

Triveni Engineering & Industries Limited

Q1 FY2007 Conference Call

July 14, 2006

Moderator: Good evening ladies and gentlemen, I am Sunil, the moderator for this conference. Welcome to Triveni Engineering & Industries conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to hand over the floor to Mr. Abhinandan Singh. Thank you and over to Mr. Singh.

Abhinandan Singh: Good afternoon everyone, and welcome to the Q1 FY2007 conference call of Triveni Engineering & Industries Limited. Present with us today on this call are Mr. Dhruv Sawhney, Chairman and Managing Director of the company as well as other senior management team members of the company. We will begin with a brief opening remark from Mr. Sawhney on the company's operating performance for the quarter and outlook, after which the floor will be open for discussions. Now I would like to invite Mr. Dhruv Sawhney to please provide a brief perspective on the company's operating performance for the quarter.

Dhruv Sawhney: Good afternoon ladies and gentlemen. It is a pleasure to be here on this conference call. I will make some brief remarks and then respond to your questions.

Our results for the first quarter have been in line with our expectations and I hope with your all. We have a robust growth in sales and a very good growth in profit. Our product mix, as I was mentioning in our previous calls, has changed, we are now much more in engineering both in sales and in profit, and so I will touch upon both these sectors separately.

Our mix was 28% engineering last year, which has now gone to 36%. Profit was 13% in engineering last year and it has now gone to 47%, so we are really having two businesses.

On the sugar scenario, there are two questions which would be in the minds of almost all investors. The first is cane and the second is sugar pricing. I would like to touch upon both these in my opening remarks itself. We have a capacity of 40,500 TCD now, and by the financial year '07 we will have expanded this to 61,000 TCD; this is a substantial cane crushing capacity and the increase will be almost 50% in the current year.

As far as cane availability is concerned, we have two separate scenarios. In our five projects, four which are new, i.e. Sabitgarh, Chandanpur, Raninagal, and Narainpur, these greenfield projects do not have a problem of any other private persons coming up anywhere near their vicinity in the next 2 years, there are no plans for any one to put up any factory. These are places which some of them have one government factory and others have two government factories. Cane availability here is not a problem. In fact the future is good because the cane as a percentage of cultivable area is low and that the rains in each of those locations is good and well irrigated. Once our factories come up in production, the cane availability increases almost double in the next year because the proportion of cane to cultivable area is as low as 35-40%. We have seen this happen in Sabitgarh, so we are confident it will happen in the other three locations as well.

Our main units of Khatauli and Deoband, where there is much more competition for cane, we have taken modest crushing targets and these are taking into account that the UP Government policy of cane allocation is based on capacity. So we have taken projected capacities of all the factories including their current expansions and seen that by doing that we will still be crushing more in the year 06-07, though marginally, than last year, and we expect this to continue in the years to come. So we do not foresee any fall in cane crushing in our Deoband and Khatauli units while we see a rapid rise in cane crushing in our other five plants. This is why we expect our cane crush to go up from about 4 million tons to 6 million tons in the year 06-07 going up to 7.75 in the year thereafter and 9.25 in 08-09.

With respect to sugar pricing, global prices are very good. We expect these prices to continue for the next 12 months at least. Crude does not seem to be likely to come down below \$65-70 a barrel and the ethanol push if anything is going to gather momentum, almost all sugar traders and sugar analysts are talking about a very robust world market well above the \$450 per ton price range for the next 12-15 months.

Domestically, while we have a pressure on prices this month for political and other reasons, we expect prices to get much better in a few months, because last year we were at fairly good levels and when compared with a normal inflation index on that we will have a substantial increase in prices or about a one rupee increase in prices over what we are getting today. So we do not expect sugar prices to be bad in the year 06-07 and going on to the whole of '07 season next year.

Our engineering business is, as we had mentioned earlier, doing extremely well. Our orders on hand on the 1st of July are 70% more than the total production of last year of all our

engineering businesses. Now these orders have come in with increased margins. We had a margin of 19% in the first quarter, we expect it to remain for the balance of the year as well and going into 07-08. Our orders currently will last us till May-June '07. We have been in active dialogue with strategic partners for expanding our range beyond 18-20 mega watts and we have also secured a strategic order of 27 mega watts from a party in UP, so the plans of increasing our range and expanding are going as per schedule.

Our foray into high-speed gears and water treatment is also expanding the market into new technology areas. The cogeneration market in all sectors is extremely robust be it chemical industries, sugar industries, and even metal and paper are doing well, because of the power situations and the fact that cost of electricity is so high. So we expect demand in 07-08 to be good which will give us that order book in the current year. At the moment we are forecasting a healthy triple digit growth for our engineering businesses in 06-07 versus 05-06 and well into 07-08 a fairly good growth as well.

I would like to now take your questions.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask question, please press *1 now.

The first question comes from the line of Mr. Amit Khurana of IL&FS.

Amit Khurana: Thanks very much. Could you give me some sense of the kind of capex that you would have, I know there were very categorical mentions about it in the investor release. What I wanted to get is a sense that the next season we start in October of this year, have we fully funded that, what is the status on that? If you could give us a point level estimate that will really help us.

Dhruv Sawhney: Very good indeed. You know, while I was finishing my remarks my CFO gave me a little slip which said please CAPEX and plans, so I said, well I will do it in the question and answer, you have really preempted me, very good.

Our CAPEX is for the year at Rs. 730 crore, this has debt which has been tied up of Rs. 425 crore, and the internal accruals and other sources that we may look at is Rs, 305. So we have a fully funded program right now.

Amit Khurana: And if I could take this further, I mean what sort of debt component are we looking in terms of costing structures, I know you can borrow a certain component through at the lower rate. So how could that work out for you?

Dhruv Sawhney: I will have my CFO Mr. Taneja to answer that please.

Suresh Taneja: As far as the debt is concerned, we are looking at basically two portfolios. Roughly speaking, about 50% of the total debt we would like to raise through ECB and, you know, by getting a disbursement in Japanese Yen, on a fully hedged basis our cost would not be more than about 8.25% – 8.5%, but however, we would have little conservative policies on hedging, so cost could be even less than that. And for the balance half, we are still looking at domestic debts, which should be available within a range of about 8.75% – 9% as of now. Plus we will also ensure the interest rates are locked in for about a year or two so that we do not have an impact on account of increased interest rates. And there will be prepayment options also available every year enabling us to prepay at an appropriate time.

Amit Khurana: Okay. Second, the internal accruals that you referred, I am just wondering are these accruals essentially the operational accruals that we would have from the business or are we looking at certain other divestment related money coming into this number?

Suresh Taneja: Firstly, let me just clarify that last year we made a bumper profit and most of the projects were funded through the IPO. So we also have accruals of the last year available with us, and along with this year accruals we should be able to fund the projects; however, you know, there could be some other sources also we can look at just to conserve our resources.

Amit Khurana: Okay, and if you could just give the latest debt number that we would have?

Suresh Taneja: As of 30th June our long term debt to equity is about 0.29, and total debt to equity is about 0.7.

Amit Khurana: And the absolute number on that please.

Suresh Taneja: The total debt is Rs. 382 crore, which is including the working capital.

Amit Khurana: Okay, thank you very much. There were few more questions, I will get back in the second round.

Dhruv Sawhney: Thank you.

Moderator: Thank you very much sir. The next question comes from the line of Mr. Prasanna of UTI Mutual Fund.

Prasanna: Hello. Sir what were the cane prices that you paid for this quarter?

Dhruv Sawhney: In this quarter there were not much crushing as you know the factory was shut in early

Prasanna: So what was your average cane price for this season as such?

Dhruv Sawhney: The average cane prices, we can give you a cost which includes everything, that is including transport, variety premiums, purchase tax, commission and everything. So that cost was 133.8.

Prasanna: Okay, this includes incentives to farmer etc., everything?

Dhruv Sawhney: Yes everything.

Prasanna: Okay, what is the sugar inventory at the end of this quarter?

Dhruv Sawhney: 11.5 lakhs.

Prasanna: Okay, and what the average sugar prices for this quarter? Sugar realization.

Dhruv Sawhney: Rs. 1840.

Suresh Taneja: Which is the mix of levy and free.

Dhruv Sawhney: This is a mix of levy and free, average for the free sale was 1900.

Prasanna: Okay fine. And you have mentioned in your press release that you have almost completed your levy sugar target. So does this happen on a monthly basis release orders or like you can complete your levy sugar target any time you want?

Dhruv Sawhney: We ask for the levy sugar releases, they are given by the government, they are given on a monthly basis, but it is not the proportionate. We have supplied more of our levy than our 10%.

Prasanna: Okay, so you are almost through to your target on the levy?

Dhruv Sawhney: Yes, and which depresses your total realization because you know the levy is at a subsidized rate.

Prasanna: Okay, so out of the total sales up to the last quarter, how much was levy, 10% of the total production, is it?

Suresh Taneja: During this quarter we have sold levy of 0.97 lakh bags and free of 8.24 lakh bags.

Prasanna: Okay, and sir out of the power that you generate, how much are you exporting in terms of mega watts?

Suresh Taneja: To give you an example in this quarter, our export to the grid has been to the extent of 46 million units, and whereas what we have supplied to the sugar units, has been in the region of about 5 million units.

Prasanna: Okay, and this internal segment revenue relates to the cogeneration is it?

Suresh Taneja: Absolutely, because the sugar unit provides bagasse to the cogeneration unit, and cogeneration unit provides power and steam back to the sugar unit.

Prasanna: Right. And this quarter your margins if you look at, it's again around 13% vis-à-vis 19.5% as in the same quarter last year, is it to do with the lower sugar that was sold and how do you see this going forward?

Dhruv Sawhney: Last year in the same quarter we had sugar that came from the year previous, that cost of production was a very different cost because that cane cost was a very different cane cost, and number two, there were much more stocks at that time, much more sugar was sold which was all over the country. Our margin, and as I just said, in this first quarter, sugar margins, are higher than the margins which we received in Q3 and Q4 of '06.

Prasanna: Right, but on a year-on-year basis?

Dhruv Sawhney: But on a year-on-year basis it is low.

Prasanna: And sir like this sugar inventory that you have of 11.5 lakh, what is the time period you are looking at getting rid of that?

Dhruv Sawhney: That depends on the government, but it will not be too long.

Prasanna: Okay fine, I will get back to you later on if I have any further questions. Thanks a lot.

Moderator: Thank you very much sir. The next question comes from the line of Mr. Surendra Singh of Anand Rathi.

Surendra Singh: Hello. Sir I just wanted to have a sense from you because this quarter you have seen EBIDTA margin expansion in all the three business segments of engineering division. Where do you see the EBIDTA stabilizing for this whole financial year for the three individual segments separately?

Dhruv Sawhney: EBIDTA for the first quarter for all three segments are around 20-21% and our projections are also at more or less at the same level.

Surendra Singh: Of this quarter?

Dhruv Sawhney: Yes.

Surendra Singh: And sir where do you see this, the average free sale price stabilizing for the full financial year '07?

Dhruv Sawhney: it will be little bit higher than where it is today, what we have got a few months ago.

Surendra Singh: Okay. Sir I wanted to strategically understand from you, the total order book of Rs. 577 crore on the engineering side, Rs. 520 crore is accounted by the turbine business, right Sir? So can you shed some light on what step the management is taking to enhance the other divisions of the company?

Dhruv Sawhney: Our order book in gears has also gone up much higher. They have shorter lead time; while turbines have a 12 month cycle the gears have a 5-6 months cycle, so therefore their orders have to be taken in that light. Similarly with water and waste water treatment. But our order booking in both those areas is way above what it was in the year before, and I will give you those figures.

Surendra Singh: Sir, I think those order book positions have been given in the release.

Dhruv Sawhney: Yes, Rs. 38 crore in gears and Rs.15.6 crore in water, and our orders on hand for turbines is Rs. 523 crore.

Surendra Singh: Any other allied engineering activities that the management is planning to get into besides the three businesses that we are already in to?

Dhruv Sawhney: Well as I said, we are looking to expand our range of steam turbines in the above 20 mega watts range. The market of above 20 mega watts is 1.5 times the market for less than 20 mega watts. The massive growth that we are seeing has still not taken into account where we are growing in the above 20 mega watts market with our strategic partners. Number two, we only have about 12% to 15% exports, because our capacity expansion, which is as you know quadrupled in the last 3 years and going on stream in October – November, so we may book export orders in the second half of this year for execution in 07-08. The margins in export are even better than what we are receiving domestically, but delivery is a very crucial aspect.

Surendra Singh: So sir don't you think in the 20+ mega watts category you will be fighting with the biggies in the industry and that will be a tough fight?

Dhruv Sawhney: We feel that our cost of productions are very, very competitive and our technology has the same efficiency level, so in fact we don't expect, the same 70% market share possibly that we are getting in the under 18 MW range, but we certainly expect to increase overall sales.

Surendra Singh: Okay. Could you just update me on the proposed demerger, the status on the same?

Dhruv Sawhney: As far as the demerger is concerned, we are looking at all options and which was taken as per the listing regulations to our Board, because it is a material factor. This will take some time, but we will inform you the moment there is any decision in this respect. At the moment the board is looking at all options and evaluating them, so we are not in any position to take that any further right now.

Surendra Singh: Right sir. One final question sir, this is strategically I want to understand certainly you are the veteran in the industry and there have been other players and compatriots in the industry who have grown much bigger and much faster; other than the

50% growth that we have seen in the capacity for sugar this year Triveni hasn't grown that fast in terms of CAGR. Do you have any plans of going global like for example what others are doing?

Dhruv Sawhney: We are going global in steam turbines.

Surendra Singh: Okay, in Sugar?

Dhruv Sawhney: One can go global in certain areas, so let's look at going domestic and global.

Surendra Singh: Okay, thank you sir.

Moderator: Thank you very much sir. The next question comes from the line of Mr. Harshad of Rathi Tech Services.

Harshad: Sir we just wanted to understand the economics of ethanol production. The new plants, which are coming up of 160 klpd, will you be producing ethanol or industrial alcohol there?

Dhruv Sawhney: Our 160 klpd distillery will have the option of making fuel ethanol, rectified spirit and ENA. So we will have the base product which will can go supportable for ethanol mixing, also rectified spirit for the pharmaceutical industry, so we will have the options of using it in any of these directions, but we as a company are not contemplating entering the potable area, we will be looking at being a provider to bottler or to the oil marketing companies.

Harshad: Okay, and what do you think is the economical price for ethanol production, the cost for ethanol production.

Dhruv Sawhney: It really depends on the molasses price, because today the molasses price is pretty good, the molasses price is over 300 right now, so nobody expected the molasses prices to be that good, and in fact we are quite happy that our timing of the ethanol plant is coming where there may be a competition on higher production of sugar and higher production of molasses, but the breakeven is about 420, the molasses price, so even with the current molasses prices where we have a good return on equity.

Harshad: So at 320 is the breakeven price, you are saying.

Dhruv Sawhney: It will be 420.

Harshad: Okay, fine.

Dhruv Sawhney: And it is all our captive molasses.

Harshad: Okay , and sir for the ethanol the molasses which you are going to use, will it be all internal or will you be buying it from some other players?

Dhruv Sawhney: No, it is all internal, as I said, all captive molasses, this will be, and in fact we will be having some extra molasses from Khatauli and Deoband.

Harshad: Okay fine, and just wanted to understand you know the economics of power, say for one ton of bagasse how much units of power is produced and used internally and how much is exported to grids?

Dhruv Sawhney: As Mr. Taneja just gave you the figures of our export of power and our internal consumption in the first quarter, this varies a lot by the sugar plants and it varies enormously by the type of the equipment that has been put in. Now in the Khatauli plant where we are putting in a second cogen unit we will be having 45 mega watts of cogenerated power which we will be exporting, so out of a mix of about, my VP (Corporate Planning), he has just walked in, he will just tell you how many mega watts are produced and how much have we exported.

Samir Sinha: The total generation is about 45 mega watts, yes with the new one coming in for the cogen plants, and the exportable out of this would be about 30-32 mega watts.

Harshad: Okay, and what is the plant load factor of this sir?

Samir Sinha: The plant load factor we are considering in our budget that we will be running it now for about 270 days, one of the plants, and the other plant which is of equal size that will be running only for the season duration, and the plant load factor for the first plant which will be running, for both the plant let us say would be about 90%.

Harshad: Okay, and sir what is the expected sugar cane procurement price for the coming year, current season?

Dhruv Sawhney: We feel that the government may increase the State Advisory Price, but we don't expect any great increase in the total overall price to what we pay, because of the

fact that our competition mainly is from gur and khansari not from other sugar factories. Our drawl rate in our areas varies from 55 to 65%, and the sugar prices are not expected to go very much higher than what they were last year. If so then gur prices cannot be higher than last year, and if this can't be, then the cane price that our competitors, which is our khansari players can pay for cane cannot be much more than last year.

Harshad: Okay, that is all from my side, thank you sir.

Dhruv Sawhney: Thank you.

Moderator: Thank you very much sir. The next question comes from the line of Mr. Sushant Kumar of Bonanza Portfolio.

Sushant Kumar: Yes good evening sir and congrats for such a great result. My most of the questions have been covered but still I want to ask a few things. UP elections – only 8 months away, definitely there will be some pressure on the cane pricing, as you told that it will be a very minor increase but can you quantify it?

Dhruv Sawhney: No you see I need to clarify this a little bit for the benefit of all our investor friends. There was an incentive on cane price paid by western UP factories last year. This wasn't paid by factories in eastern UP and some factories in central UP. This was over and above the state advisory price. Now next year even if the state government raises the state advisory price, it won't go higher than what the incentive was paid, so if you have factories who had a high cane cost in west UP and a lower one in east UP the differential will be mitigated to a very large extent because of the election year and because of the fact that the state government will raise the cane price, but it won't be going way above the incentive we paid last year as well, that was the reason for my statement.

Sushant Kumar: Okay, and sir as far as our engineering division goes, is the defense ministry the biggest client or we have added another bigger client?

Dhruv Sawhney: See our sales to the defense are actually quite small. In engineering we are mainly in the power industry. For cogeneration in a variety of industries in cogeneration, whether it is sugar, paper, pulp, cement and textiles, but we are moving very rapidly into the defense area in a number of sophisticated lines, you know we have signed this collaboration with Fincanterri for supply of parts for the new aircraft carrier, so we will be having ship propellers and thrusters, which will be manufactured by us under their license.

Sushant Kumar: Okay, any foreign partnerships sir in near future?

Dhruv Sawhney: For expanding our turbine range we are looking at strategic tie -ups with certain parties in Europe and others, we are looking at it very actively.

Sushant Kumar: Thank you sir.

Moderator: Thank you very much sir. The next question comes from the line of Mr. Mitesh Agarwal of NV Advisory.

Mitesh Agarwal: I have a few questions on the turbine business. What is the proportion of the turbine business that comes from the sugar industry equipment and what are your views on the sugar equipment CAPEX cycle going forward, and what share of that business could come to Triveni, the expectation?

Dhruv Sawhney: At the moment the share of our business from sugar is about 30-35%, but the business we get from the sugar industry is mainly from the cogeneration part of the sugar factory. Now that business we expect to grow because most sugar companies just like Triveni would like to have a diversified portfolio where they are making sugar, generating power and ethanol. And because this will be the viable mix for any sugar company that brings about a tremendous demand for us for steam turbines and in that we have over 80% market share.

Mitesh Agarwal: So what would you think is the capacity addition in terms of mega watts of cogeneration capacity that would come up in FY07 and may be 2008 and what share of that could come to Triveni, is it possible to have some estimation on that?

Dhruv Sawhney: Let me give the government estimation of the total capacity of cogeneration in the sugar, that is 5000 mega watts, and on that we have about 700 mega watts already installed, so there is long, long way to go; however, we do believe that at least 200 to 300 mega watts would be coming up every year, and as I said we expect market share of 60 to 70% in that. Some of the larger ranges of cogeneration projects are at the moment outside our range, which is why we are looking for a strategic tie up in this and we expect to finalize that very shortly, so that we are able to address all parts of the sugar cogeneration market.

Mitesh Agarwal: Right sir, you said that, may be sugar prices may not increase going forward at least in the next one year and cane prices of the other areas may increase, if

there is a down turn in the sugar industry what would you think would be the impact on your turbine business or I mean is that something that you foresee or you don't foresee?

Dhruv Sawhney: Firstly, I would like to clarify I did not say that I believe sugar prices are going to go down in the next year, I think sugar prices are going to be slightly higher than what we have today, they will be coming to at least the levels we had in February and March of this current year, which is 50 to 75 paise per kg more than what we are getting today. Secondly, even if in the next 2 or 3 years you have sugar margins being squeezed, the sugar factories will have even a greater incentive to go in for cogeneration, because cogeneration revenues are fixed, these are with PPA to the electricity boards or to others so that source of revenue is a fixed revenue and that is what promotes the demand for steam turbines.

Mitesh Agarwal: Right sir.

Dhruv Sawhney: Which is why we have a very diversified and a risk adjusted portfolio in Triveni.

Mitesh Agarwal: Right sir, okay, thanks a lot.

Moderator: Thank you very much sir. The next question comes from the line of Mr. Hari Ramchand from Niche Brokerage.

Hari Ramchand: I would like to ask about the developments in the carbon credit side of the industry and also can you more specifically tell about what your company is doing in this area and how much will be the income added to your profit and loss account due to this carbon credits and when will it materialize, basically I would like to know from which year it will materialize?

Dhruv Sawhney: Okay I will have Mr. Sinha answer that.

Sinha: Co-generation plants which are already on stream at Deoband and Khatauli, we believe that our validation for the Deoband plant will be ready by the end of this month and the Khatauli plant is about 15 days behind that, so which means that in the first week of August we should be in a position to apply for registration of our projects which normally takes about 60 days.

Hari Ramchand: Okay, so when can the company realize it and record it or when it will be actually receiving cash?

Sinha: Also have to do a verification of the CERs which are already generated, which will take 45 days after the registration is over and therefore we expect that into the first quarter of 2007 depending on the pricing of the CERs we should be in a position to realize the CERs.

Hari Ramchand: Can you give me the average amount of the CERs which we can realize as well as the rate at which it can be realized?

Sinha: I cannot tell you about the rate, you would be aware about the pricing which is going on in the market and people are talking of about anywhere between 12 to 17 euros at the current prices. In terms of the number of CERs, it would be in the region of about 75,000 to 80,000 CERs for both the projects put together, and since we will have retrospective of the Deoband plant coming in, in the first year we should have at least a 150,000 CERs.

Hari Ramchand: Okay, so the total will be how much for the company as a whole?

Sinha: Yes, for this year it will be 150,000 CERs and going forward it would be 150,000 CERs plus the CER for the new Khatauli cogen which is coming on stream this November.

Hari Ramchand: Okay, thank you sir.

Moderator: Thank you very much sir. The next question comes from the line of Mr. Abhishek Agarwal of Brick Securities.

Abhishek Agarwal: Yes, I just missed the figure for the levy sugar dispatched during the quarter, can I have it?

Suresh Taneja: Yes, the total levy sugar, which was dispatched in the quarter was 0.97 lakh bags.

Abhishek Agarwal: For the season, 2005-2006 season, what is the total dispatch of levy sugar?

Suresh Taneja: That was 3.79, for the full financial year.

Abhishek Agarwal: Okay, that was for FY06, right?

Suresh Taneja: That is right.

Abhishek Agarwal: Okay and also I wanted the sales volume for Q1 FY06.

Suresh Taneja: The total volume was 11.01 lakh bags.

Abhishek Agarwal: Okay, that is it. Thank you.

Moderator: Thank you very much sir. The next question comes from the line of Ms. Priya from Business Standard.

Priya: Hello, good evening sir and congratulations for your results. Sir actually I wanted to know that you have in the investors press release written that you had lower dispatches, what was the reason for that, was that a capacity constraint or something else sir?

Dhruv Sawhney: No, these dispatches are as per the government's release orders.

Priya: Okay.

Dhruv Sawhney: So last year and the quarter we had much higher stocks, you know the stocks in the country were much higher on 1st of April 2005 to what they were in 1st of April 2006, so that is the reason why.

Priya: Okay, so that is because of the government regulations on the dispatches.

Dhruv Sawhney: Yes, they give a dispatch and you dispatch what they release every month.

Priya: Okay and what about the free sale thing.

Dhruv Sawhney: The free sale dispatch is- the government gives you a fixed quantity to dispatch every month, factory wise.

Priya: Okay, and just wanted to know if your focus shifting to more of engineering despite the sugar scenario built up by you being so robust, but still your focus is on engineering, right?

Dhruv Sawhney: Our focus is on both factors.

Priya: Okay.

Dhruv Sawhney: It is just that our engineering is growing even faster than sugar in a much more robust and a profitable manner, so while we are forecasting 50% increase in capacity in sugar and cogeneration, our engineering business is fortunately growing even faster.

Priya: Okay, so is that the reason why you are shifting to engineering?

Dhruv Sawhney: We are not shifting, we are doing both, we are putting equal emphasis on both sides; I am just giving you the market scenario.

Priya: Okay.

Dhruv Sawhney: The market scenario for our engineering because of our achievements in the R&D and marketing fields are bearing fruit now. These long years of research and development, we are able to take advantage of the power shortages and the captive power generation possibilities of many different industries; we are taking the robust growth because of that.

Priya: So it is just a misconception that there is a lot of competition going on for cane prices and squeezing of margin, so you are shifting from sugar, there is nothing of that sort, right.

Dhruv Sawhney: No, we are not shifting from sugar at all.

Priya: Okay.

Dhruv Sawhney: And as far as cane competition, if you remember I did mention in a little detail in my original remarks, but I would like to stress here again that while there is competition in the existing plants our competition has mainly come from gur and khansari. We do not feel that we are constrained in our crushing availability in our existing area, and other factories which have come up have already come up in our area, so there are no further factories coming up in our area.

Priya: Okay, so new plants wouldn't have much competition because there are no major plants coming up in and around your factory.

Dhruv Sawhney: Correct, and as of now we know that at least up to 2007-2008 nothing is coming up within 20 kilometers of our new factory.

Priya: Okay, thank you sir.

Dhruv Sawhney: Thank you.

Moderator: Thank you very much madam. The next question comes from the line of Mr. Pranav Gokhale of IL&FS.

Pranav Gokhale: Good evening sir. I just wanted to have a follow on question on the overall capex as such, so I just wanted to have a small clarity as regards increasing our TCD from 40,500 to 61,000 TCD, is it sir?

Dhruv Sawhney: That is correct.

Pranav Gokhale: And at the start of the current season we are expecting the capacity at Ramkola, Chandanpur, and Raninagal to come on steam, is it sir?

Dhruv Sawhney: Correct.

Pranav Gokhale: And about 730 crores is what is the capex what we have placed.

Dhruv Sawhney: That is for sugar and engineering, engineering also is included in that to the extent of about 50 to 60 crores.

Pranav Gokhale: Okay, and so out of this what percent

Dhruv Sawhney: Cogeneration and the distillery are also included in that.

Pranav Gokhale: Okay, so out of this what is the actual capex which is taken place in terms of the amount spent or in terms of the factory is put up or something, can you just give us a brief about what is happening as such.

Suresh Taneja: As of 30th of June, we have already incurred about 140 crores out of that.

Pranav Gokhale: 140 crores, and this was largely through debt or it was through your own internal accruals.

Suresh Taneja: It was largely through internal accruals.

Pranav Gokhale: Internal accruals, that was for the last year I believe. Okay, and we are expecting to put in another 160 crores is it, from internal accruals.

Suresh Taneja: That is right.

Pranav Gokhale: So this will come into current couple of quarter is it?

Dhruv Sawhney: That is right.

Pranav Gokhale: So 160 crores we are expecting to utilize in the current quarters and apart from that the debt about 400 minus 60 odd crores for engineering, so 340 crores odd debt what we expect to generate I mean utilize it over here, right sir.

Dhruv Sawhney: Correct.

Pranav Gokhale: Okay sir, thank you.

Moderator: Thank you very much sir. The next question comes from the line of Mr. Nirav Shah of Pioneer Intermediary.

Nirav Shah: Sir I just have a few questions, we are adding 30 mega watts of new captive power plant capacities.

Dhruv Sawhney: Not 30, we are adding 23 mega watts.

Nirav Shah: 23, okay can I have the unit wise breakup.

Dhruv Sawhney: of cogen capacity, and the captive is 30, out of which we will export 23.

Nirav Shah: Okay can I have the unit wise breakup of the capacities.

Dhruv Sawhney: Of the exportable capacities?

Nirav Shah: Yes.

Dhruv Sawhney: We have 22 mega watts in Deoband, which is the exportable power, and 23 existing in Khatauli and another 23 being added now.

Nirav Shah: Okay, can I have the breakup of captive power plant capacity unit wise.

Dhruv Sawhney: Captive means what we use in the sugar factory itself?

Nirav Shah: Yes.

Suresh Taneja: You know as a matter of fact I will be able to tell you that in respect of this cogeneration plant how much will we be exporting.

Nirav Shah: Okay.

Suresh Taneja: 2006-2007, during the season we would be exporting about 40 mega watts because we will have a total capacity of 68 mega watts, exporting about 40, and in during off season we will be exporting about 41 mega watts, and you know season is for about 170 days and off season would be between another 100 days or so.

Nirav Shah: Okay, sir coming back to the engineering division, so can I have the turbine sales in terms of numbers and megawatts for the current quarter as well as for the corresponding quarter.

Suresh Taneja: Yes, , this quarter the total mega watts of turbines sold is 137.33 as against 80.75 in the corresponding quarter of the last year.

Nirav Shah: Okay.

Dhruv Sawhney: And the order book that we have on hand is 523 crore equivalent of 731 mega watts.

Nirav Shah: Okay. Sir another question is can I have the breakup between the mega watts ranges below 18 and above 18, because we have started delivering above 18 mega watts from this quarter onwards.

Dhruv Sawhney: We have only one order above 18 mega watts, which is 27 mega watts.

Nirav Shah: UP Company?

Dhruv Sawhney: Yes.

Nirav Shah: Okay, sir and

Dhruv Sawhney: We are just getting into, so our main orders are below 18 mega watts.

Nirav Shah: Okay, so what is the delivery time currently?

Dhruv Sawhney: Our delivery time now is 10 months.

Nirav Shah: Will it change once we move into the higher range turbines.

Dhruv Sawhney: No, we have expanded our capacity, just to give you a view, 2 years ago our capacity was about 300 mega watts, we have expanded it to 500 – 600 mega watts, and now it is currently 800 to 900 mega watts and our target is to be 1200 mega watts by January, February of 2007, and so with this capacity we should be able to cater to the higher range of turbines with the same delivery targets.

Nirav Shah: Okay.

Dhruv Sawhney: And these targets are competitive globally.

Nirav Shah: Okay and you said that our export share in the turbines divisions is currently 12 to 15%.

Dhruv Sawhney: Of the total sale.

Nirav Shah: So what is the outlook for FY07 and FY08, how much contribution do you expect from the exports market?

Dhruv Sawhney: In 2007-2008 we expect it to go up to 15 to 20% and then onto 25% the year after.

Nirav Shah: Okay sir.

Dhruv Sawhney: That is because we will have got over our capacity restriction.

Nirav Shah: Okay sir,

Dhruv Sawhney: Thank you.

Moderator: Thank you very much sir. The next question comes from the line of Mr. Prashanth of Prudential ICICI.

Prashanth: Hello, sir I missed that part where you were saying what is the kind of CAPEX that you expect in this sugar industry in turbines, you said that you have a capacity of 800 mega watts.

Dhruv Sawhney: You mean the cogeneration capacities?

Prashanth: Yes.

Dhruv Sawhney: The government figure of the total potential of cogeneration capacity in the sugar industry is 5000 mega watts.

Prashanth: Okay.

Dhruv Sawhney: Of which the industry at the moment has about 700 to 800 mega watts already installed.

Prashanth: Okay.

Dhruv Sawhney: Our projection, that the question to me was what do we expect the market to be in the next couple of years per year, I expect about 200 to 300 mega watts to come up each year and in the range of 12 mega watts we expect to get over 80% market share.

Prashanth: Okay overall you would get somewhere around 60 to 70 you said.

Dhruv Sawhney: But there will be some turbines will be sold in the over 20 mega watts range, which is where we are looking for strategic collaborations to be able to tap that market very strongly as well.

Prashanth: Okay.

Dhruv Sawhney: Even now we have one order of the 27 mega watts already, we are looking at strategic tie ups because we are already having such a prominent position in the under 18 mega watts, and we want to be able to build on this.

Prashanth: Okay sir, thank you.

Dhruv Sawhney: Thank you.

Moderator: Thank you very much sir. The next question comes from the line of Mr. Sumit Jain of SK Raymond James.

Sumit Jain: Sir what was the recovery in this quarter vis-à-vis last quarter, Q1 FY05.

Suresh Taneja: I think the recovery for the quarter was approximately 10.25 or so.

Sumit Jain: For this quarter?

Dhruv Sawhney: Yes about 10.25, because you know April is the, but there is not much crushing in April

Sumit Jain: what was the recovery last quarter?

Dhruv Sawhney: Last quarter may have been about 0.1 lower.

Sumit Jain: Okay thanks.

Moderator: Thank you very much sir. Next we have a follow up question from Mr.Mitesh Agarwal of NV Advisory.

Dipendra: Good afternoon sir. Dipendra from New Vernon Advisory. I had a couple of questions with sugar side of the business.

Dhruv Sawhney: Yes.

Dipendra: Could you give some idea as to how you expect the ethanol pricing to be worked out between the oil marketing companies and the sugar companies and the industry as such.

Suresh Taneja: Yes, well there is a dialogue going on between the sugar companies and the oil companies taking into account the increase in crude prices also, we expect that there will be some increase in the prices of fuel ethanol, how much, that will be decided in the couple of months we believe, but we definitely feel that there will be an increase in the prices.

Dipendra: Okay what is your sense on government allowing export of sugar again, apart from the ALS thing?

Dhruv Sawhney: No, I in fact met someone in government this morning, I think my view is that they are going to take it back to Cabinet; they have not been able to do it right now because of the disturbances in Mumbai. The advance licensing will be there and the balance will really come in only after we have gone half way through or one third way through the next season.

Dipendra: Right.

Dhruv Sawhney: I don't think the problem in the exports. We are having a good rainfall now and the world market prices are going to be good, government will encourage it because that is the way to pay the farmer.

Dipendra: Right and sir what is your sense on the cane crop this year both in terms of UP and India.

Dhruv Sawhney: At the moment UP has been very good, the cane crop is certainly better than last year, we have had intermittent rainfall, which is very good.

Dipendra: Right.

Dhruv Sawhney: Heavy rainfall in a day is not as good as intermittent rainfalls, and this has come in just after the planting time. Surveys in our factories have been completed about 2 weeks ago, I have seen the reports, and there is no major disease or pest, and we are also encouraged by the growth now, this is the grand growth period, so the growth is good, and this is all you can tell about the sugar crop at this time, so the growth is good, there are no diseases or pests, and the area of cane has gone up substantially in our new factory areas, in our existing factory areas there isn't much chance because there are already lot of cane on cultivable area. By and large we expect a much sugar cane, and all India there has been a substantial increase in cane areas in Maharashtra, people as you read today have turned from turmeric to sugarcane. Karnataka and Tamil Nadu also have had a fairly good increase in cane area, and I think the rainfall practice in Maharashtra have also been good, which augurs well for 2007-2008 as well.

Dipendra: Right, then it is safe to assume that there should be at least having about say 280 million tons of cane this year.

Dhruv Sawhney: Yes over 280.

Dipendra: Right, thanks a lot sir. Thank you.

Dhruv Sawhney: Thank you.

Moderator: Thank you very much sir. The next question comes from the line of Ms. Sarika of JM Financial.

Sarika: Good afternoon. My question is what is your view on the performance expectations, which you target for each division for your next quarter.

Dhruv Sawhney: We expect an equally robust growth in our engineering division for second quarter as we have received in the first quarter, if not a little better. In sugar we are not going to be having any great change in the dispatch or the margins, because it is of the last year sugar production, and till new production comes in, which will start only from November, increased dispatches will be coming in the third and the fourth quarter.

Sarika: You expect the margins to improve?

Dhruv Sawhney: After September.

Sarika: Post September quarter, okay, thanks a lot.

Moderator: Thank you very much madam. The next question comes from the line of Mr. Rohit Shimpe of SBI Mutual Funds.

Rohit Shimpe: Yes sir, good evening sir. My question was more on the export side of the sugar industry in general, what we have been seeing from newspaper reports is that the export obligation under the ALS scheme would not be exempt from the current exports ban, I mean what is your understanding of this situation, with these obligations under this, will they be allowed to export or will the government extend the time period for this?

Dhruv Sawhney: Yes my latest talks with government which as I mentioned today is that currently they are not allowed.

Rohit Shimpe: Okay.

Dhruv Sawhney: But we expect in the next few weeks for people holding advance license registrations to be allowed to export.

Rohit Shimpe: Okay, because major sugar players are, I am assuming, would be in discussions with the government over this issue right now.

Dhruv Sawhney: Yes, we have had a discussion ourselves.

Rohit Shimpe: Okay, fine.

Dhruv Sawhney: And I expect in the next few weeks for the advance license people to be allowed only.

Rohit Shimpe: Okay and what would be the amount of sugar that would go out of the system, if this is allowed.

Dhruv Sawhney: Well you know it is quite a lot of it has already gone out.

Rohit Shimpe: Okay.

Dhruv Sawhney: I don't know the exact figure, I know that we have 1.53 lakh quintals of export and we already have a contract, a very good contract with the Pakistan, which we are hoping to get allowed very soon, and about 8 lakhs also is still left to be exported.

Rohit Shimpe: Okay and if this comes in I mean if the government allows these exports to happen, do you see as some sort of a reaction that we could see in immediate term firming of prices in the next few weeks.

Dhruv Sawhney: Not in the next few weeks because government has enough sugar to release domestically also.

Rohit Shimpe: Okay.

Dhruv Sawhney: I don't think it is good and I don't think it will happen that we will have any sudden spurts in sugar prices, whereas I mentioned I expect sugar prices to get back to the levels of January and February at least from September onwards.

Rohit Shimpe: Okay, and I think given the sugar production of about 22 to 23 million tons next season and with major players adding even more capacity, where do you see the situation going, are we getting back to the old days where you know our stocks were around 40% or more of consumption or do you think there would be significant exports encouraged by the government which would take care of the local pricing as well.

Dhruv Sawhney: I see the sugar scenario is very different to what it was earlier. As I mentioned, the global pricing is, at least for the next 2 years which we can be certain about, extremely good and are expected to continue for least cost producers such as Brazil and ourselves. So consumption is rising and we don't see a come back to the stock levels of 50-60%, which we had prior to 2003-2004 and 2004-2005. Certainly up to 2007-2008 that is up

to March or even October 2008, we see in fact a hardening of sugar prices both domestically and internationally.

Rohit Shimpe: Okay, thank you Mr. Sawhney.

Moderator: Thank you very much sir. The next question comes from the line of Mr. Vinay Goenka of Kotak Securities.

Vinay Goenka: Sir two general questions. Sir what was our average recovery for this season for our factories, if you could give me the break up.

Suresh Taneja: The average recovery was 9.56%.

Vinay Goenka: In terms of both the factories?

Suresh Taneja: All factories, it is a weighted average.

Vinay Goenka: Okay and sir another thing the volume growth this quarter was muted because you said of lower releases by the government, so what kind of volume growth we see for the full year after our expanded capacity in October.

Dhruv Sawhney: The volume growth we are seeing in production, will be 50% higher. But all of it will not be dispatched in the current year.

Vinay Goenka: Right.

Dhruv Sawhney: So of course it depends on the government release orders and the exact situation, but we expect the volume growth of about 15% or so.

Vinay Goenka: 15% over the last year.

Dhruv Sawhney: 10 to 15%.

Vinay Goenka: 10-15% YOY.

Dhruv Sawhney: Yes 10 to 15%, but that is over the fairly good base last year, which was encouraged by high stocks.

Vinay Goenka: Right sir, thanks a lot and all the best.

Dhruv Sawhney: Thank you, thank you very much.

Moderator: Thank you very much sir. At this moment there are no further questions from participants, I would like to hand over the floor to Mr. Dhruv Sawhney, Chairman and Managing Director of Triveni Engineering & Industries Limited for final remarks.

Dhruv Sawhney: Thank you very much all participants. I would like to leave you with these four steps the company has got on the back of a robust first quarter, we are seeing a very good 2006-2007, and being a cyclical industry really is the quarters are there as much as they represent, but really it is the whole year which we are looking at where we see strong growth in both engineering and sugar. We see good margins in engineering and an exciting prospect even in 2007-2008. So we are very optimistic about the position of engineering and as I mentioned about sugar pricing we would see that not being a hindrance to the margin story. Cane which has been a point of great worry for some participants is not so applicable to Triveni because its factories, the old factories of Khatauli and Deoband are in areas which have really been defined now and we do not expect any further competition from gur and khansari for cane availability in factories, slightly less competition, so we expect a growth in cane price in the season 2006-2007 by around 50% to what it was in the year previously. Thank you.

Moderator: Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.

This is a transcription and may contain transcription errors. The Company or sender takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.