Triveni Engineering & Industries Limited

Earnings Conference Call Transcript
November 18, 2014

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Triveni Engineering Q2 & H1FY15 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa of CDR India. Thank you. And over to you Sir.

Gavin Desa: Thank you. Good Day, Everyone and A Warm Welcome To All Of You Participating on Triveni Engineering & Industries Ltd. Q2 & H1FY15 Earnings Conference Call.

We have with us on the call today, Mr. Tarun Sawhney -- Vice Chairman and Managing Director; Mr. Sameer Sinha – President; Mr. Suresh Taneja -- Group CFO, and other members of the senior management team. Before we begin, I would like to mention that some statements made in today's discussions may be forward-looking in nature, and a statement to this effect has been included in the 'Conference Call Invite' which was mailed earlier. I would also like to emphasize that while this call is open to all invitees, it may not be broadcast or reproduced in any form or manner.

We would like to start this call with opening remarks from the management followed by an interactive Q&A session wherein you can discuss your views and key issues. I would now like to hand over to Mr. Tarun Sawhney to share some perspectives with you regarding the Company's Operations and Results and Outlook for the Coming Year. Over to you, Tarun.

Tarun Sawhney: Thank you Gavin. Good Afternoon everybody and welcome to Triveni Engineering & Industries Limited Performance Review for Q2 & H1 FY15. On a consolidated basis, our net sales were at ₹ 455.5 crore vs ₹ 564 crore during the same period in the last year, and our PAT stood at ₹ (-27.9) crore vs ₹ (-48.3) crore during same period in the last year. Finance cost was lower in Q2 and H1 by about 20%, primarily due to lower term loans and lower working capital utilizations. The overall debt for the Company as on September 30, 2014 stood at ₹ 1,081 crore which was 8% lower than the March 31, 2014 out of which ₹ 528 crore were term loans and working capital was ₹ 553 crore. The interest rate on a blended basis was 10.5% with 11.05% on working capital and 9.6% approximately on term loans.

Turning straight away towards the businesses, on account of the fall of Sugar prices, we had an inventory write-down of approximately ₹ 21 crore during H1. As on September 30, 2014, we had 17.68 lakh bags of Sugar available at an average inventory valuation of about ₹ 30. An important factor at that point in time is that we had 58% Refined Sugar and Refined Sugar attracts better realization, a premium that stretches anywhere between ₹ 70 to ₹ 100 per quintal.

Turning to the Crop which is in the fields today, as per our estimate, the total acreage in the country for Sugar in FY 15 would be about 52.9 lakh hectares, which is ~1% less than last year. We have seen over the last few months robust planting across the country and in addition to that we have had a very good monsoon across the country, which raises the expectation that the health of the crop going into the next season is fairly good, and as a result, we are looking at a large output over the next year.

Looking at the previous season, the ₹ 6 incentive announced by the State Government was extended to November 20th this year. We will be complying with that ₹ 6 incentive, to achieve that subsidy and paying the balance Cane price payment over the next couple of days in order to be able to receive the subsidy immediately. The State Government has also mentioned that it will consider a further ₹ 3 subsidy on account of last year's Cane price and this is yet to be discussed and disclosed to the industry. However, there is a possibility that an additional ₹ 3 subsidy might occur. For the Company, ₹ 6 equates to approximately ₹ 28 crore, and the balance ₹ 3 equates to about ₹ 14 crore, a fairly substantial amount of ~₹ 42 crore would be a reasonable subsidy for last year's Cane₹₹ 42 crore subsidy in our Q2 accounts.

The most significant development that has happened over the last few days is the announcement of the UP Sugarcane price and I would like to focus a lot of the discussion on Sugarcane price. The Government has announced the same price as last year at ₹ 280 for general variety Cane, ₹ 290 for early variety, and a ₹ 5 discount totaling ₹ 275 for rejected variety Cane. They have also mentioned that, payments must be made within 14 days, failing of which will attract an interest payment. The mode for payment of this Cane is ₹ 240 within 14 days and the balance amount within 90 days, after the close of the season. The same subsidies that were given last year on purchase tax as well as society commission and the waiver of entry tax have also been given to the industry, which is over and above the ₹ 280 totaling to around ₹ 11. The Government will also look at ₹. 9 subsidy directly and there are discussions with the Government. The mode of this subsidy is yet to be disclosed, but one is hopeful that the subsidy will be given on a monthly basis, and therefore it will help the industry pay ₹ 240 after 14 days of purchasing Cane, and thereby alleviating the cash flow issues that could have occurred, given what the sugar prices are at this point in time. In addition, a further ₹ 20 subsidy is being considered by the State Government and the basis of this subsidy is quite interesting. A base price of ₹ 3,100 per quintal on Sugar, a base price of ₹ 390 per quintal on

Molasses, ₹167 per quintal on Bagasse, and ₹ 26 on Press Mud has been considered as the top price. Any decline from these values will attract a subsidy of up to ₹ 20. The exact formula and calculation is being considered by the State Government, the association has made a representation as to how this should be calculated given the forecast over the next year, I see a distinct possibility of us being able to avail a large, if not all the portion of that ₹ 20. Currently, sugar prices in the State are around ₹ 2,900 per quintal, and therefore, we are already substantially below the high base price that is being considered by the State Government. This will allow the industry to perform better; the UP industry will certainly perform better. If we look at our immediate neighbors, we have a fairly low price that has been announced by Bihar, while Haryana on the other hand has a fairly high price as Punjab. At this point in time, there are significant agitations in Maharashtra, regarding the payment of the Cane price and it is yet to be determined in the State of Karnataka as well. However, the implementation of the Rangarajan Committee formula in both Maharashtra and Karnataka is progressing well with the committees having been set up in Karnataka to implement this formula and I believe that Karnataka is going to be a frontrunner in setting Sugarcane Pricing Policy across the country.

We are looking at about 25.5 million tonne of production this year and hopefully, the Central Government will consider export of at least one and half to two million tonne of Raw or White Sugar, preferably Raw Sugar to be exported primarily from Maharashtra and some quantum of Sugar from other Southern states. We are expecting this policy initiative and this export subsidy to materialise over the next few months. Aggressive representations are being made to the Central Government to assist the industry in exporting Sugar and thereby evening out the demand and supply and stock position within the country.

On the Ethanol front, the Government has proposed a 10% mandatory blending of Ethanol. Except the last tender, the previous few tenders have been quite successful and Triveni has also managed to secure significant contracts within the Ethanol tender. Despite the fall in crude prices globally, there is still a substantial margin delta that is left for the oil marketing companies , and one believes that because of this subsequent tenders will take place, they will be fully subscribed at least in terms of the supply from the industry and one is very hopeful that 10% blending over the next few quarters will be possible. The push that is being given by the high command in Delhi is very encouraging for the industry, and we have been told that the department is considering other sources as well as C Grade Molasses to enhance the Ethanol capacity in the country. Although this is a bit premature, it is important to mention that this is the only way we would be able to fully achieve the 10% blending across the country.

Turning to the Co-generation business, in Q2, it was primarily the offseason, there were no operations. However, during the corresponding period last year, we did have some operations. The RECs in respect to Khatauli and Deoband, income of about ₹ 23 lacs has been realized for the current quarter.

As far as Distillery operations are concerned, the Distillery functioned for about 22 days. It has commenced its operations in Q2 and will continue through regularly. We do have enough supplies of Molasses to meet the production levels until the season starts, which is expected to start shortly. Given the announcement of the Sugarcane price, we anticipate that Triveni's plant will start by the end of this month and may be one plant will start in the beginning of the next month, which is exactly as per what we had budgeted and targeted, and we are hopeful that will lead to a very good season.

Turning to our Cane position, the total quantum of Cane area for Triveni is slightly down, and that is fairly a commonplace across the State of Uttar Pradesh where area under Cane has fallen by about 5% - 7%. However, with an excellent monsoon and a massive reduction in pest and insects, we have seen yields come up to the levels that they were five to seven years ago, and in our Cane areas, we are seeing yield that are higher by at least 12% to 13%, compensating for any drop in the area under Cane. Another corollary to this is that the health of the crop is very good compared to this period last year as we are seeing better testing data, better recoverable sugars in cane and it all points to a better start to the season than we had last year.

Turning towards the High Speed Gears business, as you are all aware, Triveni is the country's largest one-stop shop solutions provider in the High Speed Gearing business with a very significant market share. Our net sale was about ₹ 25 crore for Q2 FY15 with a PBIT of ₹ 7.5 crore. The unit has been impacted by overall slowdown, but we have seen an enormous boost in our inquiry book which is translating quickly into order book. The refurbishment of spares and loose gears, which is the first time we have talked about this, has been about 34% and 38% respectively which is an important part of the business, which leads to high levels of profitability. With respect to the outlook of High Speed Gears business, we are seeing an uptick in global demand and there has been some movement the Capex in various industries that have been put on hold in last 45 days, which is very encouraging and we will have significant positive news to share with you next time when we speak on this quarter's results in a few months.

The Company has entered the Planetary Gearbox market across the world. The sales of this product will be global and our research and development initiatives along this product line are going to allow us to address a very significant market both domestically and internationally. A significant boost is expected over the coming quarters with respect to exports. Triveni has signed a couple of strategic supply agreements, which will manifest themselves into significant sales to meet these supply chain agreements over the next few years. The Company expects to invest ₹ 40 to ₹ 50 crore over the next two years to substantially increase capacity to meet the agreements that we have in place with certain key customers. The focus on Spares, Servicing and Refurbishment continues to remain and over the next few quarters, we are going to see a lot more emphasis being put by the Company into these areas, which are of high margin and high value.

Turning to the Water business, the turnover is higher than the previous periods. However, it has been constrained by delays in a few projects. The

Water business will be completing and handing over several projects in FY15 which will not only bring down the capital deployed in that business, but will also provide crucial pre-qualification credentials for us to bid on larger projects. We are considering and evaluating different growth strategies including partnerships which may arise in different business models for the Water business. The outlook for the business continues to leverage the existing engineering relationships with industrial sectors and customers. The business has a comfortable order book which should result in reasonable growth in the subsequent quarters which is subject to customers proceeding with projects as scheduled. The potential across the country is still quite robust and we are very hopeful that over the next few quarters, we will see resurgence in the Water business.

Thank you. With that I would like to open the floor for some questions.

Moderator: The first question is from the line of Nirav Shah from GeeCee Investments.

Nirav Shah: Has the deferment of deliveries in the gear segment impacted the revenue contribution in Q2?

Tarun Sawhney: Yes, there has been some deferment in deliveries at ~₹ 7.5 crore, in the month of October, the bulk of them were dispatched, and the balance was dispatched in the first week of November. It was not a significant delay, it was just postponed by a few weeks.

Nirav Shah: Can we expect EBIT margins to revert to our historical levels of around 28-27% since we are expecting good amount of traction in terms of inflows?`

Tarun Sawhney: Yes

Nirav Shah: At what revenue levels will the Water segment breakeven and at the project level, is it profitable and are the losses mostly at the corporate level?

Tarun Sawhney: The losses are primarily due to some write-offs that we have taken because of certain customers that have not paid small amounts. However, on a profitability basis, we are quite comfortable at these levels.

Nirav Shah: The Water segment did an EBIT margin of 13-14% a couple of years back. Can we expect it to be in lower double-digits?

Tarun Sawhney: At this point in time, very few orders have been finalized over the last couple of years, there is intense competition; most of the companies in this market are competing aggressively. We may revert to those levels on a long term basis. We are certainly not going to see double-digit margins in the next few quarters.

Nirav Shah: Will we return to profitability?

Tarun Sawhney: Yes.

Nirav Shah: Will our plan to evaluate different growth strategies help to enhance our offerings or our existing portfolio?

Tarun Sawhney: It will help to look at growth from a different perspective. Look at the various types of business models within this segment. It is a new segment for India. Hence, the development of the private sector within the Water space will undergo many changes. We are trying to be as flexible as we can to capture maximum growth in this business.

Nirav Shah: On the Sugar segment, just to understand, will we be paying ₹ 240 as the first installment and ₹ 40, ₹ 20 can be given to us depending on the prices of Sugar, Distillery, Molasses and Bagasse?

Tarun Sawhney: Yes and within the ₹ 240, we are hopeful that ₹ 9 will be given by the State Government on a monthly basis to assist in that payment.

Nirav Shah: The reference price for Sugar will be the mandi price or the ex-mill price?

Tarun Sawhney: The government owns its own set of Sugar Mills, they can easily capture their data and it has to be ex-mill price. The mandi price is not a reflection of the ex-mill price. In terms of collection of data, the Government can easily collect its own data from its own mills and request the industry to provide their sales data as well.

Nirav Shah: Assuming that, ₹ 9 does not come through from ₹ 240, there will be only ₹ 2 or ₹ 3 reduction from the previous season's Cane price.

Tarun Sawhney: ₹ 3 reduction and I do not see any reason why it will not come through. Then you have the further ₹ 20 that comes 90 days after the close of the season.

Nirav Shah: Are we expecting improvement in recovery as the quality of Cane is also improving along with higher yields?

Tarun Sawhney: That is a direct relationship, the recoveries will certainly be healthier if the Cane is healthy. For example, last year we had intermittent and excessive rainfalls in certain parts of the country, some of our units did suffer on account of that, especially in West UP. West UP typically does not rely on the rainfall or the vagaries of the monsoon, because there is a sufficient network of canals and irrigation available to farmers. This year, we have seen regulated rainfall, proper irrigation has been provided by the farmers, this is in addition to all the work that we do as a Company with our own farmers in terms of controlling pest and disease. In a nutshell, we have seen that the crop is healthier, the total recoverable Sugars are higher, there are a couple of factories that have started and there is a substantial improvement this year over last year as per the unofficial report that we are receiving from their recoveries. We are hopeful that our recoveries will be considerably better for the course of the season.

Nirav Shah: How is our interaction with bankers and what indication are they giving, will they be willing to extend the working capital lines in case the pricing is not as favorable because as per the media reports, they were pretty firm on Rangarajan's formula?

Tarun Sawhney: I can only speak about Triveni, as far as we are concerned, we have very comfortable relationships with our bankers and lenders and we see no particular problem in having the same relationships as we have always historically had with our bankers going forward.

Nirav Shah: The crushing will start in last week of November or the first week of December. In case, there is delay of a fortnight due to some reasons. By how much will the Sugar production decline because of farmers diverting or continue to divert for a longer period of time to alternate sweeteners?

Tarun Sawhney: There is no direct relationship because this is the peak time for the Khandsari units to start making gur for the winter months. If the Khandsari units have been erected, they are running at 100% capacity. The factory starting a little bit later is not going to result in additional diversion. Instead, the farmers will start cutting the Cane and leave it in the field so that they can start planting wheat. It will not attribute to diversion. What it will attribute to is a potential fall in overall recoveries for the state simply because of staleness of Cane, not diversion.

Moderator: The next question from the line of Pratyush Rohatgi from CRISIL.

Pratyush Rohatgi: You are quite optimistic that we will receive the amount from the Government. What is the assumed Sugar price below which you will get the entire ₹ 20?

Tarun Sawhney: It is a combination of Sugar, Molasses, Bagasse and Press Mud. In my view, very honestly speaking, we have got Sugar prices right now around ₹ 2,900 for Plantation White Sugar. There is no significant news in the immediate future with the exception of export of raw sugar which would require Central Government subsidy. That will take some time and the process to complete will also take some time. It is not a matter of being bullish or not bullish, it is just facing reality. We are not going to see Sugar prices at ₹ 31 in a tearing hurry, certainly not in the time period being considered for the disbursement of additional ₹ 20 combined with a fairly high Molasses realization. 33% of Molasses according to the stages is for country liquor manufacturers and that is sold at a heavy discount to the fair sale price. Therefore, the blended price of ₹ 390 is still reasonably high. Bagasse fair price is ₹ 167 per quintal and Press Mud is ₹ 26 per quintal which is also a fairly high price for the state. These are the caps where zero subsidy would be given, we already are substantially below these caps. There are no certainties in any of this, but we had very open discussions with the State Government, they understand the predicament that the industry is in, and the pain the industry has experienced over the last couple of years. Therefore, one believes that the signal that one has received based on the discussions with the State Government will arrive in a scenario where the State Government will support the industry to the extent of ₹ 20.

Pratyush Rohatgi: Do you believe that you should get the entire amount of ₹ 29 subsidy from the Government?

Tarun Sawhney: Without a doubt.

Pratyush Rohatgi: Do you think that there will be 50-50 sharing if the prices are around ₹ 30?

Tarun Sawhney: There are three other factors - Molasses, Bagasse and Press Mud. – They are also priced at historic levels. The prices for these commodities are lower and they too will contribute to the subsidy. If you have ₹ 30 realization for the entire crushing season in 90 days, post the crushing season, the data being collected by the State Government stretches from October 1st till May 31st i.e. eight months. It is going to be very challenging coming to ₹ 30 valuation based on the data we have since October 1st. However, if it is ₹ 30, then the total amount of ₹ 20 may not be given by the State Government.

Pratyush Rohatgi: On the upside, although we know that it is not a likely scenario, but 8.6% is contingent on the Sugar prices being higher than 31?

Tarun Sawhney: That was part of the press release that was given by the Government Officials from the state. One is led to believe after the discussions that have taken place that the State Government is probably going to give ₹ 8.60 to meet the cash flow for payment of ₹ 240 as the first installment by the Sugar industry. Therefore, it will not be conditional.

Pratyush Rohatgi: On the Ethanol front., the kind of prices that we have seen in Crude Oil, I believe that the refinery transfer prices on which these tenders are based have come down by around ₹ 9. What is your expectation on the tender prices for FY14-15? Will they be revised?

Sameer Sinha: The previous UI has been withdrawn by the oil marketing companies and we expect that in the coming months they will again come back. We also know that crude will move in the range of about $80 to $96. So depending on the pricing the oil companies will fix their ceiling prices and they will determine the price at which they will accept offers from the industry.

Pratyush Rohatgi: What was the price of the previous tender?

Sameer Sinha: They had put a limit of just under ₹ 48 landed at their depots which translated into a basic price of approximately ₹ 40.

Pratyush Rohatgi: Do you believe that this would come down?

Sameer Sinha: These tenders were finalized about two or three months back. Any change subsequent to that has been about ₹ 2 or ₹ 3 would get reflected in the new tenders assuming these prices hold constant, if there is an increase that will get factored in.

Pratyush Rohatgi: Has this tender been scrapped?

Sameer Sinha: The last UI which had come out on November 11th has been withdrawn at the last moment on November 11th itself but the previous one which came out in July was finalized in September-October is valid.

Pratyush Rohatgi: Was this for a quantity of 158 units?

Sameer Sinha: Yes.

Pratyush Rohatgi: How much quantity will offtake in the new tender?

Sameer Sinha: There is no news on that, the OMCs have just withdrawn this one and they will be coming out with a new tender in due course.

Pratyush Rohatgi: Have ENA and RS realizations come down?

Sameer Sinha: There has been no immediate impact. ENA realization continues to hover in the range of ₹ 39-40.

Moderator: The next question is from the line of Yash Choksi from JM Financial.

Yash Choksi: On the pricing mechanism. Is the society commission, purchase tax and the entry tax in addition to ₹ 280?

Tarun Sawhney: Correct.

Yash Choksi: If the subsidies are not given then it comes to ₹ 291.6. What would be the landed cost if you get all the subsidies like ₹ 20, ₹ 8, ₹ 9?

Tarun Sawhney: Let's work backwards, for the ease of calculation, out of ₹ 291.6, you will get ₹ 40 from the state, that makes your Cane cost ₹ 251.6.

Yash Choksi: What was the landed cost in last season?

Tarun Sawhney: To calculate the landed cost, you will take ₹ 6 to ₹ 7 more that is incurred because of transportation of part of the Cane from centers.

Yash Choksi: What was the landed cost in the last season?

Tarun Sawhney: About ₹ 6 to ₹ 7.

Yash Choksi: Will there be losses in the Sugar division if the prices are around ₹ 29 – ₹ 30?

Tarun Sawhney: That totally depends on the recovery, because the recovery from Sugar will be a big factor in determining your cost of production. It is very early for us to tell because our factories have not started. We are hopeful that our recoveries will be much better. If you assume a reasonable increase in recoveries year-on-year, you may have a scenario on a total basis. Total includes Distillery and Co-generation as part of the Sugar business. In that kind of a scenario, you will not have any loss.

Moderator: The next question is from the line of Sunny Agrawal from Aditya Birla Money.

Sunny Agrawal: Is 10% blending of Ethanol is that being implemented by the Government? What is the opportunity in terms of liters of Ethanol which Sugar industry can serve and then particularly Triveni Engineering?

Tarun Sawhney: Government is pushing for a 10%. For that to really happen, we would need to move some portion of the Molasses which is the B-heavy Molasses to manufacture ethanol, which is yet to come about. Triveni has one distillery and we may be looking at setting up another distillery to captively consume all the molasses that we have.

Sunny Agrawal: What will the requirement for 10% blending be in terms of liters?

Tarun Sawhney: 10% blending will be approximately equal to 180 crore liters of Ethanol.

Sunny Agrawal: Can it be fully served by Sugar millers?

Tarun Sawhney: Yes, it can be fully served by Sugar millers provided B-heavy molasses is allowed as the raw product for a distillery.

Moderator: The next question from the line of Shirish Hisaria from Kotak Mahindra Bank.

Shirish Hisaria: I need to understand this pricing mechanism. ₹ 280 is the cost which has been declared, out of this, ₹ 240 is to be paid upfront within 14 days. What about ₹ 40 and the discounts been given by the Government?

Tarun Sawhney: The Sugar price has been fixed as the same price as last year. The total quantum including the purchase tax, society commission, etc., totals on general variety is ₹ 291.6, the base pricing is ₹ 280. Of the ₹ 280, ₹ 240 is payable within 14 days of purchase of that Cane. On that ₹ 240, the Government is expected to give ₹ 8.40 as a subsidy to the industry to meet its first installment of ₹ 240.

Shirish Hisaria: Would Costing be around ₹ 232?

Tarun Sawhney: ₹ 231.6, the balance ₹ 40 is to be paid at the very end of the season. Now, the taxes of course and society commissions above this have been waived, so we can assume that has been waived, it will probably be reimbursed to the industry like last year, although the industry is asking that the government to pay it directly, so that there is no cash flow burden on the Company. However, that is something that we will get to know over the next few weeks. The balance amount of ₹ 40 is payable 90 days after the end of the season. This has two components to it; one - what has to be paid by the millers and the second component is further subsidy being offered by the State Government. ₹ 20 in all scenarios will have to be paid by the industry. The other ₹ 20 can be paid by the Government based on a certain formula. Now, the Government has put in a particular cap of ₹ 3,100 per quintal for Sugar, ₹ 390 per quintal for Molasses, ₹167 per quintal of Bagasse, and ₹ 26 per quintal of Press Mud. If these values are maintained over a period of 8 months from October 1st to May 31st, then no subsidy of ₹ 20 will be given. However, if the prices of these and the weightage is in the order that I had mentioned, first Sugar, then molasses, then Bagasse, and then Press Mud are lower, the Government will give some if not all the portion of this ₹ 20 subsidy. Given the prevailing Sugar prices of about ₹ 2,900 and the averages going forward, it is highly unlikely that we are going to see the gaps meet. In addition, even with the other commodities of Molasses, Bagasse, and Press Mud, we are going to see realization prices that are slightly lower. Therefore, I think there is a very significant possibility of the Government paying the full ₹ 20 subsidy which will be the second tranche payment that will be made by the industry to its farmers.

Shirish Hisaria: Does that means ₹ 231.6 + ₹ 20 that is ₹ 251.60 is sure and the remaining 20% depends on the pricing of these commodities?

Tarun Sawhney: The minimum that will be paid by the industry will be ₹ 251.6 to its farmers directly and the maximum can be a little bit higher than that, but in our estimation, it will not be.

Shirish Hisaria: Like Sugar, Molasses, Bagasse, and Press Mud, the prices of these commodity should not go beyond the prices you said, if it higher, the Government will not reimburse?

Tarun Sawhney: It is the basket, they will look at the movement of all four of these commodities, and the largest weightage is to Sugar followed by Molasses, followed by Bagasse and followed lastly by Press Mud. The total values generated by an average Sugar Mill are in the same proportion, Sugar being the highest and Press Mud being the lowest. The four commodities form a part of a basket and the states committee will evaluate the movement in all these four products from the period of October 1st till May 31st.

Shirish Hisaria: Will it be ₹ 271.40 plus the transportation cost and in the best case it would be ₹ 251.60 plus transportation cost in worst case?

Tarun Sawhney: Quite right.

Shirish Hisaria: Any idea about international sugar demand / supply scenario?

Tarun Sawhney: The international Sugar supply scenario is actually very robust. It is very important for us to look at our neighboring countries and we are seeing massive quantum of Sugar in Pakistan, the Pakistan millers are looking for some support from their Government in order to be able to export their Sugar, Thai Whites also in plentiful. So, we are seeing a reasonable amount of Sugar production in our region and the global surplus has been revised upwards to 1.31 million tonnes in August 2014 which is the latest estimate. That is a slight increase, so we are seeing global stock piles actually come up a little bit.

Moderator: The next question is from the line Rachita Agarwal from Trident Advisors.

Rachita Agarwal: What is the ₹ 9 per quintal subsidy you were talking about? Is it included in the ₹11 subsidy that was there above ₹ 20 per quintal?

Tarun Sawhney: I was referring to is last year's Cane price. By November 20th, any Company that has cleared its 2013-2014 Cane price will be in line to get this ₹ 6 subsidy. What we have also been told candidly is that there is a possibility although nothing has been finalized, that a further ₹ 3 will be offered to the industry, the mode of which is unclear. The ₹ 6 equates to ₹ 28 crore for Triveni.

Rachita Agarwal: As we are getting ₹ 6 per quintal, were we talking about a subsidy over ₹ 251.6 a quintal?

Tarun Sawhney: No, Rs.6 refers to last year's Cane price and ₹ 251 refers to the coming season's Cane price.

Rachita Agarwal: Is it linked?

Tarun Sawhney: It is not linked at all.

Rachita Agarwal: Will the "Clean Ganga Project" which is going on in Uttar Pradesh affect the Water projects that we already have?

Tarun Sawhney: Yes, it will certainly help our business once it comes on stream. The PMO has certain panels that have been put together, they have got some financial targets that will hopefully be announced to the public shortly. I think it is going to really lead to more business possibilities for our Water business, at this point we really cannot comment on it because we do not have specific data right now.

Rachita Agarwal: When do we expect the export subsidy to be come up and how beneficial will it be compared to last year's subsidy?

Tarun Sawhney: I do not think it is in comparison with last year's. In terms of timing iIt is impossible to tell it is a decision to be taken by the Central Government. Representations have been made and will be followed up vigorously. However, it is impossible to give you a timeline on this. We have been told that the Central Government has collected data on production numbers and it is just a matter of time before they announce this export subsidy. In relation to previous export subsidies, one hopes that it will be of the same quantum and thereby allow and persuade millers from South India to export Raw Sugar.

Moderator: The next question is from the line of Urmil Shah from Anvil Share & Stock Broking.

Urmil Shah: What is the quantum of power tariff hike we can expect for Co-generation?

Sameer Sinha: They have not been finalized, we expect them to get finalized anytime between end of December to end of February, the process is already underway and draft papers have been put up by the regulatory commission on which we have commented. We cannot comment on what is the likelihood. That would be determined by the commission itself. We have asked for certain numbers and let the commission decide on those.

Urmil Shah: What is the total Co-generation capacity?

Sameer Sinha: We have 68 MW in the two factories. We have the grid connected which are 10 MW and 8 MW, 18 MW and another 6 MW is coming up, so another

24 MW would be connected to the grid and our exports would go to about 60 MW.

Urmil Shah: What would be our Cane arrears as on September 30th?

Tarun Sawhney: As on September 30, 2014, cane arrears would be about ₹150 crore, which has come down very substantially now.

Moderator: The next follow-up question from the line Nirav Shah from GeeCee Investments.

Nirav Shah: Will the power price increase be retrospective that is from April?

Tarun Sawhney: That is right.

Nirav Shah: What is the interest free debt that is part of our total debt?

Tarun Sawhney: It is about ₹ 126 crore.

Nirav Shah: On Water division, at what revenues will we breakeven? Are there any further pending provisions or have we provided for all the possible?

Tarun Sawhney: The losses are on account of some write-down. Even at these revenue levels, we will certainly breakeven, we have been more prudent in our accounting by doing this. In all likelihood, we will have to gauge the business climate and see our relationship with customers, I cannot really comment on the future..

Nirav Shah: Will it be lower on a trend basis?

Tarun Sawhney: The majority of our customers are in the power sector. One hopes that everybody will benefit by resurgence in the business climate and our business will also grow along those lines.

Moderator: The next follow-up question from the line of Urmil Shah from Anvil Share & Stock Broking.

Urmil Shah: What is our maintenance Capex for the season?

Tarun Sawhney: Our maintenance Capex is about ₹ 25 crore.

Urmil Shah: Any other Capex in addition to that?

Tarun Sawhney: Yes, we have established an incidental Co-generation unit at one of our Sugar factories at Sabitgarh, in addition to that we have also incurred about ₹ 20 crore Capex in our Gears business to enhance the capacities to meet the supply chain agreements that I had mentioned in my opening remarks.

Moderator: The next follow-up question from the line of Shirish Hisaria from Kotak Mahindra Bank.

Shirish Hisaria: What amount did we pay in the last sugar season to farmers for the Cane?

Tarun Sawhney: We have paid a price of ₹ 280, which is the same as SAP. This is subject to the subsidy which we have to receive from the Government to the extent of ₹ 6 or ₹ 9 as the case may be.

Shirish Hisaria: What would be the conversion cost?

Tarun Sawhney: Conversion cost net of byproduct would be about ₹ 2.50.

Shirish Hisaria: What would it be for the industry?

Tarun Sawhney: It would be about the same.

Moderator: As there are no further questions from the participants, I now hand the floor back to the management for closing comments. Thank you. And over to you.

Tarun Sawhney: Thank you very much everybody for joining us for the Q2 & H1 FY15 Earning Conference Call of Triveni Engineering & Industries Limited. We are very hopeful that over the next few months we will see resurgence in the overall business climate and our Gears and Water business will have good news in terms of order booking especially enquiry books. The Sugar industry is poised precarious at this point in time, we are looking at a favorable coordination between the industry and the State Government over the coming few months. Given that scenario and given the health of the crop, one can expect some reasonable results for this Sugar year. Thank you very much. I look forward to speaking to you in about three months.

Moderator: Thank you, Sir. Ladies and Gentlemen on behalf of Triveni Engineering that concludes this conference call. Thank you for joining us. You may now disconnect your lines.