

Triveni Engineering & Industries Ltd. Q3 & 9M FY11 & Triveni Turbine Limited Q1 FY12 Earnings Conference Call August 4, 2011

Moderator

Ladies and gentlemen good day and welcome to the Q3 and 9 months FY2011 Earnings conference call of Triveni Engineering & Industries Ltd. and Q1 FY2012 Earnings conference call of Triveni Turbine Limited. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. 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. At this time, I would like to hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you sir.

Rishab Barar

Good day everyone and a warm welcome to all of you participating in the Q3 and 9 months FY2011 Results conference call of Triveni Engineering & Industries Ltd. and Q1 FY2012 Results conference call of Triveni Turbine Limited. We have with us today on the call Mr. Dhruv Sawhney – Chairman and Managing Director, Mr. Tarun Sawhney – Joint Managing Director, Triveni Engineering, Mr. Nikhil Sawhney – Joint Managing Director Triveni Turbine Ltd. and Mr. Suresh Taneja, CFO along with other members of the senior management team. I would like to mention before we begin, that some statements made in today's discussion may be forward looking in nature and a statement to this effect has been included in the conference call invite which was mailed to everybody earlier. I would 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 would start this conference with opening remarks from the management followed by an interactive question and answer session, where you can discuss your views and key issues. I would now like to hand over to Mr. Dhruv Sawhney to share some perspective with you with regards to the company's operation and results for the quarter under review. Over to you Mr. Sawhney.

Dhruv M. Sawhney

Thank you Rishab. Welcome to the investor conference call. This call will be covering Triveni Engineering and Industries Ltd. and Triveni Turbine Ltd.

As mentioned in our investor brief, we are awaiting approval from SEBI. The company had initiated steps for listing of the equity shares of Triveni Turbine Ltd. on the Bombay Stock Exchange and the National Stock Exchange. And we received in-principle approval for the listing of these shares from both stock exchanges on the 8th of June. The equity shares would be admitted for trading on receipt of an order from SEBI which we expect shortly. Even though, the shares are not listed, we felt that it would be nice to disseminate information about Triveni Turbine Ltd., and that's why we have sent out all the details on the investor brief, as if it had already been listed.

The financials of the quarter for Triveni Engineering and Industries Ltd. are not comparable with the previous year's figures because they do not include the performance of the steam turbines. And as I mentioned earlier, the scheme of arrangement became effective from 21st of April, 2011 from the appointed date on 1st of October. I think there are few highlights in this quarter and really the main one is a tremendous leap forward for our gear business group. We have signed a low speed technology agreement and one of the factors is, this is a License Agreement, so unlike most other new technology ventures, it's not a separate company, the benefits will all accrue to Triveni Engineering and Industries Ltd. both today and in the future. This is a 7-year agreement, very much like what we signed earlier with Lufkin Industries, with whom we have had 12-year relationship in high speed gears, Lufkin Industries of the USA and France. And it's a similar tenure to what we had with the high speed with them. But this will take us into a whole new spectrum. These high technology gears will be for the metals and steel industry, the marine industry, rubber and plastics and of course the power generation industry, particularly coal mill pulverizers.

At the moment, just like in high speed, we are starting with India, SAARC countries and some countries in Africa and later on, we have a similar agreement to reappraise our geographical limitations and expand as we have done already in the high speed agreement. The size of this market today is over ₹ 500 crore, growing 15% or more and some of these equipments are imported at the moment, some are manufactured indigenously, but this is in line with our competitive advantages of engineered to order and we feel we will be quite successful in this line especially with our close relationship with our partner and his standing in the global market. He has a tremendous brand. They are selling very well in Europe and the United States and we find no reason for any problems here in the course of time.

As mentioned in your brief, we have together with CII setup the CII Triveni Water Institute. If you have the figures for our quarterly performance and I won't go through the brief figures with you, except to say that the net sales were up 18% at ₹ 1.61 billion for TTL Q1 FY12. And we have TEIL Q3 results of ₹ 4.15 billion sales and for the 9 months, ₹ 13.3 billion. Our PBT was at a loss of ₹ 31 million, as in 9 months. I think you are all aware that the sugar businesses incurred a loss owing to the low sugar prices. But for Triveni Engineering, in the last quarter, we had made a substantial sale of levy sugar. And the operation for co-generation and the distillery segments were less, we expect them to be higher in the coming quarters. Our sale of levy sugar was 18% as against the 10%, which is as per the policy. So this of course is something that will not happen in the future because you only have to sell 10% of levy and 90% of free.

Our engineering businesses have shown a good growth of 25% in turnover and PBIT growth has been 30%. The gears business group continues to maintain a high PBIT margin which is around 31% and this in fact has increased by 5% over the last quarter. The cost of production in our sugar operation for the year is final and it's at ₹ 27.35 a kilo. Due to the paucity of raw materials, we were not able operate our co-generation facility for more than a few days and that's why there has been a reduction in the turnover. We have requested for issuance of about 87,000 CERs in Deoband, which has been cleared by, UNFCCC, it's value will be about ₹ 6 crore. And verification of another 51,000 CER is under progress for our Khatauli unit, which we expect to be completed in the next couple of months. This will aggregate to approx. ₹ 3.5 crore.

Our distillery operations were affected due to restriction on the movement of molasses from our sugar units. This has now been lifted and as mentioned in

the investor brief, we hope to start operations in the third week or fourth week of August and then continue through all the way into the sugar season 2011-2012. We have enough stock of molasses to carry through this season for distillery operation on a continuing basis. And the stock that we have, the free part of the stock will be enough for the production of about 1.2 crore liters of alcohol. On the sugar side, our current sugar pricing is above ₹ 28 a kg and with the international position, quite robust in terms of pricing and the supply demand, the future looks good. International analysts and traders are expecting international prices to remain attractive and roughly, it's around 30 cents, all the way up to October at least. And they all feel that the demand for Indian sugar certainly up to March next year, will remain there. We believe that India will export more sugar and we are hopeful of another half a million tonnes of export in the current year being sanctioned fairly shortly. The impact of the festivals and with the current international pricing, we feel is going to have an upward effect on the sugar prices in the fourth quarter and coming into the first quarter of 2011-12 as well. Even though production in the sugar season 11-12 may be higher with the robust export market and more exports, which government is looking for in any case, we think that the situation is going to be much better in the next quarter and in the next financial year.

The cane planting for the next year in the country as a whole has been good. They have gone up by about 10%. And in Uttar Pradesh, there is an increase of around 11%. The Ratoon crop is extremely good. The rains have been good and people are expecting the Ratoon crop, which is the crop that crushed early in the season from November till end of January, early February is up by 15% and that is very encouraging. There are no diseases or pests right now. And even with slight dip in the rainfall in the last 10 days of July, the 2 week rainfall has been quite good. Of course, it will depend on how rains happen all the way till September-October and on pricing, but by and large, we feel that the next season for sugar unit will be a much better one than it was in the last year. In our engineering business, in gears, as I mentioned sales have been higher by 16% and with a very robust PBIT margin in Q3 FY11. But I think in the next few quarters you will see the effect of orders coming in from our low-speed business. It will take one or two quarters for this to settle down, but we feel that in the medium term, the low speed business can be even higher than what our current high speed business is and this is really a very good diversification for this business group and TEIL as a whole.

As you see, in our water business and in our gears business, our orders on hand are extremely good. As on 30th June, orders on hand in the gears were 22% higher than last year at the same date on 30th June 2010. In water, our orders on hand are almost 100%, higher. So we have a good order book in these divisions going forward into the next quarter and into the next year. In case of water, our fourth quarter is going to be substantially better than what it was in the third quarter. Both in the next quarter and the next year, the Agra water treatment, the drinking water project for the Agra city will be getting under way. And this will help in sustaining growth in the water business segment. I would just like to mention a small comment on our water business, since these are major projects, recognition of revenue on a quarterly basis at time, maybe a bit lumpy, because this is how it depends on the dispatches in the particular quarter. But by and large, over a period of few quarters, it will be the same sustained growth that we have seen in the past. In Triveni Turbine, I think the key fact is that we have an extremely good inquiry base right now. In the last month, there may have been a slight dip in orders, but that's purely temporary, it happened many times in the past also. But to give you an idea, we are now receiving inquiries from a variety of new industries in India, in food processing for example, last year, there were very little inquiries of 10 megawatts, whereas this year, it has gone to 70 MW.

Textile is picking up. Sugar with co-gen as you know is there and of course cement. But basically, our joint venture, GE Triveni Ltd. is now getting into the act. It's already started making substantial inquiries and bids both in India and overseas. In overseas, GE is handling the marketing, so they have put an enormous sales force. And we are covering the spectrum all the way from Canada to Indonesia to China. And as we mentioned earlier, we expect some good results both domestically and in the export market in the next six months. This market as you know is a \$2.5 billion, of which India is only \$300 million. So even with some sort of slowdown, generally in the economies in the west, this sector is not much affected because it covers both renewable and power generation, IPPs. But mainly because of the move in the renewable space overseas, it has a very good effect.

In our accounts of Triveni Turbine, we have recognized a goodwill and written off ₹ 560 million off as an extraordinary item in the accounting year 2010-2011. We had an option of amortizing this over 5 years, but we thought it's best to clean everything up at the very earliest. As all of you will know, this is a non-operating item and it was advisable to take all the restructuring impacts and clean it all up, which we did in the last financial year, so there will be really nothing to carry forward in the financial year of Triveni Turbine 2011-2012. The order book is healthy at ₹ 5.5 billion to about 940 megawatts and with a well-diversified portfolio of metals, IPP process, co-gen and sugar.

Even though the current scenario is slightly affected by the higher interest rates and there may be small delay in the finalization of orders, but the number of inquiries that we are receiving is very, very encouraging. I think that's probably due to the fact of having introduced so many new models in the last two years, our expansion of range with co-operation with GE Triveni Ltd. And if these had not happened, I think we would have probably been affected the way other companies may be affected, but we feel we will still be able to sustain growth in all our engineering sectors in the next quarter and the next year to come.

Moderator

Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Chhavi Agarwal from Ambit Capital. Please go ahead.

Chhavi Agarwal

My first question is related to your water segment, where are you seeing the demand given that power segment right now is facing challenges, so in which segment is the demand coming from the industrial side and how is the demand from the municipal side?

Nikhil Sawhney

As you would imagine from the municipal side, there is a huge lack of infrastructure. The business in municipal sector primarily revolves around the funding of it and if you see from the JNNRUM funding for 68 cities right now has been increased in allocation, which directly corresponds with the amount of the jobs which will be available in that sector. Secondly, the multilateral funding which comes from the likes of the World Bank, ADB, etc., has also increased. So we are looking at a growth on municipal orders to the extent of 15% to 18% in the current year over the previous year and this should continue in our opinion. On the industrial side, I don't particularly agree with you in the slowdown in the power market. There has actually been an increase because the demand of water infrastructure lags the demand for other capital goods, which is turbines and boilers etc. So in fact at this current point in time, there has been an increase in the number of water projects in the power sector.

Chhavi Agarwal

What growth can you look at on the industrial side?

Nikhil Sawhney It's about the same, you could say about 15% from the industrial side as well, what you are looking at. For the market overall, individual companies will have their own individual growth rate.

Chhavi Agarwal Also given that competition is increasing in this field, we see a lot of players entering, new players coming and all talking about the water business, so how do you see competition in this and what do you think is your competitive advantage in this?

Nikhil Sawhney You are right. Competition is very, very intense in this field. What you would find that at any given point in time, there may be 5-6 new entrants in this space. But what is equally important to recognize is that at that same point while you have that 5-6 people entering the space, you have 3-4 people exiting the space. So it is extremely competitive. Our value proposition is on maintaining a streamlined operation with the technology focus, where our overheads are best utilized to actually deliver projects with the value addition to our customer. So not only are we able to be successful in executing the orders, but also attain the margins that we estimate.

Chhavi Agarwal Your capital employed in this business has gone up from ₹ 68-69 crore to 100 crore, any specific reason for any project?

Nikhil Sawhney Yeah this again like I said, is lumpy a little bit and so the fact is that as you know with most construction projects we follow AS7 as an accounting principle here, so these are items which will happen and we should look at it more from normalized yearly basis.

Chhavi Agarwal So you are saying that in Q4, we can see a downturn because you will be booking more revenues on this?

Nikhil Sawhney Exactly, you may not see a downturn, but you will see expanded revenue actually account for it and you may see a decline in the composition of the capital employed.

Suresh Taneja Just to add a point over there, because of the increased activity, the work in progress is there and the moment it transforms into billing, you will find the capital employed to come down.

Chhavi Agarwal I have read in some interviews, are you looking at any desalination opportunity in this business?

Nikhil Sawhney We look at multiple opportunities and we are participating in the desalination space and we have done a number of projects in that already, so yes, we would be looking at that.

Moderator Thank you. The next question is from the line of Bhavin Vithlani from Enam Securities. Please go ahead.

Bhavin Vithlani My question is more with respect to the captive power plant market in India. You said the market size is around \$300 million, if you can help me with that?

Dhruv M. Sawhney That was for the 30-100 megawatts. That's just the GETL, the joint venture of GE, size of that market globally is 2.5 billion and India 300 million.

Bhavin Vithlani So my specific question, if we can classify the market in up to 30 megawatts and 30-100 megawatts, if you can help me with the market size in terms of

dollar million and megawatts. Second, is your outlook on the segment and this question specifically comes with respect to one of your peers, not your competitors, saying that the same up to 50-100 megawatts, there was a lot of froth and the market built into it, because the industries installed almost two to threefold of the capacity they required captively, because they saw merchant opportunity. Now the merchant market having been where it is, they are seeing lot of deferrals of order placements and even cancellations. So could you throw more light on the market outlook up to 30 megawatts and 30 to 100 megawatts segment? And also you highlighted about the buoyancy within the market, so could you throw more light on terms of user industry where you are seeing an increased traction and the user industry where the traction is decelerating now?

Dhruv M. Sawhney

Now the market up to 30 megawatts is roughly the same as between 30-100 megawatts. Now the market up to 30 megawatts or certainly up to 25 megawatts is very different from the other market. The IPP segment of that market is very different and also the customers are different, for example, you have much more sugar co-gen in the under 30 megawatts market than you have above 30 megawatts market. And as you know sugar co-gen is not so much influenced by what you were talking about the merchant part, it's more on the availability of bagasse and the expansion in crush. So that part of the market is not going to be affected by the comment that you had made, which is a correct comment, in general. The second is that some of the new industries that we are going to are fairly new and quite vibrant. For example, the food processing industry that's coming up is a smaller plant, 10 megawatts, 15 megawatts and also going down into the 6-10 megawatts. We are finding a big increase in these inquiries. A number of these people are replacing diesel sets. You see the cost of diesel generation is maybe 3 or 4 times more, than what it is from using steam from either biomass or even coal. So earlier on, when they used to have these large diesel sets, these people are finding that both the capital and the working costs are too much. Another market which is sustainable and going up a lot is biomass, both from sugarcane bagasse as I mentioned but also rice husk, wheat trash etc., so that market is really taking off. As you know the incentives and the pricing for this power is pretty good. We are also seeing a market in other renewals such as solar thermal; this will be in the space of 30 to 100 both in India and overseas. So solar thermal is something that's hardly there, but it's got a great future. You know how many projects are being given out, even if you take 10% or 15% of the people that are thinking of putting these demands for our solar thermal is quite good. One of the main things for us in Triveni and in GETL is that we really don't have too many players in this. So our competition is fairly limited. Our main competition is with Siemens and BHEL.

Bhavin Vithlani

Could you help with the megawatt price of the market between up to 30 megawatts and 30-100 MW?

Dhruv M. Sawhney

About 1500.

Bhavin Vithlani

So in the same context, are you seeing certain pressure points with respect to the megawatt size between 30-100 megawatts?

Dhruv M. Sawhney

Well they keep changing, you see sometimes there is more focus on the 35, sometimes it goes up to 50, at one point, there were people who were looking at merchant plants are going for 80 megawatts, now they will start going for the 50 megawatts ones. So the point you made was correct, people were going 20-30 megawatts higher in terms of selling, but they still need it. So maybe I were to put a 80 megawatts thinking of selling 30-40 you know you can only sell 49% of it, now you put up a lower set, so we are still going to cover that range, the

need is not going away, the need for captive power is not going away, that's the big thing.

Bhavin Vithlani How was the order inflow for last year and in current quarter with respect to the previous year. If you can give us certain trends with respect to order inflows in the segment?

Dhruv M. Sawhney Well to date, it's been alright, as I said, they are lumpy from month to month, so I wouldn't really like to go on a particular month. As I mentioned in my opening remarks, inquiry base is much, much higher and orders on hand in the current year is ₹ 551 crore.

Bhavin Vithlani What was it the same time last year?

Dhruv M. Sawhney It was 600 last year. 550 versus 600.

Bhavin Vithlani Which means the order inflow trend has slowed down.

Dhruv M. Sawhney Correct. While the inflow trend has slowed down the base has increased fortunately for us, in the last year we weren't really in these areas, you know we weren't even quoting for the above 30 MW.

Bhavin Vithlani Right.

Dhruv M. Sawhney So we had not even touched that area, neither had we touched the new areas in the 25-30 MW in the food and bio mass space.

Bhavin Vithlani Of the Rs. 550 crore versus ₹ 600 crore last year, is the proportion of 30 to 100 MW larger in current year versus last year?

Dhruv M. Sawhney No in the 30 to 100 MW, currently there is only one order. So there really is very little in the current year. This is what we expect in the next few quarters.

Dhruv M. Sawhney That is why we are encouraged.

Bhavin Vithlani Okay, so if you can help me with the quantum of orders in the 30 to 100 MW size.

Dhruv M. Sawhney I think it's ₹ 30 crore or something. It is very small.

C.N. Narayanan No in the 30-100 MW range, that is going to happen through joint venture which we just started. The technology transfer process is complete and we have already started quoting against many of the enquires. The order finalisation will happen in the next one or two quarters. So whatever order book we have at the moment of ₹ 550 crore is primarily sub-30 MW order book for the Triveni Turbine.

Bhavin Vithlani And sir my last question is with respect to the export opportunity?

Dhruv M. Sawhney That is a good one, you took the thing out of my mouth. The encouraging thing for us is that our bookings from export have doubled and we have now posted a person in Indonesia, we are making a very strong foray in Africa also and Malaysia and Thailand. We expect our budgets for exports in the year ending March 2012 both order bookings and dispatch is something over 50% higher than the year before.

Bhavin Vithlani Also if you can highlight little bit on the competitive scenario?

Dhruv M. Sawhney It is the same as it is under 30 MW, in fact I just told you. The three players including us.

Bhavin Vithlani Sir it is Siemens, yourself and BHEL.

Dhruv M. Sawhney Correct but we have virtually no competition from Chinese in our land.

Bhavin Vithlani Sir any specific reasons why Chinese have not been able to get into this market?

Dhruv M. Sawhney I think we have been able to give much better service that is one of the things, quicker turnaround, good customer services. They were there, they had a fairly good success but any way I think the customer is preferring us.

Moderator The next question is from the line of Ranjit Sivaram from B&K Securities.

Ranjit Sivaram Sir, thank you for taking my question, It is also pertaining to your turbine business, so in that companies like Techpro and Hindustan Dorr-Oliver are planning to venture into this.

Dhruv M. Sawhney No they are not in steam turbine.

Ranjit Sivaram No for the turbine they are going with a Chinese partner, so what sense we make in case of that, if the competitive scenario is going to increase?

Dhruv M. Sawhney We haven't heard of anything and we haven't seen them in the market. We know all our competition right now, this is not an easy field. The technologies are quite difficult and advanced and customer relations with India in these areas and the service element are extremely strong. Secondly, I think in the technological aspect, Triveni is on par with global standards of Siemens and others and I think the customer will want this minimum technology in the service level. So we don't find a problem. I mean, we haven't seen anything in the market.

Ranjit Sivaram And sir in this 30-100 MW and below 30 MW. So looking to the margin profile, which has a higher margin, just to get an idea.

Dhruv M. Sawhney At the moment, as I said we have not got into the 30-100 MW market but by and large you won't be seeing too much difference.

Ranjit Sivaram Pertaining to your gear division, the low speed gear which you are planning to manufacture, is it in the same line for Elecon and Shanti Gears is manufacturing or is it different from them?

Tarun Sawhney No this is slightly different. Our primary competition in the four industrial areas that we mentioned a short while ago is from imports, these are highly engineered, highly technical products where application knowledge is paramount and therefore our competition would primarily be from the European and Japanese manufacturers and not from the domestic players. Domestic players are in more of different line, they may supply to the same industry but not for these very highly engineered heavy products.

Ranjit Sivaram The basic demand driver will be the power generation and marine drive?

Tarun Sawhney The industries that we are going to be approaching include metals and steel, marine, rubber and plastics and the thermal industry which is for coal, pulverizer gearboxes. So the demand driver is growth within these industries and this is different to our high speed gearbox market, which is driven primarily from power generation, etc.

Ranjit Sivaram And there is a subsidiary of Siemens who manufacture gears in India, so are you in direct competition with them, for an understanding part of it.

Tarun Sawhney Yes we are; however, I should mention to you that one of our largest customers for our high speed gears unit is Siemens as a customer, even though they have their own subsidiary as you mentioned.

Moderator Thank you. The question is from the line of Avinash Gupta from Globe Capital, please go ahead.

Avinash Gupta Just a small clarification, this water institute that you set up, what is the kind of arrangement that you have or are you just in this for consultancy.

Dhruv M. Sawhney No this is just a center of excellence, we have just contributed to water, it is CII run institute.

Avinash Gupta Do you have any equity stake?

Dhruv M. Sawhney No. This is a not for profit organisation.

Avinash Gupta What I was trying understand, sugarcane because the current year most of industries are reporting better availability of cane but our processing has been less than last year. In FY11 in the current sugar year most of the industry is reporting better processing than previous year.

Dhruv M. Sawhney You mean better processing in the year 2011?

Avinash Gupta In the quantity processed. Cost of interest.

C.N. Narayanan For season 2010-11 we produced slightly more sugar, of course the sugar production compared to the previous year was lower because the previous year we processed some raw sugar. Because of this aggregate quantity, the sugar produced was more, but the sugar crushing was marginally lower than than the previous in the 2010-11 period.

Avinash Gupta I got this data in front of me in your release, you have said that in 2010-11 season you have crushed 4.56 million tonnes and in 2009-10 you have said 4.59 million tonnes. 2010-11 the industry, we have got the information is that, there has been a higher production. So incidentally higher production in 2010-11 compared to 2009-10.

Suresh Taneja No, it is almost at the same level as last year. Our crush, though we had increase in recoveries this year as compared to last year the crush levels were almost the same.

Avinash Gupta What is the reason? Cane availability is the problem or what is the problem?

Dhruv M. Sawhney But then actually you know, this is now we are in month of July, we are really looking at the next year. Last year this was not as you know one the total cane

availability was much lower than what had been forecasted earlier and certainly in our area in the beginning, there were some diversions but basically you know you have to go, that is why I was talking about the cane availability in the country and the sowing which is 12% higher. So in our areas in UP especially the overall cane availability was not what was forecasted in the beginning of the season.

- Avinash Gupta** One more thing that I wanted to understand was, what is the sugar stock at the end of June quarter?
- Suresh Taneja** The total sugar stocks are approximately about 20 lakh bags.
- Avinash Gupta** 20 lakh bags valued at?
- Suresh Taneja** Valued at ₹ 27.25 per kg average.
- Avinash Gupta** You see if you are valuing the stock at 27.25 and average selling price is 27.88 then you should make profit in Q3-FY11.
- Suresh Taneja** No ₹ 27.88 was not the average price we got in this quarter, that was only the average price for the free sugar, taking into consideration the levy the average price was ₹ 26.20.
- Dhruv M. Sawhney** There is a 10% levy and 90% free sale.
- Avinash Gupta** What you have done is 18% levy and how much of the sugar is exported?
- Suresh Taneja** During this quarter in respect of one tranche of OGL, we booked an export profit of ₹. 3.2 crore and in the next quarter for the second OGL the profit would accordingly be booked.
- Avinash Gupta** So you got 1 OGL, means how many tonnes?
- Suresh Taneja** Our share there was approximately about 10,000 tonnes.
- Avinash Gupta** That is you have roughly exported 10,000 tonnes of sugar.
- Suresh Taneja** Yes.
- Avinash Gupta** And you got another like permission to sell, export another 10,000 tonnes
- Suresh Taneja** Little more than 10,000, yes.
- Avinash Gupta** Which will be exported in the current quarter but there is nothing else in the sugar export for 2011?
- Suresh Taneja** Yes, as of now nothing.
- Avinash Gupta** That turnover has been included in the average free sugar sale?
- Dhruv M. Sawhney** It was not exported.

Suresh Taneja You know, you must realize there was no export over there. We had done this through a third party and accordingly the profitability of about ₹ 3.2 crore is included in Q3.

Dhruv M. Sawhney We don't need to export our sugar because it is better to give it to somebody at port and he exports on our entitlement and we claim the profits in our books. So the physical export is not from our unit.

Avinash Gupta That means you are just giving him the sugar and the permit and he exports.

Dhruv M. Sawhney We are not giving him the sugar, we are giving him the entitlement to export.

Avinash Gupta So basically it is profit of sale on entitlement of export.

Suresh Taneja Absolutely.

Avinash Gupta And that is included in the sugar sale, it is with the other income.

Suresh Taneja No. It is not on other income, it is a part of the sugar sale. It is an operating profit.

Avinash Gupta That is included in ₹ 27.88?

Suresh Taneja No, the profit on export is not a part of ₹ 27.88.

Moderator Thank you. The question is from the line of Keshav Harlaka from BHH Securities, please go ahead.

Keshav Harlaka In the last con call you had given us a timeframe that the demerger, the listing of Triveni Turbine would happen by June end, can you tell us what is the reason for the delay and how much more time would it take for it to list?

Dhruv M. Sawhney You know, as I mentioned in my opening remarks, we got the permission from the stock exchanges on June 8th and then applied to SEBI and now there is no query pending with us from SEBI or from the stock exchanges and it is just a procedure of SEBI. It could happen any time. We don't expect any problem and we are not aware of any but it is impossible for me to give a date or when they would give permission but as I said, on June 8th, we got permission from both stock exchanges.

Keshav Harlaka Okay but you can't give a time line say by end of August, by the end of this month, we could expect a difference.

Dhruv M. Sawhney It is not in my hands because I have no queries pending. There is no information needed or there is nothing that is needed from the company's side. It is a procedure of SEBI depending on their workload or whatever other reason.

Keshav Harlaka This quarter we have shown a loss of ₹ 21 crore. So will this trend of a loss continue for the next three quarters as well or we could see better numbers going forward. Could you give us some sense on what you are expecting numbers to come out going forward?

Suresh Taneja You know if you look at Q3, your major loss is basically a reason as a result of sugar operations.

Keshav Harlaka Okay but how much of a loss are we making over there sir? Means what is your cost and what are you selling it at?

Suresh Taneja PBIT level in the quarter we have made a loss of about ₹ 15 crore in the sugar operations. You would understand that because the cost is already fixed at ₹ 27.35, it is a question of what is the sugar realization price we are able to get. As we explained in Q3, the average realization price was impacted because of the fact it had more than the proportionate share of levy sugar, which impacted the average realization price. This thing will be little better in Q4 as far the levy sugar is concerned and Q1 of next year. And as Mr. Sawhney has earlier said, that we are expecting much better results in gears and water and the sugar prices are also little better as compared to the last quarter. And the distillery would start working from the third week of August and it would work for the rest of the year. So the results of Q4 would be much better than Q3 but ultimately the only variable is the sugar realization price.

Moderator Thank you. The last question is from the line of Ranjit Sivaram from B&K Securities, please go ahead.

Ranjit Sivaram Just a follow-up question, in the turbine business do we partner with Thermax because they manufacture the boiler and do we supply TGs to Thermax?

Nikhil Sawhney Yes we don't partner on a formal basis, they are an OEM for us and so are other EPCs be it ISGEC or a number of others like Cethar Vessels etc.

Dhruv M. Sawhney We have received substantial orders from ISGEC, where they are particularly in the export field but we are not in the EPC line. So if they take an EPC contract including Walchand Nagar. So we are with all the boiler manufacturers but I wanted to mention that you know in our steam turbine line especially in the area of the joint venture, the enquiry base already is quite good. So they have already quoted for some 500 MW and this enquiry goes to the customers and to the project suppliers.

Ranjit Sivaram My question is of the context that, what sense I make is that going forward this business will be more towards an EPC kind of a contract so in that case will the EPC contractor be subcontracting his TG requirements to ours?

Nikhil Sawhney Let me explain this to you about 40% or lesser, may be 35% of our contract would come directly from the consultant-driven EPC contract.

Ranjit Sivaram Yes so the EPC company might be Thermax or Techpro?

Dhruv M. Sawhney Certainly, domestically in a number of industries, you are not seeing EPC contracts. So it really depends and even in the under 30 MW line, it is only in certain industries that people are going for EPC, in many other industries they are not and if you look at the steel industry, Turbine island might become slightly bigger but they are not combining boilers and turbines.

Ranjit Sivaram Okay just to get a sense of it, if you want to quote a percentage at what percentage of this industry would be EPC?

Dhruv M. Sawhney It is quite small.

Moderator Thank you. The question is from the line of Mukesh Modi from Abacus Advisory, please go ahead.

Mukesh Modi I have a couple of questions surrounding your sugar business, which basically seems to have done rather badly and I want to know couple of things, one is why have the margins in co-generation and distillery absolutely collapsed and why has the scale of these operations come down so drastically this quarter April to June compared to the same quarter last year. also I think the bigger question here is that the country produced a lot more cane as you mentioned this year than last year but I guess we didn't see that in Triveni's results because even the crush was less compared to last year, whereas the overall cane I think was supposed to go up 25% or something like that but that is the secondary question Basically I wanted to know why has co-generation and distillery collapsed in volume and why have the margins collapsed?

Suresh Taneja Yeah I will explain that, you know in respect of co-generation you need to have the fuel coming from the sugar operation which is bagasse. So this is a function of how much of crush we have made and how much of bagasse we have saved for the operations. Now because of the fact that the crush was not very substantial, the total raw material availability was not adequate, which limited the co-generation operation.

Mukesh Modi Last year also I think you crushed basically the same amount but if I look at your co-generation operation last year, in the same quarter you managed to do a lot more.

Dhruv M. Sawhney I think we got to add, we had an operation on coal last year. Which was more viable and this year people are only operating co-generation on the coal that they have from the last year.

Suresh Taneja Yes, these were the two reasons one was inadequate raw material from bagasse and secondly the coal operation was not viable and in respect of the distillery because of the ongoing litigation on the molasses, etc., there was a little bit of a confusion and it was difficult to get the permission of the state government for the transfer of molasses from our sugar units to the distillery. Since then the position has been rectified now. We are now in the process of starting the distillery. So hopefully by the third week of this month, we should be able resume the distillery operations.

Mukesh Modi Is there ample molasses on hand to do that?

Dhruv M. Sawhney I mentioned that we have molasses on hand from the last year to produce 1.2 crore liters. In fact that is the figure of free sale molasses that is not for country liquor and which is to do with the last season which we will be starting to distil by the third or fourth week of August.

Mukesh Modi Now one more clarification is on your debt, I think that you mentioned that the debt is now about ₹ 988 crore including working capital of roughly ₹ 550. Is that right?

Suresh Taneja That is right.

Mukesh Modi So long term debt would be somewhere in the region of ₹440 crore and out of your ₹1,130 crore debt last year, you are saying about ₹150 crore has been sent over to Triveni Turbine, is that correct?

Suresh Taneja The transfer of the loan was only to extent of about ₹70 odd crore to Triveni Turbine but you know even last quarter March 31st, 2011, we gave you the figures excluding turbine operations, that was only Triveni Engineering not

taking into consideration the loan which was transferred subsequent to the demerger.

Mukesh Modi

So right now it is ₹988 crore only in Triveni Engineering, right?

Suresh Taneja

That is right.

Mukesh Modi

What is the cost of your working capital as well and the cost of your term loan, average?

Suresh Taneja

I think average 9 months has been pretty good. It has been in the region of 9.55% but if you take the quarters, the quarter has gone up to about 10.1%.

Mukesh Modi

This is because these are all floating rate loans, right?

Suresh Taneja

Many of them are floating rates.

Mukesh Modi

The way I see it, this is basically dragging your entire business unless things change, it is going to continue to do this, so is there a possibility of refinancing any of these loans via SDF funds or something like that or are we going to see interest rates so high?

Suresh Taneja

You cannot run away from the fact that the interest rates are rising, simultaneously in respect of the working capital we have multiple instruments through which we are able to bring down the cost, be it commercial papers, be it the FCNR loans, be it short term loans, there are multiple instruments we are using to bring down the cost. Now in the case of term loan, it is not easily possible to refinance this loan in the current market conditions and to bring down the cost. I think you have to go along with the market and you know you need to have a purpose for which you take SDF loan where there are just not available like this.

Mukesh Modi

That is fine. Just the last question now, the way it strikes me is that all this infrastructure for co-gen and distillery was built out right?

Dhruv M. Sawhney

Yes.

Mukesh Modi

We have seen a very unhealthy shortening of the cycle, where basically every sugar company with co-gen and distillery makes money on these two only in one quarter and the other three quarters they are basically lying defunct for this reason. Is there any long term solution to this or as investors we have to live with it?

Dhruv M. Sawhney

You see there are two things, one is on your debt question which is very good question, we are every year lowering the total debt. You know there is a repayment, there is a positive cash flow and we have budgeted on that in the next 12 months also. So it is not that just we are in a Capex or using the funds in another direction, so we have a positive cash flow towards that. Now basically you are correct, this is an integrated operation and we are taking very strong steps at cane development and increasing the yield in our areas but this really is a long term thing and because of the small farmers you really can't do it immediately, we don't have captive plantations like you may have somewhere else in the world where your raw material cost is fully in your control in terms of development. But the only answer is to increase the yield and have more availability of cane because that is linked to both the bagasse production for co-gen and molasses for the distillery.

Moderator

Thank you. Ladies and gentlemen that was the last question I would now like to handle the floor back to the management for closing comments.

Dhruv M. Sawhney

Thank you very much for being with us on this call, both Triveni Engineering and Triveni Turbine Limited. I think we also got a broad spectrum of questions. I would like to summarize by saying that both in our sugar business and in our engineering business in Triveni Engineering and Triveni Turbine, we see a good Q4 as the year ahead in 2011-12. The sugar scenario is definitely played out that the worst is over and we expect a much better viability in the next year and our growth in the engineering of gears and turbines and also water is there. So with the constraints of the government policy on some side in sugar and interest rates may be with the overall economic scenario. We think that with our diversified products, we are well faced to combat the next few seasons. Thank you very much for being with us.

Moderator

Thank you gentlemen of the management. Ladies and gentlemen on behalf of Triveni Engineering & Triveni Turbine Limited that concludes this conference call.