



## Triveni Engineering & Industries Limited Q4 FY20 Earning Conference Call Transcript June 18, 2020

---

**Moderator:** Ladies and gentlemen, good day and welcome to Triveni Engineering & Industries Limited Q4 and FY 20 Earnings 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 phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you, Mr. Barar.

**Rishab Barar:** Thank you. Good day, everyone and a warm welcome to all of you participating in the Triveni Engineering & Industries Limited's Q4 and FY 20 earnings call. We have with us today, Mr. Tarun Sawhney – Vice Chairman and Managing Director; Mr. Suresh Taneja – Group CFO; 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 maybe 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 this call is open to all invitees, it may not be broadcasted or reproduced in any form or manner.

We will start this call with opening remarks from the management, followed by an interactive question and answer session. I would now request Mr. Tarun Sawhney to open the call. Over to you, sir.

**Tarun Sawhney:** Thank you, Rishab. Good afternoon, everybody and welcome to the Q4 fiscal 20 earnings conference call for Triveni Engineering & Industries Limited. The company has delivered excellent results for the year under review. We have achieved our highest revenue from operations at just about ₹ 4400 crore with a growth of 41% in revenues. Our profit before tax has grown by 66% versus the previous fiscal year and stands at ₹ 445.6 crore with a profit after tax of ₹ 325.1 crore which shows a 55% increase from the previous year.

I am going to take you through some brief highlights of sugar, engineering and as well as the financial highlights of the company before turning to the operations of each of the individual businesses. With respect to the Sugar business, we had record crush and record sugar production, 8.75 million tonnes of sugar has been crushed for this sugar season 19-20 and Triveni has produced over a million tonnes of sugar for the first time in its history. Our sugar mill at Khatauli has achieved the highest sugarcane crush and the highest sugar production in the country for any given factory



in the history of the Indian sugar industry, quite a remarkable achievement and we shut this factory just a few days ago.

The sugar, power and alcohol businesses have operated uninterrupted during the lockdown. During this period, we have also managed to export a substantial amount of sugar under the MAEQ allocation. The total allocation that Triveni has received is of 27.32 lakh quintals. As of today, only 2 lakh quintals are pending dispatch, the remainder has been dispatched and a substantial portion of it has also been exported. Despite the higher production, we have reduced our sugar inventories extremely well through the aforementioned aggressive export policy as well as the production of ethanol through B-Heavy molasses which in turn has led to a higher domestic quota and our sugar inventory is 15% lower year-on-year as on 31st of March of this year and stood at 57.1 lakh quintals on the 31st of March 2020 versus 61.6 lakh quintals at the end of the previous fiscal year.

The sugar business has also performed well because of the stability of sugar prices and of course the higher volume in respect to the sale through merchant exporters, the export subsidy of ₹ 57.66 crore is yet to be recognised at the end of this fiscal year as the sugar is yet to be exported. Also notable is the revision of the power tariff as of 1st of April 2019 and therefore the profitability of our Power business has been impacted negatively by this reduction in the power tariff.

With respect to the Alcohol business i.e. ethanol and distillery business, 33.7% of our ethanol production is from B-Heavy molasses for the financial year 20, so we have really taken this programme that has been offered by the central government to us we have managed to ensure that the factories produce sufficient quantities of B-Heavy molasses to meet our distillery capacities at the two units.

Turning to the Engineering businesses, both the Engineering businesses were impacted due to the pandemic in Q4 and there is uncertainty that still remains in the businesses despite the operations having come back to normal. The Gears business in the fiscal year maintained its growth trend and registered higher profitability and higher turnover. The turnover was higher by 16% and the profit margin was 27% for the year, very substantial improvement on both metrics and it really showed the type of development and the type of new businesses that the Gears business was approaching especially internationally. The Water business has continued to perform extremely well and has resulted in higher turnover and in profitability. The outstanding order book for the Engineering businesses as a whole was approximately ₹ 1150 crore.

Turning to the financial highlights, the total debt of the company as on the 31st of March 2020 is ₹ 1558 crore versus ₹ 1726 crore at the end of the previous fiscal year and this comprises of ₹ 614 crore of term loans and soft loans of ₹ 610 crore, of course all of this carrying into subvention and subsidized interest rates. Our average cost of funds was 6.34% for both combination of term loans and working capital and we are working continuously to ensure that we get the best possible rates and continuous improvement in our cost of funds.

I want to spend a minute or two talking about the impact of the COVID-19 crisis. The Engineering businesses, as I had mentioned, were closed for these periods during the lockdown and they had resumed operations in the phase manner, but there are some constraints to the supply chain that exists even today; however, one is hopeful and as of today, I can say that we have seen a lot of our supply chain partners opening up and offer us a greater degree of comfort that within the course of this

month and certainly by next month, we will have things under more normal conditions.

During the lockdown period, sugar consumption was certainly affected and there was massive reduction in institutional demand which also led to domestic consumption falling and I would estimate that approximately 1 million tonnes of sugar consumption has been affected because of the COVID crisis. It could be fractionally higher and we would see that as quotas for the month of July, August and September come back to a system of normalcy and we hope we do not have any more quota extensions and so therefore the government would be able to estimate or rather give out quotas based on their estimates of what the consumptions will be, but it is our opinion that about a million tonnes of sugar requirement has been taken out of the system, which will not return to the system. I am afraid because as far as institutional customers are concerned wherein the peak summer months and so therefore the ice cream, soft drinks, etc., are needing to be made, that was the crucial period where because the factories were shut and because the demand from customers was not there and that demand will certainly not come back. However, it doesn't mean that in the following year, our sugar season 2021, we will not see a return to normal demand numbers.

Fuel consumption also plummeted during the lockdown period which had an impact on ethanol; however, there were arrangements that companies made and especially Triveni made excellent arrangement with the oil marketing companies to ensure that the ethanol was delivered to other depots and then our productions and productions at our distilleries did not suffer at any point.

Some more data with respect to the performance review, PBT margins have also remained extremely healthy. Our PBT for the quarter was ₹ 164 crore versus ₹ 89 crore for the corresponding quarter in the previous year totalling to 445 crore of PBT for this year versus ₹ 267 for the previous year. EPS showed a substantial increase as well. For the fiscal year, it stood at ₹ 13.32 per share which is a significant raise from the previous year when it was ₹ 8.39.

Turning to the operating portion of this call, I would like to discuss our Sugar business as well as our Engineering businesses, so as far as next year is concerned, we are anticipating a production in excess of 32 million tonnes of sugar and therefore the industry will certainly need the assistance of the government to continue exports and my personal view and the view of the company is that there needs to be another substantial export scheme call it, MAEQ, MIEQ, we would find the name for it but there will be a substantial export scheme to evacuate the sugar and that sugar can be absorbed by the global markets for next year but with respect to our performance for this year, our recovery for sugar season 19-20 stood at 11.55%. Now this when we adjust for B-Heavy molasses and for raw sugar, the corresponding value is 11.97% and that is 0.18% higher than the average recovery of the previous year which is 11.79, so from a recovery perspective, we performed substantially better and it is a very marked improvement year-on-year. We did of course as I mentioned, produce substantially more sugar and that stood at 1.01 million metric tonnes of sugar versus 0.94 million metric tonnes for the previous year.

Our realization for Q4 stood at ₹ 32,707 per metric tonnes which is substantially higher than the previous corresponding quarter of ₹ 31,692 and for the year as a whole, domestic realization was higher at ₹ 33,184 over the previous year of ₹ 31,456 and overall these factors of course contribute to the higher profitability of the company. So the growth in domestic prices year-on-year has been approximately 5.5%. Looking forward, I can see there are clear indications if one is to look at the media as well as the work that the industry organizations have done in terms of



pushing the agenda with the government that an increase in the MSP of sugar is essential and my belief is that will happen sooner rather than later. The quantum of cost is still uncertain but all of that is essential for the overall cost of the Indian sugar industry.

Before I come to global sugar prices, the current sugar prices as of today are approximately ₹ 33.5 per kilo for white crystal sugar that is plantation white sugar and about 75 paise higher at ₹ 34.25 per kilo for refined sugar, so we have seen an increase over the last 3 weeks in sugar prices. A lot of this is because the market clearly expects an increase in the MSP of sugar. International sugar prices have also rebounded to 12.19 cents per pound for raw sugar as of yesterday and \$392 per tonne for white that is the August contract.

I think that is a very promising build up and the increase has been almost 30-35% in prices from the loss that were touched in early April and that was the cause of multiple things, of course the COVID crisis, the collapse of financial markets internationally and of course oil played a very important factor in driving down sugar prices to decade loss, but we have seen an immediate and resurgent pullback from those levels and that is positive, not just for the remainder of this year's MAEQ export programme but also for next year's export programme as and when that comes about.

Looking at the industry scenario, the government has announced reallocation of the MAEQ on two occasions and we estimate that the government will announce another revision of the MAEQ at the end of this month before or at the same time of the quota for next month. This will ensure that we at least maximise the amount of sugar that can be evacuated from our present stocks. As per the latest estimates, Indian sugar companies have contracted 4.2 million metric tonnes of sugar exports by May. We at Triveni estimated that this number can go up about 5 million tonnes provided there is further reallocation that happens and a little push by the industry and this of course would certainly be quite positive while there won't be a reduction in the closing stocks for the country.

Unfortunately, because of the lost demand over the initial 6 to 8 weeks of the lockdown period, a million metric tonnes that has been lost which will be added through the domestic stock pile and we estimate that approximately 12 million metric tonnes will be the carry forward stock as we go into the next sugar year. That is fairly substantial and given the fact that we have another very aggressive sugar year in front of us which means that a lot of work that needs to be done to evacuate the stocks and of course the assistance of the government is essential in ensuring stability of sugar pricing whatever the MSP level may be in the future. The UP government notably has increased in the course of the year the reservation of molasses from 16 to 18% and has extended this reservation for all molasses and this was something, condition that was not present over the previous year.

Turning to the EOI for the OMC, the third round of the expression of interest has been invited and approximately 99 crore liters of ethanol for supplies have been contracted for July to November period. Now, very honestly speaking, I think we have seen as the lockdown has opened up, returned to somewhat normalcy, we are seeing dispatches to the oil marketing companies come back as per what has been planned and so therefore the small pickup that had occurred in the beginning of the lockdown and through the first two weeks of the lockdown is something that has been abated and we will have a condition of normalcy.

Looking at the international scenario from the sugar perspective, it is important to note that the Brazilian real had traded at an all-time loss and this combined with oil prices led to very unique scenario where Brazilian sugar, despite the fall in sugar prices was fairly competitive to the world over. Of course, the real has strengthened, since then the oil prices have come back, but it led to a very interesting scenario as far as the Brazilian sugar was concerned and according to recent industry experts, Brazilian sugar production is expected to surge to 41 million tonnes for 2021 from 31 million tonnes and this is of course due to crude prices and the Brazilian real.

In Thailand, as a counter balance, sugar production declined to 8.4 million tonnes from 14.7 million tonnes and this was primarily due to the massive drought that occurred. As I have said in previous calls, weather patterns and changes in weather patterns are going to create increasing havoc, not just in India but also internationally with respect to the production of sugarcane around the world. The forecast for Thailand into the next year is also not that promising and therefore it gives great advantage to Indian sugar exports into the world and the ability for the world market to be able to absorb these exports not of just this year but also going forward into next year and that is a significant positive scheme that comes up for next year exports.

Looking at our power business, as I mentioned, the performance under review was impacted by the government revision of the tariff by the Uttar Pradesh Electricity Regulatory Commission and this was as far as the rate that was announced as of the 1st of April 2019. Having said that, our operations function at the highest possible levels. What is notable and I would like to mention there was a noticeable reduction in the bagasse percent cane in our co 238 sugarcane variety and of course this means that the quantum of bagasse that is left for Co-generation reduces and this is a unique and peculiar condition that happened this year. In addition, there was a substantial amount of unseasonal rainfall that happened especially in West and Central Uttar Pradesh during the sugar season and this type of rainfall does lead to variances in terms of the efficiencies of the Co-gen business.

In addition, as far as Triveni is concerned, we have really maximized our sugar cane crushes across our 7 sugar units and the maximising it of course there is an additional in demand with respect to more steam for the sugar manufacturing processes. There are three notable things as far as the Co-gen business is concerned, but nevertheless, the operating conditions of the factory was still at a very optimal level, those have not been reduced and they function at the best in class, not just in the Indian industry but also globally.

Turning to the ethanol business, the Sabitgarh distillery was commissioned last year and the performance that lies in front of you includes the performance of the Sabitgarh distillery. Both distilleries are functioning at very high levels of efficiency, the Sabitgarh distillery was stabilized in Q2 of fiscal 20 and during the year under review, as I had mentioned 33.7% of production was on B-Heavy molasses while the sales of ethanol was 28% for B-Heavy molasses. The company has participated in tenders issued by OMCs and will be fully utilizing the facilities of the distilleries in order to meet power supplies to the OMCs. We have received contracts of 10.07 crore liters of ethanol during the current marketing year. The distillery unit at Muzaffarnagar has started manufacturing hand sanitizer as well during the COVID crisis and we expect very interesting things from this part of the business.

Turning to the Engineering business, I would like to mention that the high-speed Gears and Gear boxes business has actually had an excellent year under review. The revenues for Q4 was ₹ 34 crore which was lower than the Q4 revenues of the previous year, so there was an impact of the COVID crisis. Typically the last two



weeks of March is very heavy dispatches and because of the lockdown those dispatches, we were unable to make them, nevertheless the revenues of the business rose quite significantly from ₹ 133 crore to ₹ 155 crore and the PBT rose even better from ₹ 38 crore to ₹ 48.5 crore.

The order book for the business for the year under review stood at ₹ 156.8 crore and the order booking at the end of March stood at ₹ 152 crore including long generation orders of just under ₹ 66 crore. We are seeing and I would like to mention a large interest from our international customers. On the domestic side, I think things are coming back as expected to and demand is coming back at a muted pace but internationally we are seeing very aggressive orders, aggressive timelines and new orders coming into place, so we are hopeful that as we progress into Q2, Q3, and Q4 of this fiscal year, we will have more positive news to be able to share.

The Water business also had an excellent year under review with revenues of ₹ 305.9 crore, a substantial increase from ₹ 250 crore in the previous year and the PBIT of the business stood at ₹ 24 crore which was a very big increase from the ₹ 7 crore PBIT for the previous year. The total order booking in this year has been low at just under ₹ 40 crore and this is primarily due to a reduction in the number of projects that were allocated and the tenders that actually happened, however, having said that the reviews that we have taken today were looking as a substantial number of new projects that will come to a state of conclusion during this fiscal year. The business has spent considerable amount of time looking at this cost reduction programmes and this is because of limited order booking last year and we have been very successful in that and therefore the increase in the profitability of the business is a direct consequence of the good work that has been done at the business unit level.

I would like to spend just one minute on the outlook of the business, both businesses. As far as sugar is concerned, we are anticipating a productive season of over ₹ 32 million tonnes as Maharashtra and Karnataka makes a resurgence in terms of sugarcane cultivation for the next year and therefore we are going to see sugar stocks in the country certainly emerging and we hope that we have a very successful programme for B-Heavy and juice or rather the divergence of sugarcane towards the ethanol EBP programme and I think this is something that the government is looking at very seriously and then of course the most important will be the export programme for the next sugar year. The good thing of course as I mentioned is at the global market are willing and have indication the capacity to be able to absorb at least this amount of sugar, the 5-6 million tonnes and of course Indian industry will have to step up in order to make it happen but this year versus last year I would like to share the MIEQ programme for the previous year which was successful is not really a successful as the MAEQ programme for this year has been and therefore the learning that is not just the industry but the government has gained through this process if something that I hope we will benefit from the next programme for exports.

As far as the Engineering businesses are concerned, there have been some deferment of orders from one quarter to another quarter but it is very positive to say that there has been no cancellation which is actually really excellent and therefore one can say with some level of hope that this year, we continue to be a good year for the business from revenues as well as from profitability and the other segments that our units in Mysore is looking at including defense hold a lot of hope as far as growth or rather growth areas for the company.

As far as the Water business is concerned, as I mentioned, we participated in a large number of tenders which are at various stages of finalization and it has come to our notice that these are expected to close in the next couple of quarters or large portion

of them are expected to close in the last couple of quarters and we are hopefully well positioned to win some of these orders.

Thank you very much and with this, I would 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 Manyal from ICICI Direct. Please go ahead.

**Sanjay Manyal:** What basically I am just trying to understand is that what would be the annual domestic monthly quota you expect for FY21 considering the fact that the Maharashtra and Karnataka inventory levels would be lower?

**Tarun Sawhney:** The monthly quota, it is impossible to predict what the quotas are going to be for the next 3 months which will go up till the end of the sugar year but I anticipate that with large quantum of stock available in Uttar Pradesh, there will be a lot more emphasis given on evacuation of those stocks in Uttar Pradesh. So as far as Triveni is concerned, in particular I was talking about, my first comment was for the state, but for Triveni, because we have exported almost 300,000 tonnes of sugar under the MAEQ programme and we have converted large quantum of ethanol through B-Heavy molasses, we anticipate that our quotas are certainly going to be fairly healthy going forward because these are two factors that are considered by the Sugar Directorate in the determination of quotas. Now with respect to overall demand, I anticipate that the last two months, we had quota extensions that happened and therefore lower monthly quotas that were announced by the sugar directorate. For the quota for July onwards, I anticipate that there will be no extension of quota and therefore we will go back to a state of normalcy and I expect that we will have normal quotas going forward. There will as I mentioned be a reduction in the consumption of the country, so about a million metric tonnes of sugar approximately will be reduced from the total consumption number for the country.

**Sanjay Manyal:** Similarly for the exports, sir we have done 2.74 lakh tones in FY 20 and you have participated in the reallocation process, so if the export subsidy continues, can we expect this similar number for next year as well?

**Tarun Sawhney:** Actually, the answer to that is no, I mean one is hopeful that we will have an aggressive export programme, but right now we do not know the contours of that program. This current MAEQ program expires on the 30th of September of this calendar year. So for next sugar year that program is not announced as yet. There will be multiple factors that one will have to consider in terms of predicting the success of that program. Firstly, of course, I believe that program has to happen because we will have massive stocks in the country and the world market can absorb that quantum of sugar. Now, it depends on what is the type of assistance of the farmer subsidy that the government provides and that will of course be linked to any increase in MSP that actually happens and the delta that exists between the MSP prevalent in the country versus international sugar prices. The good thing on that front is that international sugar prices have also played ball and over the last few weeks, they have increased by 30-35% from the loss of April. So the data suggests that we can have a very aggressive program and my hope is that we have a minimum target of 6 million metric tonnes of export for the country. If that is to happen, then we anticipate that Triveni would certainly participate in a very aggressive manner. How much reality should happen next year is a big question mark and it depends on the performance of other people in the industry.

**Sanjay Manyal:** And the domestic prices for the entire quarter have been somewhere around ₹ 31 - ₹ 31.5 but your realization has been ₹ 32.7 at least more because of the higher proportion of refined sugar, but if prices for the rest of the year remains above ₹ 32 as we can see the current prices in the last one or two weeks have gone up in that similar fashion, what would be the realization for Triveni in that scenario?

**Tarun Sawhney:** You mean if the realization for the country as an average is ₹ 33? So we have the advantage of having the bulk of our sugar mills in Western Uttar Pradesh and the Western part of Central Uttar Pradesh and we access the markets gives us a slight premium. In addition to that over 40% of our sugar is refined sugar. We also have small portions of pharmaceutical grade sugar, so all of that gives a certain increase in realization. The present increase is 75 paise per kilo of refined sugar but over a longer period of time, it easily balances out at approximately ₹ 1 per kilo. So that coupled with the fact that we have a better positioning, better access to markets, we should typically be in doubt that the same differential should be held going forward as well in terms of Triveni's performance versus the average for the nation.

**Sanjay Manyal:** Question on the distillery front that you have an 8.5 crore liter this year on the distillery whereas your capacity is 10.5 crore liters, what is the expectation in FY 21, whether we reach our maximum capacity of 10.5 or somewhere around that? Your realization this quarter has been ₹ 53 where I understand the B-Heavy realization itself is somewhere around ₹ 53, so have you just done the B-Heavy this quarter, so how this realization is so high specifically in this quarter?

**Tarun Sawhney:** That is right, should we answer your second question is, you are absolutely correct. The answer to your first question is, we were impacted from a dispatch perspective and we recognised revenues on dispatch because of the COVID crisis, so the dispatch numbers which we were looking at are certainly due to that. Looking forward to the next year, yes, our intention is to run at 100% capacity. The distilleries have run at the peak capacities on near peak capacities. We are also looking at higher number of operational days because our pollution clearances will now, as we have applied, be expanded as well to give us operations for up to 350 days and 350 is an enormous amount you won't able to operate totally for 350, but certainly the jump from 330 upwards is something that can be anticipated, so for the next year the intention and the planning is certainly to operate at peak capacity levels. Dispatch and the acceptance by the OMCs is not a factor but what we can do from our side in terms of working with the OMCs to find new depots, increase existing depots are full and I am not accepting new quantum of ethanol. That is what that we are continuing to do, the industry association is continuing to do, so from Triveni's perspective, we are very hopeful that we will come up to our peak capacity levels.

**Sanjay Manyal:** Sir, you mentioned about the B-Heavy, what kind of sacrifice of sugar we have done towards B-Heavy this season and what is the expectation in next season?

**Tarun Sawhney:** For next season, it is impossible to say because we don't know since the ethanol pricing is done on an annual basis, we don't know what the government's intention is for the next supply and until we know that we cannot do our planning because that is a strategic planning based on where the company makes the most amount of profit and how it suits the operations of the company. So that is a bit of a black box, but given the fact that we are having a huge excess, my prediction is that we are going to have a lot of emphasis given by the central government towards this diversion of B-Heavy and juice and if that is the case Triveni would certainly participate to these kinds of levels if not more but that all depends on what gets announced by the central government. As far as this year is concerned, as I mentioned 33% of all the ethanol that was produced was from B-Heavy molasses.



**Sanjay Manyal:** And what would be the sugar sacrifice due to that?

**Tarun Sawhney:** That is 37,000 metric tonnes.

**Sanjay Manyal:** And sir, you mentioned that 6.3% is the average cost of funds, you mentioned about the long-term debt or is it the overall debt for us?

**Tarun Sawhney:** 6.34% is total debt, total cost of funds, long term and working capital.

**Moderator:** Thank you. We take the next question from the line of Varun Dhawal from Systematix Shares. Please go ahead.

**Varun Dhawal:** I have a couple of questions, first sir in this Q1 FY21 quarter, how many bags that we have been sold from April to June?

**Tarun Sawhney:** I am sorry, this conference call is for Q4, we sold according to our quota but we don't discuss this quarter's numbers at this point of time.

**Varun Dhawal:** And so probably sir, just wanted to know the average realization price on these, actually it is similar to ₹ 32 or ₹ 32.5 something?

**Tarun Sawhney:** I am afraid we can't discuss this quarter's numbers.

**Varun Dhawal:** And one more question sir, since our distillery is running at very high capacity, so do we have any plan for fresh expansion on this capacity like what is your thought on that?

**Tarun Sawhney:** We have no further capital expansion plans at the distillery levels. We may get a few more days because our facilities are zero liquid discharge and sought permission for higher operating days and has been increased at our Sabitgarh distillery and Muzaffarnagar is expected to be notified also over the next few days and therefore will ask to operate for more than 330 days. The permission will be for 350 days giving us further enhancement in terms of ethanol production capacity at the existing units but the 320 KLPD combined capacity that we have at this point in time, we have no expansion plans on that as yet.

**Varun Dhawal:** Just one more last questions sir, this export subsidy of ₹ 57 crore, when this would be booked sir?

**Tarun Sawhney:** Again, it was carried forward. It will be booked as per when the sugar is exported.

**Moderator:** Thank you. We take the next question from the line of Lalit Garg from Global Investment. Please go ahead.

**Lalit Garg:** Sir, my question is, this reallocation of MAEQ quota on 30th of April, what was the share of Triveni?

**Suresh Taneja:** Let me just tell you, our initial quota was approximately 17.95 lakh quintals and thereafter we got approximately about 6.5 lakh quintals more as the second branch, so that would be the position as of 30th of April.

**Lalit Garg:** That makes 23, so probably we got 3 more on April, 17 plus 5?

- Suresh Taneja:** Yes, totalling 27.32 lakh quintals.
- Lalit Garg:** Sir, my second followup question on the same is, how is our booking for the foreign exchange? Do we book it at the time of the order or is our position open?
- Suresh Taneja:** In our case, most of the export transactions that have taken place, they have taken place through a merchant exporter, so we did not have any direct exposure to foreign exchange.
- Moderator:** Thank you. We take the next question from the line of Resham Jain from DSP Investment. Please go ahead.
- Resham Jain:** Sir, my question is on the new distillery capacities, so obviously this year including you lot of other players have put up the capacity, but the kind of vision the government had on new distilleries which were supposed to come, I think that it is not happening at the same pace, now with the success which the existing players are seeing, do you expect that more distilleries are going to come up in the next 1 or 2 years?
- Tarun Sawhney:** Let me just simply say that no, I don't see more capacities for ethanol coming up unless there is a change in policy. Now the industry as well as Triveni has been advocating for a long-term policy on the ethanol blending program and that is yet to materialise. What I mean by that is that the pricing structure needs to be a multiyear structure because no distillery is set up with just one year's visibility, given that molasses prices are now at the regular, at the normal averages, you see, last year and the year before molasses prices were near 0, they were almost free and therefore it made sense to set up a distillery capacity because you would make that payback very quickly as you have seen even without numbers. Now, going forward because molasses prices have come back to their normal levels, the EBP programme needs to be one of longer term duration. Pricing needs to be determinant over a longer duration of times. The loans are available from the central government. That is good, that is very important as well but the pricing visibility needs to be multiyear and the last but most important factor is that if one is expecting that B-Heavy molasses and sugarcane juice be diverted for the manufacture of ethanol which is what it will take if we had to meet the PM's vision of E20 by 2030 and if we were to move with that direction, then we have to look at juice and B-Heavy molasses as the solution to those numbers. At a price point of 59 for juice and 54 for B-Heavy molasses per liter of ethanol that is not efficient. The payback doesn't quite work out. It may need an upward revision in those prices to make it exciting for entrepreneurs to invest in new ethanol capacity.
- Resham Jain:** And sir, my second question is, given the minimum quantum of molasses which needs to be sold, lot of other industry players are thinking about putting up own bottling plants, any thoughts from our side?
- Tarun Sawhney:** Yes, absolutely, we have applied for permission, set to establish a bottling plant at our distillery in Muzaffarnagar and we are very close to getting the formal approval by the Uttar Pradesh government and once that happens, then our PD2 license gets changed to reflect the bottling capacity. That has not happened as yet. As and when that happens, we will then get into that business of manufacture of country liquor which will hopefully be at some point in Q2 of this year.
- Resham Jain:** And sir, one last question on the financial side, out of the total debt of ₹ 1538 crore, how much debt pertains to let us say or rather actually the buffer stock which we are keeping because on which we might be getting a cost of carry, right?

**Tarun Sawhney:** I guess of course, we are getting that buffer stock subsidy from the government but our debt for that would be, Suresh what is the total quantum?

**Suresh Taneja:** About ₹ 325 crore would be the debt on buffer stock.

**Resham Jain:** Sir, ₹ 325 crore is the amount of buffer stock, right?

**Suresh Taneja:** Yes.

**Moderator:** Thank you. We will take the next question from the line of Dr. N. K. Arora from Arora Diagnostics. Please go ahead.

**Dr. N. K. Arora:** Sir, recently Defence Minister has announced lot of changes in the defence policy like negative list of items, ₹ 200 crore only as domestic tender, no international tender and separate budget for domestic sourcing, so how would it affect our company?

**Tarun Sawhney:** I think these announcements are very positive for Indian business and it would affect Triveni positively as and when there are more tenders that fit our product profile that come up for conclusion, I hope to see Triveni being considered even more in better light by the MOD.

**Dr. N. K. Arora:** Secondly, sir in the defence expo in the UP, there were some negotiations going on for a piece of land in Aligarh, so any progress on that front?

**Tarun Sawhney:** No, nothing., there is no progress on our side, we have not applied for anything as of now formally.

**Moderator:** Thank you. We take the next question from the line of Nikhil Saboo from SKP Securities. Please go ahead.

**Nikhil Saboo:** It is more of a book keeping question sir, can you share the accounting treatment for export subsidy for current year?

**Suresh Taneja:** I think it is very simple, it is there in the investor brief. To the extent, we have already exported the sugar. We have recognised the export subsidy and to the extent export has not taken place at the year end. On that quantity, we have not booked the export subsidy.

**Nikhil Saboo:** And sir, is the accounting policy consistent with the last year?

**Suresh Taneja:** It is absolutely inconsistent with last year and it is completely consistent with the accounting standards..

**Nikhil Saboo:** And sir, can you share some feedback or your views on the dividend in the buyback policy going forward?

**Tarun Sawhney:** These are decisions that are taken by the board. We have a dividend policy that is on our website. You are free to access and read that but these are changing times and there have been a lot of changes that have happened from the Ministry of Finance with respect to taxation and that leads to many questions which the Board needs to take. At this point in time, no dividend or buyback was discussed by the board at its last meeting, so I have nothing to share with you presenting but as far as

our long-term dividend policy is concerned that is available for you to read on our website.

**Moderator:** Thank you. We take the next question from the line of Sanjit Agarwal from Little More Investment. Please go ahead.

**Sanjit Agarwal:** My question is on the sanitizer division, what is the current production capacity and at what rate are we selling in the market?

**Sameer Sinha:** We have applied for a license to enhance our sanitizer production capacity which is under consideration of the UP government. At the moment, we are producing at the rate of about 10,000 liters per day and we are getting very encouraging results from the market in terms of off-take and you cannot really comment on the pricing per say because we have multiple SKUs ranging from 5 liters down to 100 mL and per liter the cost and the selling price would be different for each SKU.

**Moderator:** Thank you. We take the next question from the line of Adit Gupta, Individual Investor. Please go ahead.

**Udit Gupta:** Sir, what is the processing cost of ethanol per liter excluding the cost of molasses for us?

**Tarun Sawhney:** Sameer, do you have that?

**Sameer Sinha:** No, but I thought but Mr. Taneja would just probably do that?

**Suresh Taneja:** Why don't you contact us offline, we will be happy to provide that number to you, otherwise it is about, it is in the range of Rs. 10 per liter.

**Tarun Sawhney:** No, we will give a precise number to you, but you can contact us offline.

**Udit Gupta:** Sir, the other thing is that you said that in Sabitgarh, we just got some permissions to operate for 350 days, sir, have we got the same permission for the other distillery as well?

**Tarun Sawhney:** No, as I mentioned we are close to getting it, we have applied for Muzaffarnagar and at the moment it is notified to us formally, we would certainly let you know.

**Udit Gupta:** Sir, currently, is it 330?

**Tarun Sawhney:** Correct.

**Udit Gupta:** And sir, how many days can we realistically operate in a year, like even if we get the permission?

**Tarun Sawhney:** That is a big question, we don't know, it will be first year, our hope is that it will be significantly higher than 330 and we were in the process of estimating what is the absolute maximum but 350 seems like a bit of a stretch as you do need to have some maintenance, you do need to have some shutdowns that need to happen, you also have to realize that you have while these are completely ZLD facilities, you still have rainfall, etc., that happens that does have an impact on your operations plus there are changes that you do when you are consuming B-Heavy molasses and when you are consuming C heavy molasses, you have changed someone to the other, all of those things take time, so we will certainly try and operate for more than 330 and

therefore produce more alcohol, be it ethanol, ENA or the like but the physical number as of now, I don't have a number to share with you.

**Udit Gupta:** Sir, one more thing, are the OMCs still taking at the faraway depots or has it regularized to the near depots?

**Tarun Sawhney:** To a larger extent, it is regularized.

**Udit Gupta:** And sir, are they sharing the cost for the far away depots in case we have to do it?

**Tarun Sawhney:** No.

**Udit Gupta:** Like the transportation cost?

**Sameer Sinha:** What they are doing in fact the cost and the payment is as per the OMC paid slabs that they already indicated in the tender.

**Moderator:** Thank you. Next question is from the line of Varun G from Nippon India. Please go ahead.

**Varun G:** Actually, most of my questions have been answered related to buyback plan or inventory or ethanol related, but just a couple of clarifications, what could be our inventory cost sir, average inventory cost?

**Tarun Sawhney:** As of the 31st of March, our inventory cost is ₹ 29.2 per kilo.

**Varun G:** And what you think would be our IRR ballpark at the current ethanol rate and molasses rate or the cost of capital that is available in terms of debt that the government is giving?

**Tarun Sawhney:** What would be the IRR of an ethanol project, sorry I didn't follow the question?

**Varun G:** Yes, that is right.

**Tarun Sawhney:** Again, your business model would get impacted by the substantial increase in molasses prices that have happened over the last 12 months because that is your input cost. Your input cost was mere free about 12 months ago. Today, it is at ₹ 4500 - ₹ 5000 per tonne of molasses.

**Varun G:** Any ballpark estimate of current molasses rate, what would be the payback period or IRR for an ethanol project would be?

**Tarun Sawhney:** No, I can't give an IRR because that depends on many other factors but effectively your breakeven would be somewhere to the tune of 4 and 4-1/2 years.

**Varun G:** Which is also an excellent price in some way, compared to, so what I am trying to understand is sir, what are the key determinants? Do you think the government is considering and this has been in talks for so long, a long-term ethanol policy, on one side they are giving an MSP and export subsidy, but not being a long-term ethanol policy, is it to do with old fluctuation or any other factor do you think?

**Tarun Sawhney:** I think the ethanol and sugar industry, I think it is the smallest in the larger equation and you have the petrochemical companies, the oil marketing companies and you



have the government etc. that really holds way over this. The benefits of the EBP are very clear and the impact of the program like that has on the environment is something that cannot be converted into simple financial terms and saving of foreign currency etc. Those are benefits that are immeasurable in my opinion. Now, the reason why we have not been able to come up with a multiyear policy is because of the stakeholders in the industry. As far as the sugar and ethanol industry is concerned, they want visibility on pricing. As far as the ethanol or the OMCs are concerned, they want visibility on supply but the supply is contingent on a material that is agricultural in nature and can vary because of the monsoon or because of variety of other factors. You see what I mean. You have two consecuting points of view that are working in the same direction. Everybody believes that you should have a long-term policy. The constituents of that long-term policy are yet to be determined, so we need the role of a great arbiter like the government to intervene and to look at that first from a deployment perspective to encourage entrepreneurs to deploy capital and then next planning in a regulation perspective. I think that this will happen sooner rather than later but you need to first find the solution of pricing versus supply. That is the inherent dilemma that exists today.

**Moderator:** Thank you. We take the next question from the line of Lalit Garg from Global Investment. Please go ahead.

**Lalit Garg:** Sir, my question is, last year there were rumours about this red-rot pest in East Uttar Pradesh, is there any such news going on for this year?

**Tarun Sawhney:** It is very early to tell, the planting has just happened and you said red-rot, correct?

**Lalit Garg:** Yes, sir.

**Tarun Sawhney:** We in Uttar Pradesh have known about it. There was a wonder variety that existed 26 years ago, it came from Punjab called CoJ 64 and it was eradicated because of mass red-rot which is a water borne disease that really eats out the flesh of the cane. Now, there have been incidences in Bihar and in Eastern Uttar Pradesh, they were limited to, let us say a few hundred acres on the maximum. As far as our factory was concerned, we had some incidences not very significant, we were able because of timely intervention to combat it and assist the farmers in their planning going forward. Now, does this show some weakness in the variety, well, every variety has a life span and the 238 wonder variety will also in its own respect have its own life span but there is so much work that has happened on new variety development. That replacement varieties are now available in plentiful. That is one. The second thing is that this year before the monsoon it is impossible to give you an estimate of what impact there has been of red-rot. Will there be? Yes, I am sure there will be some but it will be contained. For Triveni, we have taken significant preventative measures in the premonsoon period of all dissemination of pesticides and fungicides and other chemical material that will help eradicate red-rot and other diseases from our areas or the areas where we procure cane from. So we stand in I think in a very good position because we have taken preventative measures in a timely manner.

**Moderator:** Thank you. Next question is from the line of Sanjay Manyal from ICICI Direct. Please go ahead.

**Sanjay Manyal:** Sir, one last one I left earlier was about the booking keeping one on the tax rate, what is the expected tax rate on FY 21 and 22?

**Suresh Taneja:** We have opted for the old tax regime wherein the tax rate would be 30% plus surcharge etc., simply because of the fact we are enjoying 80 IA rebate and we have

very substantial MAT credit also available to us; however, our tax outgo would not be more than 17-18% which is pertaining to MAT.

**Sanjay Manyal:** So on the P&L base, it will be 30% plus but on a cash flow basis, it will be 17-18%?

**Suresh Taneja:** I am not saying 30%, 30% less 80 IA rebates.

**Moderator:** Thank you. We take the next question from the line of Vijay Gupta, Individual Investor. Please go ahead.

**Vijay Gupta:** My question is on the export of sugar, my question is, are we exporting white sugar also and the second question is, at what price have we valued the export sugar in the last financial year?

**Tarun Sawhney:** Yes, we have exported, the bulk of the sugar that we have exported is raw sugar but we have exported some plantation white sugar and in all probability that sugar has been sold as raw sugar to whoever the customers are but I can't be certain of that but we have sold some portion of plantation white sugar. The additional amount that we have received in terms of the new quotas, the two times that happened, the bulk of that quantity was white sugar that was exported. It included some wet sugar as well, so it was a great opportunity for us to be able to evacuate that sugar which could have otherwise have been sold at a discount in the domestic market. Our export realization for fiscal 20 was ₹ 19,716 per metric tonne.

**Vijay Gupta:** And would you like to throw some light on the export probably, export sugar scenario for the current year?

**Tarun Sawhney:** For the current year, as we mentioned earlier 4.2 million metric tonnes of sugar has already been contracted. We forecast that a maximum of 5 million metric tonnes of sugar will actually be exported by the country. That is the very maximum. Any increase in FRP will dampen this season's exports because the subsidy element is already fixed and therefore the differential between export price and domestic price will widen further, negatively impacting exports. As far as next year is concerned, it is a fresh policy and I am very hopeful that we can return to these sets of numbers at least and we will certainly need to do that because we have a massive bumper year ahead of us going forward.

**Moderator:** Thank you. Next question is from the line of Varun G from Nippon India. Please go ahead.

**Varun G:** Actually, I got cut off the early time, you said sir that at current rate our ethanol project can have a payback of around 4 years?

**Tarun Sawhney:** No, 4-1/2 years at these prices, but at the start of the season when molasses prices were over ₹ 5000 per metric tonne that payback was over 5 years and when you have variances of between 4 to 5, may be 5-1/2 years in terms of your payback because all of that is the function of your molasses price, you then have a greater degree of uncertainty. The other uncertainty comes from the reservation of molasses, so the quantum of molasses that is sold free sale versus what is reserved for country liquor, if the country liquor proportion like in Uttar Pradesh, the percentage goes up that is reserved, therefore less is available which means the free sale prices will continue to go up even further and therefore the viability of an ethanol plant distillery gets pushed out even further. So my point is that while you have even 5 years can be considered fairly reasonable for an industrial investment, I would argue that it is fairly reasonable but you don't have policies that are set for more than 1 year

and until you have the joining of hands where policy is set for multiyear like it is done for compressed biogas, even the compressed biogas policy is set for 3 years, it should actually be for 4 or 5 years and if it is, we would see that industry really coming into its own form for the EBP programme which leaps ahead in terms of its development. In India, we need to have a multiyear policy and that will then provide some kind of support to further investment in capacity.

**Varun G:** Any other downstream projects or opportunities that we look at or we consider?

**Tarun Sawhney:** Yes, certainly, so on a BOO basis from our distilleries we are looking at things, they are not operational as of yet, they will be very soon, we are looking at the capture of carbon dioxide and we are also looking at granular fertilizer which is from the boiler ash at the distillery, so these are small businesses. In terms of larger business, we are looking at the country liquor industry. As I had mentioned, we have applied for license, we expect that soon, we expect production from that to happen at the end of the second quarter, so that again is a downstream business that one would look at and opportunity which we are not looking at right now and as I mentioned because you only have a 3-year visibility, but it is still something that hold the great deal of promise provided we can get some better numbers in terms of realizations is compressed biogas and that is based on press mud which comes from the sugar part of the business. Now, that would be extremely useful because the environmental strictures that have been placed across North India have led to the demise of the Brick Kiln industry in large parts because of the pollution emitted from the brick kilns. Brick kilns were using press mud which is the mud that is captured from the sugar manufacturing process as their fuel. Now as that industry declines, this mud which is also somewhat of a fertilizer has only limited opportunity with respect to distribution to farmers and therefore its opportunity or the value addition opportunity for CBG provided again you have all the boxes tick of number of years and prices etc., is one that is fairly substantial. The challenge of course over there is these are small units and there is a whole distribution angle that will have to come in place, so it is early days but the start of a small industry over there is also quite promising.

**Varun G:** Would you be able to quantify any of these projects, the amount of investment that we are doing and what is the outcome over the next 2-3 years, some direction sir? Like the press mud project or the bio-ash fertilizer, I have seen it in some of the peers, so I know it is very yielding, if you could help us understand?

**Tarun Sawhney:** You can certainly contact us offline, we are happy to share all that information with you. I don't have that with me right now.

**Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

**Tarun Sawhney:** Ladies and gentlemen, thank you very much for joining us for the Q4 & FY 20 earning conference call for Triveni Engineering & Industries Limited. I think we are emerging from a period of deep crisis due to the COVID virus across the nation. Our agriculture businesses had continued and I have to say that the work and effort that has been put in by the teams is highly commendable. The support that we have received from the state government and the central government cannot be denied. It has been essential in our continued performance over this period of crisis and going forward as well from a policy perspective one is hopeful that we will have very positive policy making and decisions and one is cautiously optimistic on that front. As far as engineering is concerned, our water business is anticipating a renewed interest in closure of tenders and we hopefully will benefit from those and we guess this again is moving along at a good pace and we are hopeful that the domestic demand will certainly come back to a stage of normalcy and that the impact of Q1 of this year,



we will be able to catch up on that in the remaining quarters of the year ahead. Thank you very much and I look forward to speaking to you in a few months.

**Moderator:**

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