic dispatches. The contribution of sugar sold in Q1 was higher by ₹880 per tonne over the previous quarter in view of the higher realisation. During the quarter, we achieved exports of 14,531 tonnes out of our total quota of ~205,000 tonnes, of which the majority was achieved in FY 23.

Export realisations were at considerable premium to domestic prices and we actually performed rather well in terms of our pricing ability and our later pricing actually turned out quite well for the Company in terms of our average realizations for exports.

The sugar inventory at June 30 stood at 43.44 lakh quintals valued at ₹33.6 per kilo. The Cogeneration operations during the same period achieved revenues of ₹12.65 crore. And our realization for our prices just as of yesterday, for refined sugar we are achieving prices of ₹3,700 to ₹3,720 per quintal and sulphitation sugar is approximately ₹3,650 to ₹3,670 per quintal.

Looking at the performance of the Sugar business. On a year-on-year period, we achieved a crush in Q1 FY 24 of 1.58 million tonnes of sugarcane versus 1.8 million tonnes. If you look at the sugar season, we actually achieved a crush of 9.3 million tonnes of sugarcane during sugar season 2022-23, which was 10.8% higher than the previous corresponding year.

In terms of total sugar, as you know, the recoveries were slightly lower. However, the sugar production in tonnes was in excess of 950,000 tonnes of sugar, which was substantially higher, 7.5% higher than the previous sugar season.

Looking at the industry scenario for the season 2022-23, the all India sugar production is estimated to be 32.3 million tonnes for this sugar year. As of the end of June 2023, Uttar Pradesh has produced 10.5 million tonnes of sugar compared to 10.2 million tonnes at the same time last year, while Maharashtra's production has declined from 13.7 million tonnes to 10.5 million tonnes by the end of June 2023 due to lower sugarcane yields and of course, inclement weather.

In Karnataka, three mills have restarted their operation for the special season, and the state has collectively produced about 5.5 million tonnes of sugar compared to 5.83 million tonnes of sugar produced during the same period last year. ISMA has estimated that all India sugar production will be 32.8 million tonnes after considering a diversion of approximately 4 million tonnes of sugar equivalent into ethanol.

With an opening balance on the first of October 2022 of 7 million tonnes, production of 32.8 million tonnes, domestic sales of 27.5 million tonnes and approximately 6.15 million tonnes of sugar exports on closing stock is estimated to be about 6 million tonnes of sugar which is rather good, it is just in excess two months of consumption. And those are the levels that should be directly maintained in the country.

On an international basis, there's been actually quite a lot of activity. The global sugar balance sheet is pointing to a surplus for 2022-23 which is contrary to what we have discussed on our last earnings call, there's been a bumper sugarcane crop and production in Brazil.

For 2023-24 season commencing April, Central South Brazil is expected to have the strongest agricultural yield in many years and an availability of 612 million tonnes of sugarcane and sugar production of 38.8 million tonnes, a 15% increase over the previous season.

In Thailand, another important market to consider, we expect a subdued production. International estimates look at a 10% year-on-year drop in the 2023-24 sugarcane crush for Thailand to about 85 million tonnes of sugarcane and looking at sugar production of just under 10 million tonnes, a fairly sharp decrease. This is primarily due to the El Nino effect, which has led to drought in many regions. And slightly later start to the rainy season in Thailand.

All considered, international sugar prices have remained remarkably firm, the New York #11 raw sugar futures contract broke the 27 cents threshold earlier in the year. However, it reported a mixed trend later and particularly in the quarter. Prices have hovered around 25 cents per lb (pound) in this quarter with the lowest price noticed towards the end of the July contracts. The #11, forward month is trading around 24.8 cents per lb, which is still remarkably firm and white sugar contracts (the London #5) is also at record highs, prices have recovered and are approximately $700 per tonne. Again, given the excess sugar availability in the forward few quarters, these robust prices indicate the kind of sentiment in the sugar sector, which is very buoyant.

Turning to the Alcohol business. Our additional capacities commissioned in FY 23 have resulted in the highest production in a quarter. Despite having record alcohol production and orders in hand, the alcohol sales in the quarter were lower than we anticipated, and this was primarily due to offtake issues at the end of the OMCs at certain depots.

However, I am happy to report that these are temporary challenges and the situation has improved vastly since then, and we're back on track, hopefully, to even make up for lost ground in this year. During the quarter, the sale of alcohol produced from sugarcane in feedstocks are 64%, while grain was the balance of 36%.

It's important to highlight that during the previous corresponding quarter, there were no grain operations. Accordingly, the overall profit margin was slightly lower in the current quarter as compared to the same period of last year and this is with the margin associated with grain operations, which is lower than B-Heavy molasses operation margins. Ethanol constituted 91% of alcohol sales for the quarter under review.

And looking at the industry scenario of the 559 crore liters were finalized by the OMCs as of a requirement of 600 crore liters, contracts were actually formed of 553.68 crore liters. Against this ~351 crore liters have lifted by OMCs up to July 9, and we are looking at an average blending of 11.75% until July 9. And that's extremely good considering the target is 12%. We're right on track.

Of the total contracted quantity, as I had mentioned, sugarcane-based feedstocks collectively contribute 71% with B-Heavy, of course being the highest. And the balance is contributed by surplus rice of 26% and damaged food grain of 4%. Presently, the Food Corporation of India (FCI) has suspended suppliers of surplus rice for the production of ethanol.

Looking at the Engineering businesses, I will speak about Power Transmission business, first of all, we had quite a remarkable quarter where profitability and turnover increased quite dramatically. Profitability increased by almost 110% and turnover increased by 77.8%, very strong export performance in the supply of API gearboxes to the Americas and Europe and compressor gears and gearboxes to Europe and China.

Profitability margins also improved quite dramatically to 34% in Q1 versus 28.8% in the previous corresponding quarter. And this was due to lower raw material costs and an optimisation of SG&A expenses. Both areas that we have worked very hard on, coming out of the COVID experience. The growth in order book during the quarter is driven by growth in critical sectors such as steel, oil and gas and steam turbine compressor and pumps as the OEM segment. The outstanding order book as I mentioned stands at ₹271.63 crore.

The Water business, the revenues declined marginally due to a delay in execution in certain projects. So the business is actively targeting foreign projects, wherever it progresses the prequalification and something where funding is ensured through multilateral and reputed agencies. This is very important, it is a strategic shift, where we were looking just at domestic markets and regional markets. Now we've broad based ourselves and looking at a much larger canvas, and we hope that we will be able to come back to you with greater successes in international markets. As you are well aware, we have two projects in the international markets already that are under execution in the Maldives and in Bangladesh.

The closing order book stood at ₹1,341 crore and which includes some O&M (Operations & Maintenance) contracts, which are over a longer period of time.

Turning very briefly to the outlook of the businesses. In Sugar, we continue to focus very seriously on yield improvement initiatives by our farmers, adopting the best agriculture practices through continuous engagement and demonstration, et cetera, and also varietal replacement.

We will be looking at increasing crushing capacities in sync with our sugarcane availability. The Company is also in the process of increasing its refined sugar production which stood at 60% for the last year to 70% with the change in manufacturing process at our sugar unit at Milak Narayanpur.

The activities that I've previously spoken about three months ago pertaining to modernization, debottlenecking and efficiency improvement are all underway, which will enhance both the bottom line, most significantly as well as the top line. The condition of the sugarcane crop and grain crop has been satisfactory in our catchment area of all seven of our sugar mills. And we are hopeful that there will be good climatic conditions for the subsequent period. And this is critical. The next three months are critical. We do want a little bit of rain, but not too much. We certainly want a dry September. That is very crucial for operations to start at the end of October, which is what we're forecasting for the next year.

In the Alcohol business, we've been a strong supporter of the Government's Ethanol Blended Petrol program. We've bolstered our capabilities quite substantially, of course, raised capacities from 320 KLPD to 660 KLPD last year. And you are well aware that we are on our way to achieving 1110 KLPD in the future.

The Power Transmission business, there's very high demand that we're witnessing over the last few months, I would say. I think there's been a resurgence in demand globally across the sectors that I was talking about. The product segment domestically is really looking at growth steel, cement, waste heat recovery and oil and gas. Internationally, of course, you have growth in these sectors among and a few others.

Interestingly, we're seeing substantial growth in all of our OEM customer business. steam turbines, gas turbines, pumps and compressors, domestically and internationally. Again, this bodes very well for the future. And our focus is very much on market share gains where we are looking at the international market as our canvas.

In the Defence segment, the business expects increased order booking from key segments of turbine packaging, gearboxes, special application pumps. And we have several RFPs that are coming up to the stage of conclusion over the next few months. And so hopefully, I will have very good news potentially by the next time that we speak or maybe in the next quarter, but hopefully by the next time that we speak.

In the Water business, as the demand for reliable water and waste water treatment solutions is on the rise in India and in international markets. And apart from participating in domestic projects, we are expanding our global footprint, establishing strategic global partnerships and fostering mutually beneficial relationships with key stakeholders. So at Triveni, we find ourselves strategically positioned in order to capitalize on all the growth opportunities across all of our verticals.

And I would be very happy to answer any of the questions that you have. Thank you.

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 Rajesh Majumdar from B&K Securities. Please go ahead.

Rajesh Majumdar: Good afternoon Sir. I had a few questions. Firstly, on the ethanol supply part, we have heard about some slowdown in offtake by the OMCs and your mix also in 1Q is suggesting that you've been able to sell mostly grain-based ethanol and a little bit B-heavy. So, is there any change in that in this quarter? And will the B-heavy mix change in the coming quarter or the next one or two quarters? That's the first question.

Sameer Sinha: Going forward, all the decantation issues have largely been resolved. You must understand that it was not a generic problem. It was unfortunately that as a coincidence, quite a few of our depots were impacted. We were supplying a large quantum to Gujarat where Biparjoy cyclone washed away a large portion of the logistics. And therefore, the offtake for petrol came down, and therefore, the offtake for ethanol. Similarly, Mathura refinery had some issues, both in terms of approvals and pipeline renovations and maintenance issues. And similar was the case with one or two other depots and that was the reason for this temporary blip. The situation has significantly improved over the period of time. And going forward, we'll also be supplying B-heavy, however, it will largely be in terms of a similar product mix. Going forward, we are also evaluating the feedstock challenge coming in from FCI stoppage of surplus price.

We are dynamically evaluating the situation. We have got enough stocks of not only grain, but also molasses. So therefore, over a period of time, depending on which way we go, we'll enhance or change our product mix to give us the most optimal results. Also, we must note that we are at the end of July and our mills are supposed to start in October, and therefore, to that extent, it's not a very a long period of time, which may impact us going forward.

Tarun Sawhney: Let me just sort of encapsulate this by saying that we do not see any interruption to operations.

Rajesh Majumdar: So we've been hearing about some notification or some announcement from the Government to stop using broken rice for ethanol, this particular year because of the impact of El Nino or something?

Tarun Sawhney: That's incorrect. And there is no notification to that effect. However, FCI has stopped allocating surplus rice for the production of ethanol. Yes, as a matter of fact, they've stopped allocating surplus rice for anything, which includes for the production of ethanol. Broken rice, which is available through the open market is still available. It is at a higher price right now. But as you know, the Government has banned the export of non-basmati rice. And we've already started seeing a softness in broken rice and the rice markets across the nation. And we anticipate that given the next few days, we will be able to at least start getting much better prices for broken rice.

Rajesh Majumdar: So, you're clearly guiding that the grain-based margins can actually improve in this quarter?

Tarun Sawhney: No, that's not what I'm saying. The broken rice is available at a higher price than FCI rice. FCI rice has stopped. We will have to then look at what is available and at what price points. What my colleague had just mentioned is we have the sufficient quantity even now B-heavy molasses can be allocated for production of ethanol in the next few months until the next season starts.

So, we are relooking at what is the mix of our input. And then that is what will have an impact on margins. I do anticipate that given the move that GOI has taken, there will be short-term and medium-term repercussions in terms of pricing. So, I do anticipate that the Government will relook at pricing, given where the price points of all these inputs of all the raw materials for the ethanol manufacturing. And I expect that some of the announcements will start very soon. And then maybe of course, we look at many more as we approach the next Ethanol Supply Year. This is the given scenario, but I think the Government is truly aware of all the challenges that is being faced by the industry and is will hopefully act in a very rapid manner.

Rajesh Majumdar: Right, sir. And my other question was, can we get an idea of the capital employed in the businesses like transmission and the municipal business separately? And the capital allocation in these businesses for the company? And how much of the debt of the company is coming from the municipal business?

Suresh Taneja: If you look at the capital employed, our results duly provide all this information in terms of segment assets and segment liabilities.

Rajesh Majumdar: Breakup between the power transmission and the...

Suresh Taneja: It's very much there. If you look at the breakup over there, the breakup is given for a Sugar, Distillery, Power Transmission, Water and others.

Rajesh Majumdar: And the debt in the municipal business, sir?

Suresh Taneja: Debt in the municipal business is not much. It is in the region of about ₹50 crore, ₹60 crore as of now. I'm basically talking about the Water business. Now coming back to your specific question on Power transmission, we have total segment assets of ₹206 crore, and we have segment liabilities of ₹62 crore. So, in other words, the capital employed is about ₹150 crore for that business.

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

Shailesh Kanani: Good afternoon everyone. And thanks for the opportunity. Congratulations on the decent performance, given it was a challenging quarter. So, my first question is with respect to FCI rice suspension. How does it influence our future CapEx plan? And how do we read this? And do we have a revised guidance of ethanol with respect to this? And also the mix, if it will change if upward revision in the ethanol price what you just alluded to, doesn't happen. So how does that shape up?

Tarun Sawhney: You've asked a question that is pretty much on everybody's minds. I mean given this very quick reaction in terms of FCI rice, what is the future of the program. And frankly speaking, the Distillery business for Triveni. I have to say three things on this matter. The first thing is that I've always been advocating for multi-feed distilleries. The availability of molasses or sugarcane-based raw material, the availability of grain and other grains, is going to vary over a period of time. And therefore, the establishment of multi-feed distilleries is the only true answer. As you know, we have pioneered this approach for the industry. There are many others that are doing the same now, and we will continue to. And as you know, the 450 KLPD that we're setting up are both multi-feed plants. Now that is point one.

Point two is, what is the specific impact of the recent policy changes and non-availability of FCI rice. I think it's too early to tell, very frankly speaking. It's too early to tell for two reasons. Number one, we're expecting an interim increase in pricing for ethanol. It is seriously being looked at from what I understand. I don't quite know what the quantums are. We're in the business, which is heavily determined by market prices. So, if the relative prices of other feedstocks changes, the dynamics will change.

So, what I would like to leave you with is that this is a little pebble in the way. But we will surpass it, and we are still on track. And we've done 11.75% ethanol blending thus far. We're on track on having a significantly higher level of percentage of blending this year versus last year. I do think that everybody will have to be nimble and change their strategies. We too will do that. It's very difficult for me to share with you what that will be today, because I don't know what the change in price will be, which is what I'm anticipating. Once I know that, I'll be in a better position. But you should feel comforted with the fact that we at Triveni have multi-feed distilleries. So, we have that operational flexibility to be able to shift from one to the other.

Shailesh Kanani: Sir, just a follow-up on that. I understand for existing facilities, we are kind of backward integrated with molasses and the feedstock. But I was just thinking about the expansion, which we are going from 660 to 1100. On that feasibility, are we going to delay because of this? I just wanted to understand that.

Tarun Sawhney: No, the Rani Nangal facility is very much on track. As I had mentioned even on the last call that we're attempting for the Rani Nangal facility to be operational in Q4 of this fiscal year, that remains unchanged. As far as the new facility at Sabitgarh is concerned, it was going to come up a short time after that. That still very much remains on track. Having said that, if there is any change to that project, it will be dependent on the next level of pricing announcements, which I expect imminently. So, I think we will be in a better position to judge what we do with the second project. But right now, it remains on track.

Shailesh Kanani: So, is it fair to assume that our earlier guidance of ethanol sales remain as of now the same, right?

Tarun Sawhney: As of now, the guidance has been absolutely the same.

Shailesh Kanani: Okay, thanks a lot sir. That's good. My second question was with respect to PTB division, which is performing excellently well. So are there any one-off during the quarter, because the first quarter is normally to subdue, but this time around the numbers were excellent. And if you can share some light about the CapEx plans and what kind of asset we can see going ahead in say medium or long-term for the division?

Tarun Sawhney: Okay. So I can't offer you asset turn data, because we're investing very heavily in the business, and that's going to change from our historical numbers. And I don't have that calculation to share with you today. But I can share with you that your observation is absolutely on point. Typically, Q1 for us has always been a light quarter. And this year, we've had 78% increase in turnover, a 110% increase in profitability. It has happened because of two reasons.

The first fundamental reason is of our overall revenues for the quarter, 30% is from export. So, this a huge bump in export revenues in Q1, which is typically always lower. With that expanded canvas, and we're seeing a massive amount of activity in API segment, which is oil and gas segments in North America and Western Europe. And we're also seeing compressor work happening in Europe, as I mentioned, and in Asia as well.

We've seen a huge number of domestic and international customers that supply into that market, increasing their demand. It bodes very well. Our order booking I expected to rise quite a lot. Q1 is always a light quarter for both of them. So, to see both revenues and order booking jump is what we had expected, very frankly speaking, and we've finally been able to convert it into performance. I think, while I don't talk about expectations, we are very well positioned in those markets. You have to understand that globally, the customers that we're selling to all our operations in India, and we all sell to them, and we have very high market shares with the same customers.

Now it's about translating that relationship into a global one. And while it might take something that is a short to medium-term target. We're seeing the dividends of that already.

Turning to the CapEx. We have approximately ₹100 crore that the Board has sanctioned in terms of expansion of our existing facility and the acquisition and development of the Defence manufacturing facility also in Metagalli, very close to the original manufacturing facility in Mysuru, that is very well on the way. Orders have all been placed for the machinery and our work is on at the site as well.

We're anticipating that some parts of that ₹100 crore will be commissioned and made operational in this fiscal year, and the balance will be done by Q2 of the next fiscal year. So, we're very much on track. And I think we were ahead of the gun, we recognized that there were longer-term deliveries for some of these very complex, very highly sought after CNC machines has come from Germany and other European countries, large multi-million euro machines. We predicted it. Therefore, we placed the orders, and so now we're well positioned. In terms of execution, we are very much on track.

Shailesh Kanani: Sir, in the result there's a new joint venture, namely Triveni Sports Private Limited. Just wanted to understand the purpose and capital allocation there. And also, if you can just highlight that, I just noticed that a Board meeting lasted for more than five hours. So, if anything specific you would like to highlight, which was discussed sir?

Suresh Taneja: In our case, in the Board meeting, apart from the results, we have multiple businesses over there. All the business, performance of the business, outlook, et cetera, everything is discussed in the Board meeting. So obviously, it takes much longer time. You would appreciate that it's not just a sugar company. It has got other engineering businesses as well. So that's one of the reasons why it should take more time.

Tarun Sawhney: And with respect to the new company, it is 50:50 venture between Triveni Engineering and Industries Limited and the other 50% is owned by Triveni Turbines. We have created this Company, because it reflects an opportunity that was placed in us to be part of the Tech Mahindra Global Chess League. I'm happy to report that we actually won the tournament and we will be receiving the price money, et cetera, that will come with that. I don't have the exact numbers just now.

The purpose really is to be able to foster this involvement in this very interesting area, which leads and lends its properties towards our businesses of excellence of great individuality, of great team play. So the properties of the sport rather lend itself towards the Triveni brand very much. We feel that it is an important association and one that we would like to foster. In terms of the total capital deployments of Triveni Engineering right now its ₹2.5 crore.

Operator: Thank you. We'll move on to the next question from the line of Nitin Awasthi from InCred Equities. Please go ahead.

Nitin Awasthi: Hello Sir, Triveni being one of the rare companies, which is also in the grain ENA manufacturing. I would just want to understand two things in that business. One, what was the broken rice we're purchasing before the FCI ban? What is the price at which you are purchasing? And what has it changed to now?

Sameer Sinha: So coming back to the issue of the purchase price of Damaged Food Grains (DFG), we had purchased it at a price of around ₹20 and kept it in stock for us. And we have the flexibility also to produce ethanol from the same facilities, and we were largely into ethanol at that point of time. And we will be going out as we did mention that the DFG prices had gone up, but we expect with the ban on exports that the prices will soften and we'll also look at that alternative for producing both ethanol and ENA.

Tarun Sawhney: So, the price for broken rice right now in Uttar Pradesh in North India is about ₹24 per kilo. And there's certainly a softness. This was the price before the ban. We've seen a softness and we've seen a reluctance of a lot of quantity to come to the market, which will have to come to the market, that offtake has to happen. It will certainly happen at lower rates. Does that answer your question?

Nitin Awasthi: Yes, Sir. That does answer my question. The second part of the question, ENA being a market-linked commodity, where prices are not determined or there is no interference from the Government. Will there been an uptick or are you seeing an uptick in the grain ENA prices? At least that part our margins are same?

Sameer Sinha: Our sales of ENA are largely for our own consumption in our country liquor business. However, the prices which we did mention the last time were at around ₹63 to ₹65. In some cases, the transactions have gone up to ₹67, so that there could be a pass-through in terms of the increase in pricing in terms of the DFG prices getting passed on to the consumer.

Nitin Awasthi: Understood, Sir. Last question, if I may. There's been a talk of a maize policy because of which the FCI move might have come in play. Have you heard anything of that sort, so that the new policy in play, which might come in?

Tarun Sawhney: The Government has been very vocal in saying that maize is a very viable raw material for the production of ethanol. One has to remember that right now it is not the maize season, firstly. Number two, the variety of maize that has grown in the country will need to change if we're looking at an energy maize change and you're looking at maize. So those two things, it's a medium-term issue to tackle.

It is not a short term. It will definitely be dependent on price. You will have to offer an attractive price for the industry to go out and develop that supply chain and for farmers to be encouraged to grow this. The one thing that you should note is that India produces a large quantum of maize, only 10% of it is for human consumption, the balance portion of 9-10 odd million tonnes goes towards feedstock, animal feed. At the end of the day, even if we're using the policy behind the Government's thought, I would imagine, is that even if you're using maize to produce ethanol, the effluent (co-product) is DDGS, which is animal feed. So, you're actually solving two problems, but there is a pricing issue. And I think it's not a big policy as such. It will just be determined by a declaration of price, which I'm anticipating soon.

Nitin Awasthi: Understood, sir. Thank you so much.

Operator: Thank you. We have a next question from the line of Rajiv Agrawal from Sterling Capital. Please go ahead.

Rajiv Agrawal: I just have a question on your Defence business. You're planning to set up a dedicated multi-modal facility for Defence products. What would be the quantum of investment in this business? And my second related question is that out of the order book of ₹271 crore, how much of it is from the Defence business?

Tarun Sawhney: Of the ₹100 crore that we invested in PTB, the investment in the new Defence facility is ₹40 crore. And this will be executed by this time next year. It will be operational by this time next year. With respect to our order booking, part of it is executable this year, part of it, is part of our longer-term order booking, and it's approximately ₹80 crore. I don't have the exact number with me right now.

Rajiv Agrawal: Out of ₹271 crore, ₹80 crore is from Defence business?

Tarun Sawhney: Yes, that is correct.

Rajiv Agrawal: Okay, thank you sir. That is all from my side.

Operator: Thank you. We have a next question from the line of Nikhil Jain from Galaxy International. Please go ahead.

Nikhil Jain: Yes, thank you for the opportunity. Two questions. First, so in this quarter, our distillery volumes have actually gone up very significantly, but the margins have correspondingly not gone up. Any specific reason for that? So, if you can just highlight?

Tarun Sawhney: Yes, I'll give you. I spoke about it in my opening comments. It's not an apples-to-apples comparison. In the quarter under review, we had 64% of our sales from molasses and 36% from grain. Grain has lower margins. In the previous corresponding quarter, it was 100% from B-Heavy and therefore to that the B-Heavy margin rate. That is the difference in the margin primarily.

Nikhil Jain: Okay. So, grain is more remunerative in that sense, if you get it at same...

Tarun Sawhney: Grain is less remunerative.

Nikhil Jain: Less remunerative, okay. So, is there any specific reason for us to actually go for grain then and is there a shortage of molasses? Or let's say you just want to ensure do anything?

Tarun Sawhney: This is again what I was talking of. We are setting up multi-feed distilleries. So if the price of ethanol derived from juice goes up, we have the capacities to be able to divert to that. In the interim, while the prices aren't at a level that we're happy with, we can certainly use grain because the returns from grain are still also very good. The five-year project payback approximately with grain, which is really still not bad at all. So, it may be different from B-Heavy molasses, but that doesn't mean that it doesn't meet the investment hurdles of the Company.

Nikhil Jain: Okay. Okay. And my second question is that, is there any thoughts on demerging the Engineering business?

Tarun Sawhney: No, the Board has not taken up the issue of the demerger.

Operator: Thank you. We have our next question from the line of Varun Gajaria from Omkara Capital. Please go ahead.

Varun Gajaria: Just had two questions sir. First that, how do you see the revenue in Defence, especially from the Defence segment trending for the next 2-3 years? What is the outlook there? And what is the relative asset turnover that you're expecting on the ₹40 crore investment that you're making in Defence?

Tarun Sawhney: We typically don't give any forward-looking statements on any of our businesses. I can only tell you that the opportunity is quite large. Our inquiry book is many times the size of our order book today. However, with Defence, the one thing that I must mention is that the closure of orders, so the award order is not in our hands. So, it is very much like our Water business. Things can get delayed and typically, things do get delayed. It's a game of patience, but the market is absolutely enormous.

As a consequence, because I'm not giving any forward-looking statements, I can't really tell you what our asset turns are going to be in that business going forward. But we do have investment hurdles within the Company. We look at post-tax returns of at least 15% to 16% for any decision and we're certainly ahead of that range for this particular business as well.

Varun Gajaria: Typically, for 50 to 60 to 70 returns on an order, right?

Tarun Sawhney: No. I said our investment hurdles are 15% to 16% post-tax, this could be ahead of that.

Varun Gajaria: Okay. And on the grain and molasses mix with the new distillery coming in the picture, how will the mix be going forward, like what is the mix you are looking at?

Tarun Sawhney: That's a very good question. But the answer to that question is not something that I can offer today because for future supplies, the mix will be dependent on what the future prices are. So, I'm anticipating that there will be two increases in prices, one in the near term and one before the start of the new ethanol year which will probably be in September or so. Based on that, we will be able to give you a better idea of exactly what that mix will be. And today there's no point in posturing an answer, simply because we know it's going to change, and that will affect our strategy of mix. But as I mentioned to the previous caller, the advantage that we have is we have multi-feed distilleries that allow us that flexibility. We also have multiproduct where we can produce both ENA as well as ethanol to some extent, which allows us flexibility on the output side as well.

Varun Gajaria: Okay. Are there any short-term orders that you also undertake in the Power Transmission segment?

Tarun Sawhney: We do, typically, our orders are six to seven months approximately, and our repair and service orders could be as short as two months.

Varun Gajaria: Right. Because in the past, we've been seeing that the order book and the order book in the preceding year, the revenues and the revenues in the succeeding year, there's a little bit of mismatch so which is why I had a query on this.

Tarun Sawhney: Understood.

Varun Gajaria: Okay. So, it's a mix of short-term and long-term orders right, on that side, there is a bump?

Tarun Sawhney: It is absolutely.

Operator: Thank you. We have a question from the line of Parag Somani from ICRA India. Please go ahead.

Parag Somani: Good morning Sir. I just had one question. This is regarding the ethanol supply to OMCs, so as you mentioned in your investor highlights that 553 crore of ethanol has been contracted by OMCs. Can you share the quantum of contracts seen by Triveni? And out of that, how much we have supplied till Q1 FY 24 and the quantum that we'll be supplying for the next two quarters till December?

Sameer Sinha: We have about 17 crore or 17.5 crore from OMCs, and we have supplied about 11 crore so far. We'll meet all our obligations to OMCs under this ethanol supply year.

Parag Somani: Okay. And just a follow-up on that. I believe our ethanol capacity is much more larger than the capacity numbers you have mentioned. So, do we see, is there any scope where we can supply beyond the contracted capacity out of contract supplies that we can do or we can bring more contracts?

Tarun Sawhney: No, no. We're operating at very high levels of production efficiencies. So, at this particular point in time, we have 660 KLPD and we're operating that at near 100% levels of operations. So, there isn't any much more scope to expand it.

Sameer Sinha: And this ESY was for 11 months period, you must realize that. And we have already given our guidance earlier, I mean, in terms of what we supplied in the last financial year, and we were supposed to be supplying in the upcoming financial year FY 24.

Parag Somani: Okay. So that means we have contracted capacity for the complete production capacity of...

Sameer Sinha: Absolutely.

Parag Somani: Thank you sir. That was my question.

Operator: Thank you. We have our next question from the line of Amarnath Bhakat from Ministry of Finance of Oman. Please go ahead.

Amarnath Bhakat: I have two set of questions. Number one, new sports business coming under this umbrella of Triveni. Just trying to understand the rationale of involving this company and allocating capital to a completely unrelated business of sports. Can you please give a little more light on what was the rationale behind going there?

Tarun Sawhney: Absolutely. And I just answered the question just a few minutes ago. The capital that's been allocated is ₹2.5 crore thus far through Triveni Sports Private Limited. And it is for a team in the Tech Mahindra Global Chess League, it's a commitment for several years. The first tournament finished in Dubai. It was attended by all the top leading women and men grandmasters around the world. And the Triveni team actually won the trophy.

Now the reason and rationale for associating to this is really lend in properties that is involved in the sport of chess is very much associated with the properties that we associate with at Triveni Engineering of excellence, of individual leadership, of team leadership, our diligence and our strategy. Those properties are very much part and parcel of all the mantra that we have at Triveni Engineering. And it is part of our brand recognition and future marketing message. So, there was a great deal of thought that was given into entering and into making this decision, and that is the reason.

Amarnath Bhakat: Sir is there any plan to allocate more capital or going big in this particular strategy of the company?

Tarun Sawhney: No, nothing terribly significant.

Amarnath Bhakat: Okay. And second thing, this was the discussion many times even before. Triveni Engineering is a mixing of this commodity business, which is very cyclical in nature and other side of the business, which is very prominent and outlook is extremely good in respect of that power transmission and engineering side of the business.

Now, is there a perspective to value the loss for the shareholders. Is there any plan on the table either now or somewhere, to think for this demand, because this really doesn't work well for a complete commodity company and one side is cyclical business, one side is a structurally good business, which are long-term visibility as of today, to mix together. We as a shareholder get confused if you want, which type of the business to invest, it will want the power business, I have to take care of the cyclical obstacle business as well, where most of the things is not in the control of the management in fact, something Government, something international price, something internal building is changed time-to-time based on what the Government decides. So just trying to understand, is there any plan, any thought process in the management to demerge these two entities or two sides of the business?

Tarun Sawhney: I think first, let me start by saying that your point is noted and we have made a note of it and of course, your views is something that we will have to reflect on. But in terms of demerger of any of our businesses in any form is something that has to be discussed at the Board level before I can discuss it with shareholders or with the investing public.

At this point in time, the Board has not discussed any plans of demerger. The last time this subject was discussed was several years ago, seven years ago. And at that particular point in time, the Board had in its determination said that it is not a matter or if they will be demerged, but a matter of when they'll be demerged, depending on their relative sizes, depending on the market conditions and a whole host of other factors. So that disclosure was made many years ago, and it still remains in force today. But I can tell you we had a Board meeting yesterday - the subject of demerger was not discussed at that meeting.

Operator: We have our next question from the line of Tejas Sonawane from Dolat Capital. Please go ahead.

Tejas Sonawane: Thank you for taking my question. Firstly, we are witnessing very high rainfall in northern parts of India. So do we foresee any kind of impact on getting production in the state of UP going ahead?

Sameer Sinha: The rainfall so far has been very good. And this is the grand growth period of the plant crop and of the entire crop rather. And therefore, we expect that this will be very beneficial. However, it has to be within certain limits. And so far, it has been within those limits. In case the intensity increases significantly going forward, only then there will be issues of water being discharged and some submergence of areas, but which it has not happened, our crop is very good. And so are the reports from the state of UP.

Tejas Sonawane: The Government has recently announced an increase in the FRP of sugarcane. So, any sense on the announcement of the SAP side as well for the upcoming season?

Tarun Sawhney: It's a good question, because we have a general election coming up next year. But I think you can only rely on past data. In the last seven years, the Uttar Pradesh Government has been extremely considerate in its announcements of SAP. And I will lead you to all the data over the last seven years. It has keenly looked at all market participants, the farmers, the industry and consumers in making that determination. Frankly speaking, if there is an increase, I can confidently say that if it will be one that will be taken in the most considered of matters, and it will not be any arbitrary increase that people have said that it has happened in that industry. So at this particular point in time, it's very difficult to say if there will be an increase or how much that increase will be, if there is an increase. I think the better time will be around about November of this year when that determination will be made. However, I would reemphasize that I have great confidence in the Uttar Pradesh Government in making the right decision.

Tejas Sonawane: Okay. That was very helpful. One last thing, you mentioned that we are seeing some offtake issues from the OMC. So, could you please elaborate on the kind of issues we are witnessing from the OMC side in terms of the offtake of ethanol?

Sameer Sinha: No. In our case, they were not generic issues. These were specific issues, which I mentioned just a little while back. And they're related to three sets of regions. One was in Gujarat, which was hit by Biparjoy. And all the orders which had to be fulfilled, and we had quite a few depots at Gujarat right from Hazira northwards. And we found that there was virtually no decantation.

Similarly, in Mathura refinery, they had issues of pipelines and of certain approvals, which were required. And that got resolved early July or a very late June. You would say, and third were a couple of, again, depos in Punjab which we're getting supplies from one of the BPCL refineries, which had an issue with the pipeline, et cetera. So these coincidentally all happened together. They were bunched together in our case, but now they've all been resolved. And we are not talking of any generic issues impacting the offtake by the OMC. Of course, there are certain teething issues, which remain, but they keep on getting resolved in our mutual interaction with the OMCs.

Tejas Sonawane: Okay. Understood. That was all from my side, sir. Thank you.

Operator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments. Over to you, sir.

Tarun Sawhney: Thank you. Ladies and gentlemen, thank you very much for joining us for Q1 FY 24 earnings review of Triveni Engineering and Industries Limited. As I mentioned, I think we have a very exciting three months. The Sugar business, we have to look forward to the weather and the growth period. And of course, by the time we speak next, the factories may very well have started. So quite exciting on that front.

On the ethanol front, I think the greatest excitement is going to be around pricing and the strategies that arrives around the pricing. Within Power transmission, it's going to be really about global focus, and the development of deeper relationships with global customers. And lastly, in water, again, with a renewed and larger landscape, I think we're in a better position and hopefully we will have more positive news to share with you a few months from now. Thank you very much, and have a good afternoon. Goodbye.

Operator: Thank you. On behalf of Triveni Engineering & Industries Limited, that concludes this conference. Thank you for joining us.