



Triveni Engineering and Industries Limited

Conference Call Transcript

May 29, 2018

Moderator Ladies and gentlemen, good day and welcome to the Triveni Engineering and Industries Limited Q4 and FY 18 Earnings Conference Call. 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 telephone. 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, Mr. Barar.

Rishab Barar Thank you. Good afternoon, everyone, and a warm welcome to all of you participating in Triveni Engineering and Industries Ltd. Q4 and FY 18 Earnings Call. We have with us today, Mr. Tarun Sawhney – Vice Chairman and Managing Director; Mr. Suresh Taneja – Group CFO; Mr. Sameer Sinha – President (Sugar), as well as other members of the senior management team.

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

I would now like to invite Mr. Tarun Sawhney to open the call. Over to you, Mr. Sawhney.

Tarun Sawhney Thank you, Rishab. Good afternoon everybody and welcome to the Fiscal 18 earnings conference call for Triveni Engineering and Industries Limited. I would like to start off the call with brief highlights of the quarter that is gone by and Fiscal 18 and then do a little deep dive into each of the business verticals followed by an industry outlook for the business verticals.

For Fiscal 18 the gross revenue for the company stood at ` 3,412.4 crore and a PAT of just over ` 119 crore and due to significant decline in sugar prices in fourth Quarter, the profitability of the sugar business was adversely impacted, mainly due to the write down of the sugar inventories to their net realizable value. The co-generation business performed well during the year due to a higher number of operating days. Distillery business' performance was lower mainly due to lower dispatches and a lower capacity utilization of the business during the fiscal year.

The Gears business, however, performed well during the year and it resulted in better order booking and the closing order book at the end of the year. of course

turnover and profitability was also higher. In fact the profitability of the Gears business group was doubled at in quantum of the previous year. The performance of the water business was subdued and a provision has been made for the additional losses of the water business from the delayed projects in the consequent cost overrun.

The debt of the company as on 31st March stood at ` 1,242 crore which was 28% lower than at the end of the previous year. Term loans at the same time stood at ` 165 crore which included ` 42 crore of loans with a concessional interest and interest subventions and the short term loans including cash credit was approximately ` 1,076 crore. During the year the company repaid total debts of approximately ` 334 crore including a pre-payment of about ` 120 crore.

For the sugar business:

The crush for the season was 31% over the last season and production 35% over the previous season. The substantial paring of debt meant that the finance cost was well contained. However, as we all know sugar prices collapsed during Q4 resulted in a write-down of inventories by approximately ` 220 crore. The current realization of sugar is little above ` 30 for the refined sugar per kilo and ` 29.50 for sulphitation sugar per kilo. The present pricing levels are unviable. The liquidation of cane dues and not just for us but for the rest of the country may not be possible unless there is intervention by the Central Government and the expectation that there will be significant intervention going forward by the Central Government, by the union government and we also hope that the state government will do its part. I will of course discuss this in a greater detail in just a few minutes.

The board has approved the proposal of setting up a 160 kilo liter for their distillery at one of our sugar units based at Sabitgarh subject to the receipt of statutory clearances and putting up an incineration boiler at our existing distillery at Muzaffarnagar. So the group's capacity will rise to 320 kilo liters per day and the total cost of project will be approximately ` 200 crore and we have been advised to identify expansion and another business by the board and augment financial resources by way of debt and internal accruals through the monetization of unutilized financial and other assets.

As far as the engineering business is concerned the market has turned around, showing good visibility for the Gears business, registered growth during the year in terms of profitability turnover and order booking has surpassed our expectations. The market has certainly been muted but the signs of turn around are multiple as far as the water business is concerned. Recently in the first quarter of the new financial year the water business has received a significant order of the value of ` 438 crore under the Namami Gange program and the board has approved the proposal of incorporation of a wholly owned subsidiary under the Companies Act as a Special Purpose Vehicle for the implementation of the project awarded by the Yamuna Pollution Control Unit of the UP Jal Nigam at Mathura for the development of a sewage treatment plant and associated infrastructure on a hybrid activity PPP basis. The outstanding order book in engineering as on the 31st of March stood at ` 709 crore.

Turning to the businesses:

For the season, the company crushed sugarcane to the tune of 8.37 million tonnes which was 31% higher as I mentioned above to previous season. The company achieved its highest average recovery of 11.38% which is a record for Triveni during the sugar season 17-18 resulting in a sugar production of above 95 lakh

quintals of sugar which was 35% more than the last year. The average recovery was higher than 50 basis points when compared to the state average and I would like to point out that our recovery compared to the state average only 3 years ago was only about 4 basis points higher and now it is 50 basis points higher placing us in the top end of manufacturing units in the state of Uttar Pradesh. The improved operating performance which has substantially reduced the cost of production of sugar but the significant decline in Q4 sugar prices and collapse in molasses prices due to the oversupply has nullified any of the favorable impact of the improved efficiencies within a system and the very hard work which has been done by the operating teams.

The project of pharmaceutical grade sugar at Sabitgarh with the capacity of 150 tonnes per day has been implemented, this would certainly enhance the overall sugar realization well above the prices of refined sugar and we were beneficiaries of good production during the course of the season that is gone by. The inventory as of 31st March was 52.28 lakh quintals valued at ` 27.8 per kilo. I should mention that in Q4 our average realization was ` 32,137 per metric tonne and for the year it was ` 36,224/MT.

The income from incidental co-generation at Chandanpur and Milak Naraynpur has also resulted in a revenue of ` 23.6 crore for year-ended March '18. As far as the industry scenario is concerned the country has produced 32 million tonnes of sugar. The greatest concern at this point in time are arrears of about 20,000 crore and 60% of these arrears are in Uttar Pradesh. Now with Uttar Pradesh producing well over 11 million tonnes of sugar and the leader amongst the States, this was certainly expected by us given the catastrophic fall in sugar prices in Q4. The Government has been pragmatic in comprehending this grave situation and has come up with a host of different methods which includes at certain point in time stock-holding limit, abolition of export duty, increasing import duty to 100% reversed stock holding limits in February and March 18 but they led to very momentary and extremely temporary reversal in the decline in sugar prices. The government has also announced an MIEQ, minimum indicative export quota of 2 million tonnes which should be exported by the end of September '18 and this has been further supported by the government assistance ` 5.50 a quintal of sugar crushed which will directly be passed to sugar-cane farmers provided certain conditions are met by the exporting companies. There is a cap to this of ` 1540 crore which means that of the ` 20,000 crore of cane arrears across the country it will make a less than 10% dent in that number. The ongoing campaign of sowing this year is well underway, the cultivable area for sugarcane has increased by 1.6% over that from last year, this is across the country and that of course I will be talking about the scenario going forward is a great pain-point when one looks towards next year.

Looking at the ethanol:

The OMC have released tenders which are just over 313 crore liters for the current marketing year against which contracts are finalized for about 113 crore liters so therefore there is a tremendous amount of scope in this field especially as we are not able to comply with ethanol blending. Recently the government has announced national bio-fuel policy under which ethanol can be manufactured from various agricultural products including sugarcane juice and this in our opinion is expected to go a very long way in building a robust ethanol industry. Is it a panacea to sugar, it is a pass on panacea but it is not a complete solution by any means whatsoever however it will throw up new business opportunities to the sugar sector and hopefully very profitable business opportunities as the pricing for various types of ethanol get finalized by the Union government. Given the high sugar production of season year 17-18 we expected that the sugar production of the following years as

I mentioned will be at least in line with this year gone by and that is probably import. Of course as I mentioned the realizations that exist at this point in time, they have gone up quite substantially over the last few weeks and the simple reason for that has been a lot of press reports and debates that the Indian government is contemplating further action on multiple fronts which would include what one has read in the papers buffer stock of several million tonnes maybe 3 million and a minimum support price and possibly a revert to the quota mechanism at least for a short term. We will see what those prices are. I am aware that the industry association has requested the price of ` 35.50 as a minimum based on FRP however whether that gets accepted or not will be debated by the Cabinet Committee on Economic Affairs in future.

The international sugar scenario is equally dire. We are expecting that the 2 years surplus of this year and next year be well above (approx) 20 to 22 million tonnes which is very substantial and therefore the world will need to find a home for this massive quantum in sugar and despite the fact that Brazil diverting more cane towards ethanol and reducing its sugar production by about 5 million tonnes, there is a huge increase which compensated the decrease in Brazil and surpassed it and the country's to blame India, Pakistan, Thailand and China just to name a few. The White Sugar future for the July 18 contract on the 25th of May were about 12.46 cents per pound and the LCE Sugar future for August 18 were just a shade above \$350 per metric tonnes on the same day. I do see that if we have a minimum support price in India we will certainly support the global market and allow the global market to rise from these multi-year lows.

As far as just turning to our co-generation business; operating days as I mentioned were higher and therefore commensurately the revenues and profits were substantially higher only for the fiscal year gone by. Income of ` 10.1 crore has been realized during the year from the sale of renewable energy certificates in respect to the Khatauli and Deoband units. With the increased cane crush during the 17-18 season and the outlook for co-generation seems good for the coming quarter and we expect similar performance in the coming year as well.

The distillery business; the business remained closed for well over a month in the first half of the fiscal year 18 and that impacted the overall production and dispatch of the distillery. The company received 2.72 crore liters of contracts right now, supplied from the OMCs in December 17-18 for the year 17-18 with respect to the basic price of ` 40.85 per liter. The share of ethanol business in fiscal 18 is 94% of the total sales volume against 72% in the previous fiscal year. As I mentioned the board has approved establishment of the brand-new distillery at Sabitgarh and work on that is currently underway.

As far as the engineering businesses are concerned, I will take up the Gears business first. The business performed well during the year with a revenue, 21% higher than the previous year and 74% increase in profitability compared to the previous year. The growth in the OEM sales as well as refurbishment was all very-very robust. The activities during fiscal 18 have also picked up and that is indicated by the robust order booking for the business which improved by 84% during the year as compared to the same period in the previous year.

The outlook looks positive in the large variety of sectors and we are seeing that growth really come from international orders and we are expecting the India story to also kick-in during this fiscal year. The business has strong enquiries from defense and we are hopeful to concluding some more tenders successfully over the coming few quarters. The outstanding order book on the 31st of March stood at ` 134 crore including ` 50 crore which were executable over a couple of years.

As far as the water business is concerned there was slow progress and delayed completion in certain projects which got the business to deliver a small profit for the quarter for Q4. However, for the fiscal year there was a loss of ` 13.9 crore. The order intake for the year was ` 125 crore which was certainly less than what we had forecasted. And I mentioned, just in Q1 of this fiscal year that we will receive a fantastic order which will be executed over the next couple of years which will certainly add to the recovery of this business and we are anticipating that a lot of the tenders that were awaiting finalization we see happening and let's hope that the Triveni Water business is a major beneficiary of this program. The outstanding order book stood at ` 575 crore on the 31st of March which included ` 254 crore towards operations and maintenance which is of the longer duration of time.

Very briefly on the outlook for all the businesses; I will spare little more time on sugar and little less on engineering. The sugar outlook is that we are expecting a normal monsoon. In fact, this morning's papers indicate that the Southwest monsoon has hit coastal India and given that sowing is at an even level in fact it's even a little bit higher for all the states including Maharashtra, Karnataka, Tamil Nadu and Uttar Pradesh and the other states. We are expecting that the crop will be at least the same and possibly even little bit higher in the next sugar year. With the enormous sugar surplus, export of sugar has to go on unabated throughout the next season in the industry that has deliberated and has asked for a minimum of 5-6 million tonnes of sugar exports to our neighboring countries and beyond. The markets identified includes Bangladesh and Sri Lanka, this is for both raw as well as for white sugar and of course China and other countries as well. These countries have the capability of absorbing this quantum of sugar. So it's not as they don't have that ability, they certainly do have that ability. It's for us to be able to make sure that we can meet and take advantage of the fact that we are a closer destination and meet their local requirement as well. Government policy has to reflect this massive increase in production as one is anticipating many interventions by the Union Government and state Government of Uttar Pradesh. But a timely and friendly policy will go a long way in creating a balanced environment. From Triveni's perspective there is no best time than now to implement the Dr. Rangarajan committee report basically incorporating a revenue sharing formula and RSF formula which has been advocated by the industry and by the company for many-many years and we will see what form and shape it takes because it is a political decision that there is perhaps the better time to incorporate till now.

Looking at the Gears:

As I mentioned the outlook looks positive. There is an advance recovery and the sectors that have been performing well are much larger than even mentioned in the previous earnings conference call and we are seeing a lot more robustness in terms of our export and international orders and the replacement business is also expected to continue well.

The water business:

As far as the water business is concerned as I mentioned over the last few calls we have participated in numerous tenders which now we are confident will approach to finalization in Q1, Q2, and Q3. These are all tenders which will have shorter durations executions anywhere between 24 to 30 months and would contribute significantly towards the growth of the business, the profitable growth of the Water business and we have already returned for profit in Q4 in the business and are hopeful for keeping this over and breaching substantial heights over this fiscal year and beyond.

Thank you very much with that I would like to open up the floor to questions.

- Moderator** Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Aman Sonthalia from AK Securities. Please go ahead.
- Aman Sonthalia** My question is that in the past whenever there was cane arrears the farmers used to divert to other crop and again the production would come down and the sugar prices would start to rise. But right now the farmers have got a very good yield for more than 20%-30% and if the government policies have come then the farmers will get the price on time so do you think this oversupply situation is going to last for many years?
- Tarun Sawhney** You raised a very good question. The fact of the matter is that today sugarcane is the most remunerative crop for farmers without a doubt given its risk profile. You could find some fancy vegetables etc. that will give you a much higher return but the risk there is much higher. For the risk reward ratio there is nothing quite like sugarcane anywhere in the country. If we look at North India specifically the variety of developments that have happened has increased the farmer's income to 3X, the profitability of the farmer 3X in our opinion already. Now that poses the problem then you got robust sugar cane pricing and you have got a huge increase in yield where the factories have played the most crucial and pivotal role in allowing this to happen and in helping this to happen more importantly. You have a scenario that is not going to dissipate anytime soon, so I don't think diversion to other crops is going to be a huge reality given the catastrophic amount of arrears that exist all over the country one would have anticipated that you would have like in previous years had cane uprooting and new crops coming in but that's not happening. You have planting across the country, so not just Uttar Pradesh but it's all over the country. Now I don't think it's a bad thing at all. I see that the Union government has recognized that we need to support our farmers and we need to support their incomes and that is why the Union government has come up with an ethanol policy, a bio-fuel policy. You will see huge investments once these programs get announced and all subsidies etc. get announced in traditional ethanol plants and also in second generation ethanol plants as well incorporating not just C molasses but B Heavy molasses and potentially even direct from cane juice. It is a function of price and as it is the price of ethanol which is regulated by the Union Government which is the sale price whereas sugar prices left up to the vagaries of the market and so we can have a scenario so actually complicated one I will admit. But we can certainly have a scenario where we can live with over production of sugarcane in India so I don't see this as a huge problem. Will it happen for the next few years? I don't see why not? But I do see great mitigating circumstances and it's a unique opportunity to create a brand new and a huge industry to support jobs and support farmers across India.
- Aman Sonthalia** So India will be very much like Brazil where the company can go to ethanol directly or they can produce sugar also.
- Tarun Sawhney** I think the writing is on the wall.
- Aman Sonthalia** My next question is regarding the Water business. What is the anticipated turnover for the year 2018-19?
- Tarun Sawhney** We do not give forward projections on revenues.
- Aman Sonthalia** But it will be profitable business here onwards?

Tarun Sawhney The endeavor and hope is certainly that it will be that we have turned the corner as of Q4 which is what I had mentioned in our last earnings conference call and this will continue for the next year.

Moderator We take the next question from the line of Yash Agarwal from Crest Capital Investment. Please go ahead.

Yash Agarwal Wanted to check after the increase in international sugar prices what was the current export realization if you were to export the sugar?

Tarun Sawhney The export realization is only gone up by about a rupee or so, so about ` 20 ballpark. The loss is still about ` 10 from North India at least not including transportation.

Yash Agarwal You're talking about 5 to 6 million tonnes the Government should allow you, so you would look for the subsidy to make good.

Tarun Sawhney For the sugar that has been produced in the '17-18 sugar season the Government has already announced an MIEQ program, an export program of 2 million tonnes. For the coming sugar season given the fact that at least we at Triveni are anticipating that the production will be on-par if not higher that this sugar season we and the Industry Association have been already in discussions with the Government to allow for a more aggressive export program of 5 to 6 million tonnes which will find home in the countries that I had mentioned previously on the call. Now the point is this is preemptive; because the quantity is large and keeping in mind that you have to export such a huge quantity of sugar. I will make two more points. Number one, this has been done before. We have done 5 million tonnes approximately a few years ago, so this is something that is easily achievable. Number two, in order to implement it takes planning because it can't be done in white sugar. Some of the countries will take raw sugar to feed their own refineries and therefore some of the coastal states and coastal millers will have to produce the raw sugar and if they have to produce raw sugar, they need to make sure that their equipment has been changed in order to produce raw sugar as a final product rather than producing white sugar and therefore early policy intervention is critical in this program.

Yash Agarwal What sort of subsidies have they provided under MIEQ this year for the 2 million tonnes?

Tarun Sawhney They have not provided any subsidy under MIEQ. What the government has done is provided an incentive to sugarcane farmer independent of MIEQ of ` 5.50 per quintal of sugar. The conditions to that are that you have complied with all Government directives which include the MIEQ and supply of ethanol.

Yash Agarwal Was the current domestic realization, if I heard you correct it is ` 30 is it?

Tarun Sawhney For refined sugar we are getting about ` 30 about ` 30.25 to ` 30.5, plantation white sugar we are getting just about ` 29.50.

Yash Agarwal And the cost of inventory that you put does this include the interest cost, this ` 27.8?

Tarun Sawhney No it does not include interest cost.

Yash Agarwal Also I want to know subsequent to March how much inventory do you have?

Tarun Sawhney Our closing inventory is what you are asking, right?

Yash Agarwal Yes, at the season end.

Tarun Sawhney Season end we can't give you that. We could certainly give you March 31st.

Yash Agarwal March 31st I have it on the press release.

Tarun Sawhney That is advanced information. We will let you know at the end of this quarter.

Yash Agarwal But write-down would be required on that inventory as well because the costs were ` 30 to ` 35 right?.

Tarun Sawhney The cost of inventory has been already taken at Rs. 27.8 per kg.

Yash Agarwal After the production as on March 31, do you have to take inventory write-down is what I am trying to ask you.

Suresh Taneja Responding to your question in respect of production which we have made upto 31st March, number one, the recovery at that particular quarter was very-high. It was in the region of about 11.6-11.7% and therefore the cost of that sugar would be much less as compared to what we produce upto 31st March. Now depending upon the prevailing market price if there is a write-down required, yes it may be there.

Tarun Sawhney But the cost of production of that is substantially lower so we don't really see a need to write down to ` 27.8.

Yash Agarwal Question on this water order of ` 438 crore. What sort of equity investment do you have to put in the SPV?

Suresh Taneja Very nominal because by and large it will be funded through the working capital limits and then there is an annuity portion for which the separate funding would be required. Our equity funding would be very minimal.

Yash Agarwal Over how many years is this order executable?

Tarun Sawhney 24 months.

Yash Agarwal And the whole execution will be done by Triveni, right?

Tarun Sawhney That's correct.

Yash Agarwal In one of your comments you mentioned that the board has asked you to raise some financial resources so are you looking to part sale the Triveni Turbines stake by any chance?

Suresh Taneja There are too many assets. We have some unproductive lands which we are in the process of selling. So basically the idea over there is to explore all possibilities of unproductive assets and encash it and fund these projects

Tarun Sawhney And get the growth and look at additional projects as well.

- Yash Agarwal** The recent rise in the international sugar price in the past 10 days or something by 11%-12% that's primarily driven by the news flow in India, is it or some other geography?
- Tarun Sawhney** That's correct. There is no price moving news that has come out from any large consuming or producing country. You can say that there is some transportation issues that Brazil has faced over the last four days and that's also contributed to the increase yesterday but the real movement has been because of India.
- Moderator** We take the next question from the line of Anita Rangan from HSBC Asset Management. Please go ahead.
- Anita Rangan** My first question is that the payables which you have at the end of the year is slightly on the higher side, does that wholly constitute what you have to pay to the farmers?
- Tarun Sawhney** Very largely yes.
- Anita Rangan** How do you expect that to pan out because while overall your debt has come down if you add the payable portion it's almost like same as last year, so how do you expect that to pan out going forward?
- Suresh Taneja** I am giving you the fact that we have a very considerable volume of inventory of sugar and on the sale of sugar there is going to be a lot of positive cash flow and we feel that we will be largely able to meet those schedules.
- Anita Rangan** Do you have any thoughts on what the next season's SAP would be like, would there be any increase like what's your sense because government has been increasing that by ` 10-15 per quintal every year?
- Tarun Sawhney** Given the arrears this year I think that it will be highly imprudent for any increase in SAP although we are certainly not the decision makers. The discussion on cane price does not start before September annually because the season starts only afterwards. So right now, it's very premature. The Government looks at all factors including the survey data to look at what is the quantum of sugar cane, etc., what is the anticipated cost of production for farmers and looks at sugarcane price and looks at sugar price and looks at whole factor of information. In fact, that does not happen before September. The announcement typically happens in October. So the hope, of course, is that we certainly won't have any increase in fact we expect to have significant subsidies offered to the industry from the state government and some portion of the gap if not all between the difference of FRP and SAP not just this year but next year as well.
- Moderator** We take the next question from the line of NK Arora, individual investor. Please go ahead.
- NK Arora** With the onset of organized retail and e-commerce we are getting all groceries as branded products, atta, oil, pulses whatever everything. So are we doing any special measures for the promotion of our Shagun brand?
- Tarun Sawhney** The quantum for organized retail for sugar is very small and for the Group it is less than 1% of our revenues. The efforts are on. So we are still looking at growing by 50%-60%-70% but it's on a very-very small base simply because the catchment area for organized retail of Delhi and North India, the packaged sugar or branded sugar being sold is also very-very small. If the segment grows multifold then we hope to be good beneficiaries of it, absolutely we have a brand, we have the

distribution network, etc. and we are very competitive, and we are also close to the consumption center, so we have got all the positive factors. The only negative is the actual feasible demand by consumers.

- NK Arora** We have also started producing pharma grade sugar, so what will be the range of price of this kind of sugar?
- Tarun Sawhney** Pharmaceutical grade sugar sales is at an average increase of ` 3 per kilo from plantation white sugar.
- NK Arora** Very high oil prices and depreciated rupee, are we getting now in the orders from GE, our static supply chain agreement?
- Tarun Sawhney** Yes, we have, after the quarter has ended we have started receiving few orders from GE utilizing our supply chain agreement for the Gears business, I can confirm that.
- NK Arora** In the Gears business we are foraying into new products which are going to contribute in next few quarters, so what are these new products?
- Tarun Sawhney** They will not contribute for this fiscal year. It will be for years beyond fiscal '19 where the research and development and partnering, etc., is underway as we speak. They constitute for this year's business for Gears and will be all our existing portfolio products.
- Moderator** We take the next question from the line of Vijay Gupta, individual investor. Please go ahead.
- Vijay Gupta** The question is that the company has stated and is looking for defined areas of expansion, other businesses. So can you please elaborate on this, on what are the other businesses that we are referring to here?
- Tarun Sawhney** I think I was talking about that in my previous comments. As far as the sugar business is concerned there is clearly going to be a great opportunity under the National Biofuels Policy for investment in second generation ethanol manufacture plus there are many incentives that are anticipated even by the states as far as first-generation and second-generation ethanol manufacture. It will allow us to divert not just C-Heavy but potentially B-Heavy molasses and also potentially sugarcane juice and all of these are new areas, hidden expansion areas because the pricing policy for the end product will not be the same as the pricing for B-Heavy that is our anticipation. Now as and when these policies get announced the board will consider identified products by the operating team of the company and then we will come to you of course once its approved.
- Vijay Gupta** Is there any capital requirement that has already been identified for such kind of an expansion as and when it comes because the company says we are going to monetize this through either debt or internal accruals or other assets?
- Tarun Sawhney** We have a ` 200-crore project for distillery and is already underway and there is an equity contribution for that and we will look at various ways of funding that portion. I should also mention that a large portion of this will be debt and also provided under SDF because SDF is 100% available which is concession debt and large quantum of it is available it is quasi equities if you ask me for such projects.

- Vijay Gupta** This is about the distilleries that you mentioned, is this the same that stands true for the other businesses that we're referring to because in the previous question asked by one of my colleagues here, he basically referred to the fact that the land part is what we referred to out there is probably that could be also one of the avenues of generating additional capital.
- Tarun Sawhney** The board has given authorization to the operating team to look at funding the equity portion of the projects with unutilized assets of the company. As and when these projects come about, we will certainly look at all these options.
- Vijay Gupta** Recovery from molasses let's say from molasses if we generate the ethanol then what is the recovery that we look at?
- Tarun Sawhney** About 220 liters per tonne of molasses.
- Vijay Gupta** The next question is about the Gears business. We have seen significant improvement which is coming from Gears business and we are also expecting some significant orders from the Defence sector, so out of the two if I have to look at the major area from where we are going to get the growth in the gears business what would those be? Would it be OEM or Defence or what would those be?
- Tarun Sawhney** It would certainly be Gears. As far as Defence is concerned a lot of these orders there is no great visibility. Let me be very clear about that business. Even after we put in our final bids, the bid opening and conclusion etc. and offer sometimes goes well beyond our anticipated closure, so the growth in the business that we can the forecasted is coming from Gears and its ancillary products which is our existing portfolio today. Nevertheless, the company is developing new products but they will not form, as I mentioned earlier, part of the sales or revenues for fiscal 19.
- Vijay Gupta** My question was within Gears which is a segment that we are looking for growth?
- Tarun Sawhney** We don't really divide up and talk about which OEMs or which particular sectors are looking at it. But I can certainly say that we are anticipating a higher pace of growth from international customers.
- Moderator** We take the next question from the line of Yash Agarwal from Crest Capital. Please go ahead.
- Yash Agarwal** The non-core land that you're talking about, what will the possible size and the value of this?
- Suresh Taneja** We have not really assessed it. We have not quantified the value; we had purchased some land for setting up sugar units which we think is not strategic as of now. We would like to dispose-off. So basically, the board of directors have said please identify all unproductive assets, land, financial everything and with respect to the projects to be undertaken please fund your equity through these unproductive assets, monetization of unproductive assets. This is what we are precisely going to do. So instead of taking too much of debt we would like to make sure that to the extent possible we would monetize these assets and fund it through equity.
- Yash Agarwal** What is the realization of ENA right now and how is that done?
- Tarun Sawhney** ENA is far less right now and depends on what the grain people in neighboring states are selling at and it's varying between ` 28 to 34 right now.

Yash Agarwal Has that come down substantially over the past 6-7 months?

Tarun Sawhney Yes, it has come down a little bit, definitely yes.

Moderator We take the next question from the line of Afshan Sayyed from Dolat Capital. Please go ahead.

Afshan Sayyed Just wanted to know the sugar production number for FY 18?

Tarun Sawhney Its 95 lakh quintals.

Afshan Sayyed This capacity expansion in distillery, when is it expected to come through?

Tarun Sawhney We are looking for it to come in the next fiscal year.

Afshan Sayyed In FY 20?

Tarun Sawhney That's right in FY 20.

Afshan Sayyed Just wanted to understand in this 3 million tonnes of buffer stock which you mentioned the government is contemplating to go through. How will you be working out because it would be for specific months, if you can elaborate on that that will be helpful?

Tarun Sawhney Buffer stock means that that quantum of sugar becomes unsellable unless the government authorizes the sale of it. So that quantum of sugar simply disappears from the market for all intents and purposes and the interest on that sugar is borne classically by the Union government, they pay you the interest for it.

Afshan Sayyed So it will not be released in the market subsequently as well?

Tarun Sawhney It will not be released in the market until the government feels that the market can absorb it without an impact on prices.

Afshan Sayyed When is this proposal likely to go through?

Tarun Sawhney Your guess is as good as mine.

Moderator Next question is from the line of Ashwin Motwani, individual investor. Please go ahead.

Ashwin Motwani My question is actually regarding about 2006-07. You had received some subsidy from the state government which was promised and for which you had made some expansion plans and subsequently I understand that was not given and industry was in court for it. And I believe there was a ruling from the Supreme Court in February in favor of the mill, is there any update on that after that?

Tarun Sawhney Your question the first to the SIPP policy of 2004-05 by the state of Uttar Pradesh and the Samajwadi Party Government at that point in time which was later withdrawn by the subsequent government. This has been protracted litigation and you are right the Supreme Court judgment in February 18 effectively it was in the SLP by the state government on a ruling by the Uttar Pradesh High Court, the Allahabad High Court and the SLP of the state was not entertained which meant that the judgment of the Allahabad High Court was upheld which meant that the

policy had to be reinitiated and the payment had to be made. However, there were other litigations that were also going on and are currently going on at this point in time. But given that fact and of course over the last few weeks there have been multiple hearings, now postponed until after the vacations to early July but provided there are no changes of benches and the whole process starts all over again, we expect some kind of favorable outcome in the near future. Now that doesn't mean we are going to get the money in the near future because the state can file a revision and the state has to set up a huge machinery to even validate what happened over a decade ago. But it does mean that at some point in time we are certainly eligible to get quite a large sum of money.

- Ashwin Motwani** But you will obviously not be in a position to quantify that at this moment.
- Tarun Sawhney** It's really impossible.
- Ashwin Motwani** For the entire sugar season '17-18 what is the final production number?
- Tarun Sawhney** 95 lakh quintals.
- Moderator** We take the next question from the line of JK Jain from Jitendra K Jain & Company. Please go ahead.
- JK Jain** Recently there was news that Brazil is going to shift from sugar production to ethanol production in next season and the chance will be at least to the extent of 4 to 5 million tonnes, is it correct?
- Tarun Sawhney** Absolutely correct. In my opening remarks when I talked about international markets. I mentioned that there are 3 or 4 factors you have to bear in mind. The anticipated increase in the global stockpiles is expected to be 20 to 22 million tonnes over this year and the following year. Now this is despite the fact that the Brazilian production is expected to come down in this operating season, the season is on the way in Brazil as you know, from 36 million tonnes to 31 million tonnes and it is being compensated by huge production increase in Pakistan, China, India and Thailand.
- JK Jain** So don't you think that we should also start producing raw sugar instead of refined sugar because companies like you have got so many factories, a lot of 4-5 peers have got 6-7 factories, so they should start producing raw sugar and refine it and those states like Assam where there is a necessity, a lot of changes are required not from the side of the government but from the side of the industries also.
- Tarun Sawhney** I don't agree with you. We already have existing assets that need to be utilized for fresh capital expenditure in setting up new and alternative businesses is not something that I would support, so I don't agree with you.
- JK Jain** The inventory cost of refined sugar is much higher than the inventory cost of raw sugar that's the major point.
- Tarun Sawhney** It is a little bit higher but not much higher. Just because it is a little bit higher doesn't mean that makes a business sense.
- JK Jain** Do you think there are the chances of consolidation in the industry also the way the prices are going up and down, the foreign player has already come in of the type of Wilmar and all these?

Tarun Sawhney I think it will be very good. I don't know what the chances will be so let me not answer your question directly. But I do think that some of the problems on the production side will certainly go away if there is consolidation. We have 450-odd companies operating sugar assets across the country and this number has to come down.

JK Jain Because no way in the world so many factories in such a deconsolidated way are operating nowhere in the world.

Tarun Sawhney You do have in Brazil.

JK Jain A lot of factories are closed there, at least 100 factories are still closed in Brazil?

Tarun Sawhney No not at all. That's not correct.

JK Jain Don't you think that you should go for some buyback of shares because the way your prices are much lower than other sugar factories or the sugar companies, you have got a such a beautiful mix of the businesses.

Tarun Sawhney But unless anything is authorized by the board I am afraid I cannot comment on it, certainly not on a conference call.

Moderator Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to the management for their closing comments.

Tarun Sawhney Ladies and gentlemen thank you very much for joining us on the fiscal '18 Earnings Conference Call for Triveni Engineering and Industries Limited. I hope I have answered your questions satisfactorily and I certainly do hope the next time that I talk to you will be under the umbrella of significant policy changes and initiatives by the union and state government as far as sugar is concerned and better business and better news from all our engineering businesses. Thank you very much and good afternoon.

Moderator Thank you. Ladies and gentlemen on behalf of Triveni Engineering and Industries Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines now.