



## Triveni Engineering and Industries Limited Q2 FY 20 Earnings Conference Call Transcript November 08, 2019

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**Moderator:** Ladies and gentlemen, good day and welcome to the Triveni Engineering and Industries Limited Q2 and H1 FY 20 earning conference call. As a reminder, all participants' lines will be in the 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 \* and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

**Gavin Desa:** Thank you. Good day everyone and a warm welcome to all of you participating in Triveni Engineering and Industries Limited Q2 and H1 FY20 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 Business 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. I would also like to emphasize that while the call is open to all invitees, it may not be broadcasted or reproduced in any form or manner. We will start this call with opening remarks from the management, followed by an interactive question & answer session. I would now request Mr. Tarun Sawhney to open the call. Over to you, Tarun.

**Tarun Sawhney:** Thank you, Gavin. Good afternoon everybody and welcome to the H1 fiscal 20 earnings result call for Triveni Engineering and Industries Limited. Let me start off by again thanking you for joining us late in Friday afternoon. We appreciate you are being with us.

Some of the key highlights for the half year under review. Revenue from operations stood at ₹ 1873 crore, a growth of 34% and the profit after tax stood at ₹ 152 crore on a consolidated basis, a growth of 119%. This was a record profitability and quarter for Q2 for the company and we are very happy in terms of bringing these results to you.

With respect to the sugar business as per recent estimates, the countries productions for sugar season 19-20 is estimated at approximately 26 million tonnes after considering a diversion of B-Heavy molasses of approximately 0.6 million tonnes. That is sugar diverted towards B-Heavy. Exports will remain extremely vital to manage in the stock situation in the country. Having said that at this particular point in time, the export market pricing is fairly subdued. The sugar business has



performed extremely well due to the stability in sugar prices especially over the last 3 months and the quarter under review. We have booked subsidies of ₹ 99.2 crore relating to the export losses stock incurred in fiscal 19 and that has led to a better profitability. In view of the revision of the power tariff order for our Co-generation plants with effect of 1st April 2019, the income that was booked in Q1 fiscal 20 of ₹ 7.90 crore has been reversed in these quarterly accounts. It is also notable to mention that those distilleries have operated extremely well at full production levels by the end of the quarter.

The Engineering business has also maintained its excellent growth rate and registered higher turnover and profitability. Water continued to perform better resulting in higher turnover and profitability and as did the Gears business group as well. The outstanding order book stood at ₹ 1377 crore combined for the engineering business. The results of this quarter also included charge on account of off-season expenses of just about ₹ 31 crore and this is due to the change in accounting policy and accordingly our profitability is lower to that extent. For the quarter, the gross revenue stood at ₹ 948 crore with an EBITDA margin of 20% which increased from the previous corresponding quarter which was 10% and PBT which was at a record level for Q4, any quarter for us, so ₹ 167.9 crore with a PAT of ₹ 118.3 crore.

I am going to spend a few minutes talking about the business highlights of the Engineering and Sugar businesses and then focus a little bit on what the expectations of the company are and the news from the industry.

As far as the Sugar business is concerned, for the quarter under review, we dispatched 1.9 lakh metric tonnes of sugar. At an average domestic realization, for the domestic sales was ₹ 33,702 per metric tonne. This resulted in the PBIT of ₹ 129.5 crore. The inventory as on 30th of September stood at 45.6 lakh quintals which is approximately 6.5 to 7 months' worth of sugar and it is valued at ₹ 29.6 per kilo. Last year, out of interest, we had 75 lakh quintals in stock as on the 30th of September and it was valued at ₹ 31, so our stocks had gone up fairly considerably.

The share of the company under the new MAEQ program is just shy of 180,000 metric tonnes and for the half year the income of Co-generation at Chandanpur, Milak Narayanpur and Sabitgarh has also been recognised. The industry scenario is a bit more challenging. For the previous year, the country achieved a record production of 33.16 million tonnes and we assume that approximately 350,000 tonnes of sugar was also diverted through the B-Heavy route. So we had just in excess of 33.5 million tonnes of total sugar production in the country which is an absolute record for India.

Consequently, the closing balance as on the 30th of September is extraordinarily high number of 14.6 metric tonnes which is quite astounding and equates to over 7 months' worth of consumption. The central government has also in the quarter announced the creation of about 4 million tonnes of the stock and the company will be a beneficiary of the same. The Central Government has kept the FRP unchanged from the previous year which is a welcome step on behalf of the company and the industry; however, we are co-subjected to SAP which we expect will be announced over the next couple of weeks. The Government has also given its approval after writing a lump sum subsidy of approximately ₹ 10,500 per metric tonne for exports under the MAEQ program. The total expenditure that has been budgeted is approximately 6268 crore for this particular purpose. We are very hopeful, and I am personally hopeful that if we achieved 3.8 million tonnes of export in the last campaign and the MAEQ, with this program of 6 million tonnes of

exports, I foresee that we will be able to achieve at least 5 million tonnes of exports.

Looking at the season that has just started, the cane acreage has decreased across the country by 12% which is quite staggering reduction in acreage in that and especially happened in Maharashtra and Karnataka and a few of the other smaller states. As per our estimates, the sugar production in the country will be approximately 26 million tonnes for the season with approximately 600,000 tonnes of sugar being diverted through B-Heavy, so the total net would be 226.6 but we see about 600,000 tonnes being diverted away to ethanol which is again another welcome step. The ethanol requirements of the country stands at 330 crore litres for the 19-20 season which is December through November, however, last year under the same campaign, about 175 crore litres have been supplied after the middle of October which was just about 5.3% for the country as a whole and so we anticipate in the remainder of October and the entire month of November that this will come up to approximately 6 odd percent which is still a pretty good achievement for both countries.

For the 19-20 marketing year, the oil companies have invited with 511 crore litres and I would like to take just a few minutes to share some data points because the tender has just been opened up and the public announcement has been made over the last couple of hours. So out of the 511 crore litres of ethanol, the quoted supply is of 163 crore litres which is really very low. In the same tender, last year 248 crore litres had been offered. In Uttar Pradesh, last year 89 crore litres was offered and this has increased to 95 crore litres. In Maharashtra, it has reduced from 88 crore litres to 22 crore litres and in Karnataka, it has reduced again quite precipitously from 38 crore litres to 16 crore litres for this campaign.

B-Heavy offerings which was stood at 42 crore litres last year is up to approximately 62 to 65 crore litres where UP is responsible for at least 70 to 75% of this total amount. There has been a small offering of 10 crore litres of cane juice as well under the entire total but having said that I should point out that our personal reading of this statement is that this vastly lower number, staggeringly lower number of 163 crore litres that has been offered is actually quite disturbing and it would probably equate to about half a million to 0.6 million tonnes. At the B-Heavy portion will equate to about half a million to 0.6 million tonnes of diversion of sugar which is again lower than what we had anticipated only a few days ago.

The government had of course increased the price of B-Heavy molasses marginally, B-Heavy molasses quite liberally from ₹ 52.43 per litre to ₹ 54.27 per litre and had kept the pricing of ethanol from sugarcane juice and syrup constant for this new campaign and the additional apportion to GST charges and transportation charges and what has expected that a lot more would have been tendered, so we will have to see how the second and third tender go, I think there is a certain amount of caution and this is probably due to the vastly lower production that is expected in Karnataka and Maharashtra and you can see how reticent the millers over there have been in this first campaign to supply ethanol. It may be writing on the wall that they are expecting a further downward bias, although that is too early for us to tell in our recent estimates on the ground point to approximate production of 36 million in sugar year 19-20.

On the international sugar front:

I was just surprised to say that we have had some softening of white sugar and raw sugar pricing. We had touched decent price approximately 3 weeks ago. Of course,

the weakening of the rupee has also helped in the few trades. We committed to 5 members of industry across the country and we have seen that exports under the MAEQ program have already started, the vessels have already been loaded and dispatched and I think that we will have a fairly aggressive schedule this year in terms of evacuation of sugar through exports and this is primarily due to the burgeoning stocks across the country. If our stocks are 20% higher approximately year-on-year, it is very similar for other players across the country and therefore through the course of this sugar season, there will be great pressure on lot of other people in the industry in terms of warehousing and keeping sugar dry and safe.

Turning to our Co-generation business:

For the quarter under review is within offseason period and I had already mentioned the downward revision, although this matter is sub judice and it is important to note that there may be further adjudication on the UP tariff which had been lowered by UPPCL. The distillery business has done extremely well in the quarter under review. The production has almost doubled from the previous quarter and the average realization again is substantially higher than the previous corresponding quarter and the realization was ₹ 450 per litre which is quite healthy. Both the distilleries are operating at excellent efficiency and Sabitgarh had come on stream with full capacity during the quarter under review.

Turning to the Engineering business, I will first talk about the Gears business and then about the Water business. The Gears business has had a record quarter with revenues of ₹ 43 crore and a PBIT of ₹ 14 crore and excellent order book as well. The business has seen robust growth in both OEM sales as well as spares and service including refurbishment and loose gearing during the period under review and the overall market, now I can say after a long time looked stable with many positive signs from particular OEM segment which is really quite encouraging. The outstanding order book on the 30th of September stood at ₹. 176 crore including some long duration orders of about ₹ 89 crore which would be executed over the next couple of years.

The water business again has had an excellent quarter with revenues of ₹ 17.5 crore and PBIT of most importantly of ₹ 6.6 crore which is very healthy for the business after a long period of time. The numbers are on a consolidated basis and they include our wholly owned SPV executing the Mathura project that is awarded to us by the NMCG under the Namami Gange Programme. The improved performance is attributed to substantial intake of orders during the year which resulted in increased activities and turnover and the outstanding order book stood at a shade above ₹ 1200 crore which included just under ₹ 500 crore towards O&M contract.

Very quickly on the sugar outlook, I should mention that all sugar units at Triveni have started operations with the exception of our unit at Ramkola which is expected to start operations in the middle of next week. The company expect to crush more sugarcane this year and the recoveries are expected to be better than the previous year and therefore we expect to take more sugar. Triveni will also be producing B-Heavy molasses to see the distilleries to take the advantage of the higher ethanol pricing from B-Heavy molasses and with the new distillery that has been commissioned for the 19-20 marketing year, we would have a significant increase in the production and dispatches of ethanol from both distilleries.

Turning to the Engineering business:



The outlook again looks quite drowsy. The Gears business outlook for capital goods in domestically is pointed to some recovery internationally. We are seeing some very positive signs from certain industry segments. The replacement business also continues to do well and is expected to continue on this trajectory and we are still evaluating new products and geographies to further improve our turnover and profitability.

On focusing on the Water business:

The Company has participated on a very large number of tenders which are in very close status of finalization and we are expecting that over the next 2 quarters, we will see certainly some traction in the closing of these orders and we believe that we are well placed for a large number of these orders. In line with our strong carry forward book, we are expecting revenues to scale up in the coming quarters which will yield strong better profitability and we continue to leverage our existing relationships with our industrial customers as well within our water business.

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

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Sanjay from ICICI Securities. Please go ahead.

**Sanjay:** Just wanted to know few things, specifically what is the kind of quantities we have contracted in the new season as Government has really given a subsidy for the 6 million tonnes and what would be the price?

**Tarun Sawhney:** We have started our campaign in terms of contracting. We have total of just less than 180,000 tonnes. I assume you are alluding to the MAEQ export program.

**Sanjay:** Yes, new season.

**Tarun Sawhney:** Correct, so we have started our campaign but I am very hesitant to give you the numbers of what has been contracted and the pricing because that is fairly competitive but let me show you that we are at a very top end of the pricing (over the last month).

**Sanjay:** But we have contracted some quantities, means we have already contracted some?

**Tarun Sawhney:** Yes, you search it and we have already started the export program.

**Sanjay:** Is there any chance that we will go above this 1.8 lakh tonnes if suppose other players won't be able to do it?

**Tarun Sawhney:** That is a very good question. It really depends on how the global market fairs. On a standalone basis if it is profitable to go out and make sugar, raw or white and export it on behalf of others, we would certainly look at it, but you must remember that our sugar units are in England, so we have an additional freight cost to consider. The second aspect of course is that if we take on somebody else' obligation we may not receive the benefit in terms of booked in our monthly quota and that too plays a factor on a consolidated basis when you look at the overall return from exports, so that is a negative factor in terms of taking on other factory's

export obligations but we are looking at certainly completing our 180,000 metric tonnes in a short period of time.

**Sanjay:** You have sold 4.3 lakh tonnes in the first half, what I believe that probably Maharashtra will be doing lesser production, so the monthly quota for UP mills would be higher, so what is your expectation of H2 sugar quantities dispatched?

**Tarun Sawhney:** I think you need to look at different things, the total which you have taken for H1 includes domestic and exports. I anticipate that our domestic quotas will be higher than the H1 of the year, fairly significantly higher because I believe that at this point in time, there are three important things that are happening, the first one is that the pipeline in the market is very limited, so there will be some pipeline build up over the sugar season simply because the Government wants to release more sugar and have it in the market because the holding cost and the holding capacity at the millers is severely reduced. That is point one. The second point is that relatively Uttar Pradesh would be producing more sugar in comparison to other parts of the country and therefore quintal to quintal our quota that is given out, proportionately there will be more that will be given to Uttar Pradesh because we are producing more and therefore our monthly quotas for Triveni will be higher, certainly compared to last year and compared to H1 and the third reason is of course is that we are exporting, our MAEQ strategy is to export sugar quickly and therefore the benefit in terms of quota enhancement month to month will also be felt in H2 of fiscal 20.

**Sanjay:** There is some news about the new variety which has really improved, the yield has been facing some difficulty or has been sort of destroyed by the red rot or something like that. What exactly is the update on that front?

**Tarun Sawhney:** So they have been isolated sighting of red rot disease, some in Eastern Uttar Pradesh, some in Central Uttar Pradesh, nothing in Western UP where the majority of our factories are but they are there. The genesis of any crop, any variety is about 15-year cycle, so we have about 5 to 7 years, let us say 7 years left of Co 0238 and it is still not above the sightings as I mentioned are isolated so they are not very and vastly substantial at this point in time. That is not to say that in next 2-3 years, it can't pick up. If you have seed that is not pure, you would probably be more susceptible to diseases like red rot, but at this point in time, it is not an epidemic of any kind, whatsoever, I want to be very clear about that. The next thing is that there are comparable varieties at Triveni; some of our factories even have 30-40% of other varieties that are of comparable varieties that offers the same type of yield and recoveries as Co 0238. So yes, Co 0238 was a genius variety, very highly regarded, very highly uploaded, etc., but it is not as if its replacements are not there and prevalent within the system as of today.

**Sanjay:** Few things on the accounting, I understand you mentioned 99 crore subsidies have been accounted for the previous year, so is it like you have accounted for 160 crore this quarter, is it like well done or is there some subsidy accounting is left for the next quarter?

**Suresh Taneja:** No, all the subsidies had been accounted for this quarter. There were some conditions which were prescribed in the various schemes of the government, we have fulfilled those conditions and we have accounted for all the subsidies.

**Sanjay:** There is nothing left?

- Suresh Taneja:** There is nothing left and out of the total subsidies, ₹ 99 crore is pertaining to the previous year, so balance is all pertaining to this particular period itself in terms of export losses made or freight expenses incurred relating to exports.
- Sanjay:** And you mentioned that the SAP will be announced next 2 weeks or something, so is there any expectation of the increase in the SAP or you think it will remain same as last year?
- Tarun Sawhney:** My personal estimation is that there we will not be an increase in SAP for the 19-20 sugar season; however, the decision is in the preview of the Uttar Pradesh Government and I expect that they will by the time East UP starts operations which let us say the whole state will start operation by 20th to 25th of November. At that point in time, I am quite certain that the UP Government will announce SAP. There are some important Supreme Court judgements with the rate relevance to Uttar Pradesh that are being announced next week, so I very much doubt whether SAP will be announced next week. It will probably be in the week after at the very earliest.
- Sanjay:** But you think that will remain same or there will be?
- Tarun Sawhney:** It will remain unchanged.
- Sanjay:** Just few things on the ethanol side, you would have mentioned that there is a 511 crore litres and the very small quantity has been offered by sugar mills, what is the quantities you have offered and what is the kind of B-Heavy you will be doing?
- Sameer Sinha:** In terms of the quantities that we have offered, we have offered to both OMCs in the public sector and in the private sector and we have got the depots that we wished and the third point is that we are very close to the estimated number of quantity that we wanted from this tender and our production is fully covered by the quantities that we have got from both the distilleries put together.
- Sanjay:** Just by this 2.5 crore number which you have done this quarter, is it safe to assume that you could do 10 crore litres from the current capacity and if there any chance for further capacity addition on the distillery side?
- Tarun Sawhney:** No, definitely, our licensed capacity is higher than 10 crore litres both put together and we will be, since we are running at full capacity, we should be able to achieve that.
- Sanjay:** And any capacity addition?
- Sameer Sinha:** We are looking at about 528 to 540 crore litres from each of the unit, so it could be in the range of 10.5 to 11 crore.
- Tarun Sawhney:** That is the total amount and at this point in time, we are not looking at further capacity additions.
- Moderator:** Thank you. We take the next question from the line of Levin Shah from Value Quest. Please go ahead.
- Levin Shah:** Sir, firstly, I would just like to know on this new order, the UP state government has passed basically on the quota for molasses to the country liquor, so you have mentioned in your press release as well that this was not applicable to those sugar

mills who used to consume captively all their molasses, so how will this impact us and overall the industry?

**Tarun Sawhney:** No, we said unlike last year in the press release the reservation will apply to even those groups who have captive consumption, so we said exactly the opposite in our press release to what you just said. It impacts us because we will under this policy have to supply 18% of our total molasses produced to country liquor manufacturers. Last year, the pricing was only ₹ 75 per quintal. I believe that the pricing would be substantially higher since this amount has increased and the fair market price is approximately ₹ 400 per quintal or thereabouts. So the pricing of country liquor will increase and this 18% is applicable to all sugar factories in the state of Uttar Pradesh.

**Levin Shah:** And was there any amount of molasses that we used to supply earlier or this is the first time first season that we will be supplying for this country liquor?

**Tarun Sawhney:** Our second distillery which gave us 100% captive consumption with only set up earlier this year in this fiscal year and so therefore in previous year, we were always selling a portion of our molasses to country liquor manufacturers. We always have.

**Levin Shah:** And sir, like you said the price of the fair market price would be around ₹ 400 per quintal but has been the price fixed for this season like you said ₹ 75 per quintal for last season, so is there any price that has been fixed for this season?

**Tarun Sawhney:** That is exactly what I was saying. The price has not been fixed and I expected it to certainly be higher. It is not an administered price; it is the suggested price.

**Levin Shah:** Sir and what we have been saying is that overall the industry has been very gung-ho about this B-Heavy and shifting some of their production from C-Heavy to B-Heavy but like you said that if you were to look at the quantity offer, it is like only 65 crore litres, so where there is a mismatch over here, so I had one end industry talks about B-Heavy being highly remunerative but if you look at the offered quantity, it is not that encouraging?

**Tarun Sawhney:** I think the devil is in the details, so you have to look at it. Let us look at Uttar Pradesh. The quantity that has been offered in Uttar Pradesh as a total has gone up, it has gone up because there has been capacity enhancement including at Triveni for distilleries in the state of Uttar Pradesh. Within the state, there with substantial increases in quantities offered were not produced from B-Heavy molasses as well. The shortfall in terms of total offering and B-Heavy has really come from the two Southern states of Karnataka and Maharashtra. Now, the quantities offered there has fallen dramatically, Maharashtra, the data is in front of me, had offered 88 crore litres last year which has dropped to 22. That is 75% drop in their offering. Now if we broke by that vast amount, it is obviously due to a large number of reasons and also could be in terms of hedging how much will be produced because there are as you know substantial penalties for long supply to the OMCs. B-Heavy is very remunerative and especially for Maharashtra where sugar prices are lower than that of Uttar Pradesh, it makes complete sense to be able to convert B-Heavy to actually mid B-Heavy and supply that. You are getting a much higher rate, so it is in normally, I think the data has just come out, but you have seen that where production is high, where distillery capacity has been announced which is North India, which is Uttar Pradesh, the supplies from there are pretty good, actually really pretty good. For the rest of the country, I think we need to look at what is the quantum of sugarcane, what is the quantum thereby of



molasses and how that is going to play out, perhaps in the second and third tenders, we would see higher supplies. The other thing of course is I don't have the quarterly breakup of the supply in front of me at this point of time because the news is extremely fresh at this point, so the supplies of Karnataka and Maharashtra could be very well be for the first couple of quarters and millers from there have hedged their quantities for Q3 and Q4 for later on in the year to subsequent tenders and therefore it may not be as bad as what we are looking at right now on the face value and I would urge you to look at it from that perspective.

**Levin Shah:** And sir, one more thing on this, so this 511 crore litres tender that we have seen this year, so looking at the capacities that we have, isn't it way above capacities and what would be the thought process coming out with such a large tender?

**Tarun Sawhney:** I don't think it is above because this tender also includes your classical molasses supplies and juice as part of this tender. It also includes split grain as another project supply source and the third aspect, it also gives the possibility of millers to use sugar and convert sugar into alcohol as well, so given all of these things are 511 targets that the government had mentioned is not too high, it could have certainly been achieved. Periodically, it could have been achieved. The government is not going to issue a tender if it cannot be achieved at all. The theoretical achievement was certainly a possibility. Now, it yields substantially higher than the previous year but we believe that the depots have seriously enhanced their storage capacities as about as well as for blended fuel and they are now looking at actually carrying very large stocks of the blended fuel of heat end with themselves, so that is a huge enhancement and therefore to take care of this enhancement, the government has also increased the total quantity requested.

**Levin Shah:** So then over year, the assumption would be that large quantity of ethanol would be coming up from sugar, so sugar being converted to ethanol?

**Tarun Sawhney:** Again, it is too early to tell. For North India, there are no economics at all for converting sugar into ethanol.

**Levin Shah:** So that is what I just wanted to understand, at this price, does it make any sense to convert sugar into ethanol?

**Tarun Sawhney:** Not in North India.

**Moderator:** Thank you. We take the next question from the line of NK Arora, individual investor. Please go ahead.

**NK Arora:** Sir, my first question is, the finance minister has now cut the corporate taxes, so how is our company benefiting from the reduced taxes?

**Tarun Sawhney:** In our case, we have a large amount of MAT credit available, we have additional depreciation, we have ETIA rebate, so it does not seem to the right year for us to revert to revised tax rates.

**NK Arora:** Sir, we were expecting big number of orders after the elections in the water segment, so why have the orders have not started coming as yet?

**Tarun Sawhney:** I had mentioned on previous calls also the finalization of orders in the water space is very difficult to fine tune on a quarterly basis and I have always said that I will encourage our investors to look at in annual perspective rather than a quarter-to-

quarter perspective. Yes, we have general elections in the first quarter but the overhang of that did continue and when I spoke to you 3 months ago, as you were very hopeful that orders would be finalized at that point, it is not as that they are not close to finalization, they certainly are, but again with the municipal sector this is not in our hands, we believe that our large orders that we have will be finalized very shortly as I mentioned over the next two quarters.

**NK Arora:** Sir, then finally Triveni Turbine has filed a case in NCLT against GE, so would that have any bearing on us or not?

**Tarun Sawhney:** It is not bearing on us at all. It is a separate company. It is not the discussion of this.

**Moderator:** Thank you. The next question is from the line of Sanjay from ICICI Securities. Please go ahead.

**Sanjay:** Sir, this is Sanjay again. Just few things clarification which probably I might have missed that what is the B-Heavy quantities which you have mentioned? What are the quantities of B-Heavy you will be supplying?

**Tarun Sawhney:** No, we have not mentioned it.

**Sanjay:** But we have a decent availability of molasses, so we can actually divert good amount of sugarcane towards B-Heavy ethanol?

**Tarun Sawhney:** And we intend to, but it is the most strategic scenario and it will be in public domain in the next few days only.

**Sanjay:** We are still holding somewhere around ₹ 1400 odd crore of inventories, what is the expectation that inventories would be by the end of March because obviously new season will start, so again, if I just say against ₹ 2100 crore in March, what kind of inventories we expect that should be in the March quarter?

**Tarun Sawhney:** It is very challenging to estimate at this point in time, but it will certainly be towards those levels, may be even the shade higher because this year we are expecting to crush more sugarcane. We have started just a little bit earlier and we are expecting slightly higher recoveries; however, we will be taking on the export program quite far more aggressively, we will be doing it in each two of this fiscal year whereas last year we did it in the last half of the sugar year, the bulk of the exports and therefore we will be beneficiaries of that from a stock carrying perspective and from a holding cost perspective as well. So I think at this point in time there are many variables, they are many balls in motion. The first one of course being export which is quite substantial of 180,000 tonnes of sugar and I think if you have to ask me to give an estimate, I think broadly speaking the same levels of last year.

**Sanjay:** One last thing, what basically has happened in previous year that because of the higher production, most of the millers are carrying higher inventory this year and that is the reason probably the cash flow from operations were still negative. Now, will that thing reverse in this year because we will be selling the good quantities in the second half plus we will be exporting higher quantities this year and then B-Heavy part will also be there, then is it expected that cash flow from operations will be positive or substantially positive?

- Tarun Sawhney:** The first thing I would say is that the production subsidy that we received last year is the intrinsic part of our operational cost, so you have to add that into the entire equation in terms of looking at what is the profitability below the line is in arriving at those estimates. That is the first point that I would make. You are probably segregating the subsidy into a different bucket whereas it is actually; it is physical part in your cost of production because if it wasn't, nobody would be exporting sugar at ₹ 20 to ₹ 22 per kilo where the local market prices are ₹ 32, ₹ 33, and ₹ 34 per kilo. I think in the coming season, we will see a drawdown in the nation's stocks and so if we have 26 million tonnes of production and consumption that is slightly higher at 25.5 million tonnes, the net addition to stocks not including exports will be marginal up to a maximum of half a million tonnes and if you have 5 million tonnes of sugar that gets exported, we will have a closing balance of 10 million tonnes of 30th September 2020. All of this will actually assist companies in terms of their cash flow as well and towards the end of this sugar campaign, I anticipate that there will be a lot of discussion around the vision of the MSP of sugar and if that does happen, of course that improves the scenario, so we are very hopeful. It is a little tough to tell exactly what the sugar prices will be, but we are very hopeful that over this course of the sugar year running from October through September, then on an operating basis, the sugar business will do alright.
- Sanjay:** Sir, considering the fact that we will be having good profit this year and we are not having much of the CAPEX also, do we have a dividend on a buyback policy because last year we did a buyback?
- Tarun Sawhney:** No, the buyback was in August of this year, so it was 3 months ago.
- Sanjay:** Sir, do we have a policy or something like that that will continue to give dividend or continue to do buybacks?
- Tarun Sawhney:** No, the board does not have an operational policy.
- Moderator:** Thank you. The next question is from the line of Raj Vardhan from Abakkus. Please go ahead.
- Raj Vardhan:** I am saying that I met somebody from the sugar ministry a few weeks ago and he stressed on one underlying problem with the whole ethanol for play and that is that the transporting ethanol is turning out to be a huge problem and when you add the freight cost to the actual price of ethanol, it can in a few states where sugar mills and/or distilleries located close to the OMCs, it is not too efficient or too effective or viable at that prices along with the transport cost and there was some suggestions about how, in some states they continue at 7% and in some states they might increase at 10% or reduce at 5%, so can you give us more insight into this, how are we looking to resolve this issue?
- Tarun Sawhney:** At this point in time, I think I'll turn this question on its head and my answer would be that there are certain depots in the very North and in the very East of the country that do go dry despite us having a mandate as a nation for E10 and the reason for that is that given the fixed slabs of transportation, it is uneconomical for distilleries to bear the incremental transportation cost and supply to faraway depots and the government has been encouraged to review those policies and I believe that they may very well review those policies. Having said that, the bulk of the consumption of ethanol happens in states which already have ethanol blending, so there are some issues of transportation. They are primarily due to the adoption of the idea or act, for example, in terms of transportation and getting permission, there are some issues apart freight but I think freight is not as big an issue as was

probably made out in your conversation, so the bulk of the country we can achieve 8-8.5% blending without any problem whatsoever.

**Raj Vardhan:** Sir, I have two more quick questions. One is your demand supply scenario and at 7%, the figures must be little plus minus, but at 7% blending or 10% we had demand for ethanol at about 300 litres and we are the nation that couldn't supply the margin, we were at about 280 or 240 if I am not wrong, so with the Government side, you have 20% blending in 10 years' time and we know Brazil's distilleries capacities run at about 6000 kilo litres per day and can you envision this sugar industry expanding so drastically and so radically to achieve that because the target is I think 20% by 2030, do you think that is the realistic target?

**Tarun Sawhney:** Yes, I think that is definitely a realistic target. My own personal view is that I had placed in front of the Government is that we should accelerate that target

**Raj Vardhan:** Would you be able to supply it with the capacities?

**Tarun Sawhney:** I am just addressing that question. If we are to make the journey to supply E20, as a nation we need to have the ability to follow the Brazilian model. Effectively to take cane and divert it, it is a tap, I order a valve and diverted one way to sugar or the other way to ethanol. It requires us in many cases to expand our capacities 5, 6, 7x to be able to deal with cane juice or cane syrup rather than look at molasses. Now that is differential in the journey to E20 but the hindrance despite the very encouraging steps that the government has taken in terms of offering subsidized loans for the establishment of distilleries and assisting companies in pushing through the pollution clearances on a faster track. Those are big positive steps but we doubt having an announced long-term pricing formula. I am not saying the price, but the formula. I think there will be some hesitation of entrepreneurs to set up huge distilleries. Small distilleries will certainly come up but the types of distilleries that we are talking about which can process juice instead of making sugar, making 100% ethanol, that type of investment can only happen if you have great visibility. That is point one. The second point that the pricing of ethanol from juice would have to increase from its present levels. As these present levels given the cost of gain, my personal view is that it is unviable to make ethanol from juice.

**Raj Vardhan:** And sir, the formula thing, you were telling me about B grade or directly from sugarcane like we know there is 1:6 ratio for B grade or C grade, I am a bit confused but like when you say formula like you connect it to the sugarcane price?

**Tarun Sawhney:** No, when I mention the formula, I am talking about the basis of calculation of price per litre, so be it for C, be it for ethanol made from C molasses, ethanol made from B-Heavy molasses or ethanol made from juice or syrup.

**Raj Vardhan:** And do you expect the Agricultural Ministry to come out with it soon?

**Tarun Sawhney:** We are urging the government to consider that they come out with the price with the long-term policy without giving any commentary to the prices but until they have a concrete formula that is set down for multiple years, I think there will be some hesitation, some trepidation that will exist among entrepreneurs but having said that let me also take this opportunity to say that if we achieve E20 and make this journey, the ethanol sector and its associated ancillary businesses that come up with the distillery and there are a few. They are smaller of course. This can be another 1 lakh crore industry for the country giving may be lakhs and lakhs of jobs across many states across the country. It is a real sunrise sector as far as I am concerned and the highest levels of government has supported this; however,

there is a little bit fine tuning that is there, and I think it will happen. It is an organic process. I think the achievements that we had thus far are really very good. We should look at things in isolation because we have sugar cycles etc. We must look at longer periods of times in terms of judging whether this has been truly successful and successful to what extent but I truly believe that we have the makings of a huge industry with right support.

**Moderator:** Thank you. Next question is from the line of JP Agarwal from Little More Investment. Please go ahead.

**JP Agarwal:** Is there any plan by the management for creating the shareholder value by separating the two divisions, sugar division and engineering division?

**Tarun Sawhney:** This fraction has not been considered by the board.

**JP Agarwal:** At what time can consider, what should be the trigger point because the company has taken this decision in the earlier two times and closed it?

**Tarun Sawhney:** There is no discussion at the board level. If there is I will certainly, of course announce it in a press release and inform the stock exchanges and discuss it on the subsequent earnings conference call. At this point in time, it has not been discussed at the board of the company.

**Moderator:** Thank you. Next question is from the line of Gaurav Jhawar from Systematix Shares. Please go ahead.

**Gaurav Jhawar:** I have a couple of questions. First regarding in the sugar business, I just wanted to know what the current sugar price is and what is your forecast on the sugar realizations?

**Tarun Sawhney:** The current price is right now for refined sugar of approximately 3425 and the prices for plantation wise sugar is about 3340-3350 in that range. I think going forward; these have been a very good price. They are substantially above the MSP, although the MSP is really for Central India and we will always be at a slight premium to that but these prices are better than what we had expected and our realizations even for the quarter under review are pretty good as you have seen. Going forward, I anticipate these prices to remain fairly stable. There may be some small movement upwards and downwards, but nothing too substantial.

**Gaurav Jhawar:** In earlier comments, you stated that sugar price recovery should be higher; I just wanted to know how much percentage it should be better off?

**Tarun Sawhney:** No sugar price, sugarcane recovery and it is very difficult to give you a broad number but we are seeing the health of the sugarcane crop is better as last year. We have also worked on quite a lot and spend quite a lot of money on varietal development and agricultural change at the farm level and we expect to be beneficiaries of that. I would be hesitant to give you a target that we are going to achieve for group wise recovery or for the financial year recovery for this year and I want to just leave it saying that our best efforts are there to make sure that it is higher than last year.

**Gaurav Jhawar:** And sir, the overall PBIT if you look at and compare with the last year also, if we remove the Rs. 99 crore of subsidies, then our PBIT is significant lower in last quarter?

- Suresh Taneja:** You know you also must not recognise the fact that in this quarter we have incurred export losses and incurred freight expenses on exports which needs to be nullified through subsidy and also during H1 traditionally, we have large period of offseason and approximately about ₹ 85 to 90 crore of those expenses have also been observed. Ultimately, this would form a part of the cost of production which should be produced in the forthcoming season and that was not read in the accounts presented in the corresponding half year of the previous year.
- Gaurav Jhavar:** In this current quarter, what is the PBIT sir?
- Tarun Sawhney:** Our PBT for the current quarter is about ₹ 155.91 crore and if you add finance cost to that so basically PBIT is about ₹ 170 crore.
- Gaurav Jhavar:** And one last question, any plans to like, for the Triveni Turbine, we are currently holding 21% stake, so any plan to create shareholder value for those who are currently holding Triveni Engineering given with the mirror shareholding to Triveni Engineering shareholders of Triveni Turbines?
- Tarun Sawhney:** This matter has not been discussed at the board level.
- Moderator:** Thank you. We take the next question from the line of Levin Shah from Value Quest. Please go ahead.
- Levin Shah:** Sir, on this MSP like you mentioned, is there any consideration or are there any talks regarding any changes in the MSP of sugar?
- Tarun Sawhney:** Not as yet but I would imagine that as this sugar season actually, we had two years of no increase in FRP and I would imagine that the SAP is also going to be held at the same levels, although it is the purview of the state government, but this is our expectation for the third year in a row. It would be very difficult to imagine that the government does not look at any tinkering in the following year and if that tinkering does happen or is on the anvil, I am fairly certain that the revision in the MSP of sugar will also take place.
- Levin Shah:** So it will hinge upon.
- Tarun Sawhney:** In addition, I would also say that there are going to be large parts of the country, sugar producing states, they will see a huge reduction in their production of sugar and therefore the average cost of production is going to increase quite substantially in South India, quite substantially in Maharashtra, in Karnataka, in perhaps some other states. Now when that happens, their profitability levels are going to see a lot of pain, there may be a lot of pain and I think especially this government has been very cognizant of the plight of farmers and of the industry and they will certainly support the industry going forward as they have done in the past.
- Levin Shah:** Sir, what is our cost of production currently?
- Tarun Sawhney:** Our season has just started. It is impossible to gauge
- Levin Shah:** No, I mean for the last season, what is our cost of production if you were to look at it?
- Tarun Sawhney:** I can just tell you what our sugar is valued at. Valued at ₹ 29.6 per kilo and our cost of production for last year sugar was around ₹ 31 per kilo.

- Levin Shah:** Sir, and my last question is on this water business, so what we have seen we have got a very good order book in terms of the size of the orders and historically our size of the business has been materially lower than what the orders that we have got, so do we have the capability in terms of executing these orders, bulk of these orders may be next year and the year after that and even in terms of profitability if you were to look at this water business, how do you see profitability in the business?
- Tarun Sawhney:** I think we certainly have the capability of executing and executing these orders extremely well over the next couple of years. That is the intention as well of the company and as far as profitable growth is concerned that is the overall objective and will they help the order booking, the profitable growth does come because you don't have any under absorption or expenses. That is the very important factor in this kind of a business.
- Levin Shah:** So if you are going to have some good orders in terms of size, the margins in those orders would be pretty good to cover your expenses as well as make money on the EBITDA right?
- Tarun Sawhney:** You are correct in that assumption.
- Moderator:** Thank you. We take the next question from the line of Raj Vardhan from Abakkus. Please go ahead.
- Raj Vardhan:** Sir, coming back to my last question, it is such booking to a few CV dealers and CV companies and they say that with the kind of road structures we have in India, ethanol blending for any vehicle will not give the vehicle enough traction to go uphill carrying such heavy loads unless it is BS-VI, is there any truth in this sir or we haven't looked into that?
- Tarun Sawhney:** You have all Brazil that works on E26 or E100 frankly speaking and you have these levels, you have very high levels that not blending in Western Europe, in the United States as well and frankly speaking, I think blending is only in petrol; firstly it is not in diesel. So as far as CVs are concerned, the majority of those run on diesel. For petrol in terms of acceleration or manoeuvring on slopes etc., it is certainly not a concern.
- Raj Vardhan:** And in terms of BS-IV, BS-V, it is like anything about 7 to 10% can go into any form BS-IV, V or VI doesn't matter?
- Tarun Sawhney:** Well with BS-VI standard, ethanol will not face a concern; in fact 20% levels are what have been mandated by the government by 2030 with BS-VI.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference back to the management for closing comments.
- Tarun Sawhney:** Ladies and gentlemen, thank you very much for joining us for the H1 fiscal 20 results of Triveni Engineering and Industries Limited. The next quarter holds quite a lot of promise for the various businesses of the company and it is the start of the sugar season. We are going to see another very interesting season come on the way and look forward to talking to you in approximately 3 months' time. Thank you very much and have a good weekend.

**Moderator:**

Thank you. On behalf of Triveni Engineering and Industries Limited, we conclude today's conference. Thank you all for joining. You may disconnect your lines now.